

2016

Annual Report

H Share Code: 323

A Share Code: 600808



MAANSHAN IRON & STEEL COMPANY LIMITED

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IMPORTANT NOTICE

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

The Board suggests that no dividends shall be distributed for the year of 2016 and no capital surplus shall be transferred to share capital. The distribution plan is going to be submitted to the Annual General Meeting for approval.
- Risk relating to forward-looking statements**

The report analyzes major risks faced by the Company. Please refer to “(4) Potential risks” of “4.3. Discussion and Analysis on the Company's Future Development” of “Report of The Board” in Section IV for details. Forward-looking statements, contained in this report do not constitute any substantive commitments to investors by the Company. Investors should be aware of the relevant risks.

Content (Continued)

7. No appropriation of fund on a non-operating basis by the controlling shareholder or its related parties was found in the Company.
8. There is no violation of regulations, decisions or procedures in relation to provisions of external guarantees.
9. The Company has no significant risk that needs to draw special attention of investors.

I. Definitions

I. DEFINITIONS

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

Definitions of common terms

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

I. Definitions (Continued)

I. DEFINITIONS (CONTINUED)

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

Definitions of common terms (continued)

CRCC	means	China Railway Test & Certification Center
Rail Transportation Co.	means	Magang Rail Transportation Equipment Co. Ltd.
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
reporting period	means	From 1 January 2016 to 31 December 2016

II. Company Introduction and Major Financial Indicators

1. COMPANY PROFILE

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

2. CONTACT PERSON

Representative for Securities Affairs

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

Note: Mr. Hu Shunliang, the former Secretary to the Board (Company Secretary) resigned as the Secretary to the Board (Company Secretary) due to the reason that he has reached the age for re-designation to non-leadership position. On 14 February 2017, the twenty-fifth meeting of the eighth session of the Board approved the resignation of Mr. Hu as the Secretary to the Board (Company Secretary) and resolved that the duties of the Secretary to the Board (Company Secretary) will be temporarily performed by Mr. Ding Yi, the legal representative and Chairman of the Company. The Company will appoint a new Secretary to the Board (Company Secretary) as soon as possible.

3. BASIC INFORMATION

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

II. Company Introduction and Major Financial Indicators (Continued)

4. INFORMATION DISCLOSURE AND LOCATION FOR INSPECTION

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

5. BRIEF INFORMATION ON THE SHARES OF THE COMPANY

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

6. OTHER RELATED INFORMATION

	Company name	Ernst & Young Hua Ming LLP
Name of the auditors	Office address	Level 16, Ernst Young Tower, Oriental Plaza, No.1 East Chang An Avenue, Beijing, China
appointed by the Company (PRC)	Names of the auditors who signed the report	An Xiuyan, Wu Xiaofang

7. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS FOR THE PAST THREE YEARS

7.1 MAJOR ACCOUNTING DATA

Unit: RMB				
Major accounting data	2016	2015	Increase/ decrease compared to previous year (%)	2014
Revenue	48,275,100,310	45,108,926,739	7.02	59,820,938,286
Net profit attributable to owners of the parent company	1,228,892,407	-4,804,299,674	-	220,616,025
Net profit excluding non-recurring gains or losses attributable to owners of the parent company	1,409,936,906	-5,129,504,672	-	-154,967,147
Net cash flows from operating activities	4,619,861,014	5,865,332,053	-21.23	2,912,853,829

Major accounting data	As at the end of 2016	As at the end of 2015	Increase/ decrease compared to the end of the previous year (%)	As at the end of 2014
Net assets attributable to owners of the parent company	19,764,171,955	18,455,838,015	7.09	23,295,565,989
Total Assets	66,245,531,030	62,454,465,955	6.07	68,511,174,810
Total share capital at the end of the year	7,700,681,186	7,700,681,186	–	7,700,681,186

7.2 MAJOR FINANCIAL INDICATORS

Unit: RMB				
Major accounting data	2016	2015	Increase/ decrease compared to the previous year (%)	2014
Basic earnings per share (RMB/share)	0.160	–0.624	–	0.029
Diluted earnings per share (RMB/share)	0.160	–0.624	–	0.029
Basic earnings per share excluding non-recurring gains or losses (RMB/share)	0.183	–0.666	–	–0.020
Return on net assets (weighted average) (%)	6.43	–23.01	Increased by 29.44 percentage points	0.95
Return on net assets excluding non-recurring gains or losses (weighted average) (%)	7.38	–24.57	Increased by 31.95 percentage points	–0.67

II. Company Introduction and Major Financial Indicators (Continued)

8. MAJOR FINANCIAL DATA BY QUARTER IN 2016

	Unit: RMB'000			
Major financial data	1st Quarter (Jan-Mar)	2nd Quarter (Apr-Jun)	3rd Quarter (Jul-Sep)	4th Quarter (Oct-Dec)
Revenue	9,225,770	11,775,393	11,990,240	15,283,697
Net profit attributable to owners of the parent company	-348,163	800,916	306,676	469,463
Net profit excluding non-recurring gains or losses attributable to owners of the parent company	-403,012	872,800	240,399	699,750
Net cash flows from operating activities	2,385,380	-1,858,164	1,752,732	2,339,913

9. NON-OPERATING ITEMS AND EXPENSES

Non-operating items	2016	2015	2014
Gains/(losses) from disposal of non-current assets	-51,189,196	32,965,870	-82,179,597
Government subsidies recognized in current gains/losses (excluding those having close relationship with the Company's normal business, conforming to the national policies and regulations and enjoying ongoing fixed amount or quantity according to certain standard)	74,522,778	259,052,828	438,439,583
In addition to effective hedging business related to normal operations of the Company, changes in fair value of trading financial assets and trading financial liabilities held, as well as the return on investment generated from the disposal of trading financial assets, trading financial liabilities and available-for-sale financial assets	62,627,178	22,195,527	564,160
Employee termination benefits	-347,468,731	-	-
Reversal of provision for trade receivables assessed for impairment individually	927,877	-	-
Return on investments generated from the revaluation of the shareholdings in the newly acquired subsidiaries held on the purchase date at fair value	-	4,160,631	-

Non-operating items	2016	2015	2014
Non-operating income and expenses other than the above items	-19,729,079	-12,682,505	-2,407,250
Amortization of deferred income	116,979,983	87,185,350	100,182,129
Other investment income	-	-7,349,908	-809,831
Impact of minority interests	-6,551,217	-391,055	-869,063
Impact of income tax	-11,164,092	-59,931,740	-77,336,960
Total	-181,044,499	325,204,998	375,583,171

10. ITEMS AT FAIR VALUE THROUGH PROFIT OR LOSS

Item	Unit: RMB			
	Opening balance of the reporting period	Closing balance of the reporting period	Change in the reporting period	Effects on the profit for the reporting period
Financial assets at fair value through profit or loss	1,005,271,054	555,322,261	-449,948,793	50,951,411
Total	<u>1,005,271,054</u>	<u>555,322,261</u>	<u>-449,948,793</u>	<u>50,951,411</u>

11. OTHERS

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


Accounting Data (Indicators)	Unit: RMB million				
	2016	2015	2014	2013	2012
Revenue	48,275	45,109	59,821	73,849	74,404
Gross profit	1,369	-4,727	512	322	-3,746
Net profit	1,257	-5,104	264	208	-3,801
Basic earnings per share (RMB/share)	0.160	-0.624	0.029	0.020	-0.502
Diluted earnings per share (RMB/share)	0.160	-0.624	0.029	0.020	-0.502
Major Accounting Data	At the end of 2016	At the end of 2015	At the end of 2014	At the end of 2013	At the end of 2012
Total Assets	66,246	62,454	68,511	71,822	76,011
Total Liabilities	44,165	41,713	42,622	46,123	50,499
Net Assets	22,081	20,742	25,889	25,699	25,512

III. Overview of the Company's Businesses

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

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

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



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

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

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

During the reporting period, the iron and steel industry to which the Company belongs to was at its mature stage, in which time the market demand had slightly recovered. The supply-side reform achieved initial success but the overcapacity contradicting was still highlighted.

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

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

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

Of which, overseas assets amounted to RMB2,080 million, accounting for 3.14% of total assets.

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

As of 31 December 2016, the Company possessed 803 valid patents, and 2,126 valid technical secrets (non-patented technology). Patents, technical secrets and know-how constitute the Company's core technology system. The Company has developed its own core technology in train wheels (especially high-speed wheels for standard EMU and high-power locomotive wheels), high-strength automotive sheet, efficient and energy-saving construction steel, marine engineering H-shaped steel, high-grade hot-rolled steel, high-grade electrical steel and other key products, embodying a competitive advantage compared with similar companies. Among which, the efficient and energy-saving construction steel, railway wheels, high-speed wheels for standard EMU, high-power locomotive wheel, axle steel and other steel products hold the leading technological position in China.

In 2016, the high-speed wheels for standard EMU developed by the Company obtained the CRCC product certification, which was its first CRCC certification in the PRC.

IV. Report of The Board

4.1 CHAIRMAN STATEMENT

Dear Shareholders,



On behalf of the Board, I hereby present to you the operating results of the Group for 2016.

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

In 2016, China's economic development continued to slow down with its GDP growth further decreased to 6.7% YoY. While the government moderately expanded overall demand, it intensely promoted the supply-side structural reform. Various policy measures began to take effect and the market witnessed favorable changes. According to the CISA statistics, China's crude steel output was 810 million tonnes and the apparent consumption of crude steel was 710 million tonnes for 2016, representing a YoY growth of 0.6% and 1.7% respectively. The recovery of market demand, historically low steel inventory and other factors stimulated the fluctuation and improvement of steel price in the domestic market. The consolidated steel price index increased by 43.14 points from 56.37 points at the beginning of the year to 99.51 points at the end of the year, representing a growth of 76.5% YoY. As the steel industry experienced a steady rising trend, it turned significant loss into profit. Nonetheless, the profit margin of the industry was merely 1.02%, which is far lower than the average profit margin of 5.97% for the industry sector.

In view of the opportunities ushered in by the new economic norm, the Company adhered to the strategy of "Focusing on the two major segments while driving reform and innovation" and placed emphasis on product upgrade, expansion of industrial chain and international operation. At the same time, by actively seizing market opportunities, deepening structure adjustment and enhancing lean operation, the Company turned loss into profit in 2016 through the concerted efforts of all employees, which laid a good foundation for the development under the "13th Five Year Plan".



IV. Report of The Board (Continued)

In accordance with the PRC Accounting Standards, the Group achieved revenue of RMB48,275 million in 2016, representing a YoY growth of 7.02%. It turned around and recorded net profit attributable to owners of the parent company of RMB1,229 million. The basic earnings per share were RMB0.16. As at the end of the reporting period, the Group's total assets amounted to RMB66,246 million, representing a YoY growth of 6.07%. Net assets attributable to owners of the parent company were RMB19,764 million, representing a YoY growth of 7.09%. As at the end of the reporting period, the Group's gearing ratio was 66.67%, representing a decrease of 0.12 percentage points when compared with the previous year.

In accordance with the China Accounting Standards for Business Enterprises, the Group recorded net profit of RMB1,363 million in 2016, adding the retained profit of RMB-1,489 million as at the beginning of this year, the profit distributable to shareholders amounted to RMB-126 million as at the end of 2016. Given that the Company recorded negative profit distributable to shareholders as at the end of 2016, the Board does not recommend the payment of cash dividend or transfer of capital surplus to share capital for 2016. The distribution plan is to be submitted to the Annual General Meeting for approval.


On 2 August 2016, the Company issued the short-term financing bonds in the principal amount of RMB2.0 billion, with a coupon rate of 5.45%. The proceeds were applied for the replenishment of working capital. In addition, on 25 August 2016, the Company settled the 5-year corporate bonds in the principal amount of RMB2.34 billion that were issued in 2011.

In pursuit of higher overall production efficiency, the Company has decided to phase out certain costly production lines with low efficiency. In 2016, the Company permanently shut down a blast furnace and a converter with iron production capacity of 620,000 tonnes and steel production capacity of 640,000 tonnes.



For many years, the Company has been committed to promoting comprehensive and cohesive development between business, society and environment by persistently adhering to the practice of “a low-carbon economy and green production”. In 2016, the Company strictly complied with the rigid requirements of environmental protection and pushed forward clean production, energy saving

and emission reduction initiatives in the whole process, as a result, the emission of soot and sulfur dioxide per ton of steel reduced over the same period of last year. In cognition of such, the Company was awarded the “Clean Production and Environment-friendly Enterprise” by CISA.



Looking ahead to 2017, new growth drivers are emerging for China's economy. With the country continues to implement favorable fiscal policy and sound monetary policy, the fundamental situation where economy develops well in the long term will remain unchanged. Despite China is well positioned to seize major opportunities as it is set to deepen the reform of state-owned enterprises, push forward the supply-side structural reform, cut excessive capacity of iron and steel industry, implement the "One Belt, One Road" initiative and "Made in China 2025" strategy, and experience consumption upgrade, it also faces tough challenges from sluggish demand, merger and restructuring, competition due to product homogeneity, resources and environmental constraints and low profitability.

In 2017, the Company will adhere to the strategy of "deepening reform and strengthening brand building". It will pursue outstanding operating results and strive to pave way for the transformation, upgrade and healthy development of Magang. To this end, the Company will carry out the following major measures:

In-depth implementation of the performance excellence management model. The Company will deepen the performance excellence management based on the National Quality Award as its new starting point, and establish the management model with Magang characteristics in a planned manner to facilitate the continuous enhancement of operating performance.

Enhancement of brand building. The Company will develop brand strategy for the purpose of strengthening brand promotion and marketing and raise brand awareness companywide. It will also set up the brand risk management system and procedures to maintain Magang's brand image.

Stable and high level operation of the iron-making system. The Company will implement differentiated management based on types of furnace to ensure excellent system operation. Through optimizing the blast furnace inspection and early warning system, it will establish the blast furnace operational model with Magang characteristics, thereby consolidating stable and smooth operation for the long run and developing a leading brand of blast furnace operation.

Promotion of professional, refined, efficient and customized production of the steel rolling system. The Company will consistently implement lean operation concept and rapidly upgrade the steel production process; strengthen the link between production and sales while optimizing the division of labor for production lines so as to fully utilize the capacity of major lines; revise the rules of schedule planning to ensure on time delivery of key product orders with good quality.

IV. Report of The Board (Continued)

Enhancement of efficiency creation by the “two markets”. The Company will optimize the decision making process, strengthen the tracking and analysis of the steel market and raw material market to increase accuracy, and support efficiency creation of the marketing and procurement functions. While the Company maintains low inventory level to secure supply, it adopts flexible procurement strategy to lower procurement costs. The Company will aim at boosting the regional market share and sales of high value added products in total sales; increase promotion to end users and strengthen the integrated marketing of products, technology and services; step up the product export strategy, coordinate domestic and international markets, optimize the planning for overseas market and reach out to overseas end users; further expansion of sales via the E-business platform.

Intensive adjustment of product structure. In terms of **steel plate products**, the Company will respond to the demand for high strength and lightweight products, increase the sales contribution of high-strength steels and steel plates for automobile exterior while boosting market share; expand the market for cold-rolled, galvanized and pickled plates used in high-end household electrical appliances, and increase the share of high grade electrical steel. In terms of **long products**, the Company will step up the research and production of section steels for railways, marine engineering, high rise buildings and bridges, as it develops the market of industrial wire rods, which include spring steel, welding wire steel, bearing steel, chain steel and high ended cold forging steel. In terms of **wheel and axle products**, the Company will strive to achieve bulk supply of high-speed wheels in China; expedite the development and trial production of high-speed wheels and axles, and strengthen market share of wheel and axle products.

Steady enhancement of product quality. The Company will identify customer demand accurately and strengthen capability of process design; stabilize quality of high-end products through technological transformation projects to significantly reduce internal quality loss; strengthen control over quality process, process quality supervision, inspection of production technique and quality incident assessment, and establish the sustainable evaluation mechanism for exposing problems and the preventive mechanism for key processes.

In the coming year, the Board of the Company will be more dedicated and diligent in leading the employees in a concerted effort. We hope and believe that with the support of the shareholders and various sectors of society, the Company will be able to make a great progress on various tasks.

Ding Yi

Chairman

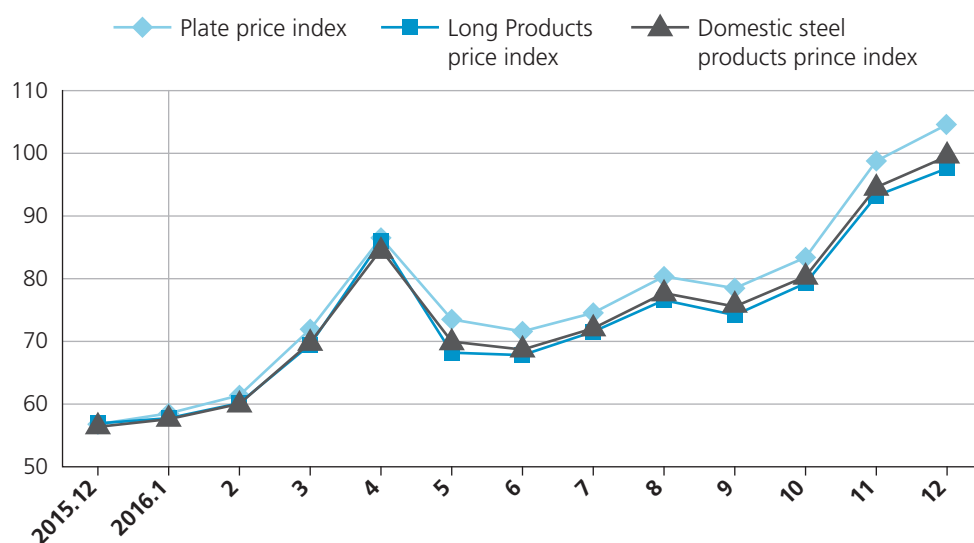
29 March 2017

Maanshan City, Anhui Province, the PRC

4.2 BUSINESS ENVIRONMENT

• THE STEEL PRODUCT MARKET

In 2016, the prices of steel in domestic market fluctuated and rose. In 2016, the average monthly value of China Steel Price Index (CSPI) was 75.88 points, representing an increase of 9.45 points or 14.23%.



Graph 1. Trend of price index for domestic steel products, long products and steel plates in 2016

Overall, the prices of long products and plates products fluctuated and rose. The trend of plates products price is superior to that of the long products price.

• THE MARKET OF RAW MATERIALS AND FUELS

In 2016, the overall trend of iron ore price is similar to that of the steel price, only the rebound rate is slightly lower. The prices of coke surged in the second and third quarter and were finally down in the fourth quarter. According to the statistics of Chinese Customs, the average CIF price of imported iron ore nationwide was US\$56.30/ton in 2016, dropped by 6.9% from the previous year.

To sum up, the impact of increasing steel prices was greater than that of its raw materials. It was the major external factor resulting in common improvement in production and operation of iron and steel enterprises.

IV. Report of The Board (Continued)


• IMPORT AND EXPORT MARKET

Under the influence of improvement in domestic steel market and the intensified friction in steel international trade, China's net export of steel dropped in 2016. According to the statistics of Chinese Customs, the annual export of steel amounted to 108,430,000 tonnes, representing a decrease of 3.5% from the previous year; while the import of steel amounted to 13,210,000 tonnes, representing an increase of 3.4% from last year. The net export of equivalent crude steel was approximately 98,550,000 tonnes, representing a decrease of 4.7% from the previous year. With the rise of international trade protectionism, it becomes more difficult for exporting China's iron and steel products.

4.3 MAJOR BUSINESS PERFORMANCE IN THE REPORTING PERIOD

During the reporting period, the Group produced 17,640,000 tonnes of pig iron, 18,630,000 tonnes of crude steel and 17,690,000 tonnes of steel, representing a year-on-year decrease of 2.05%, 1.01% and 3.17% respectively (of which the Company produced 13,810,000 tonnes of pig iron, 14,640,000 tonnes of crude steel and 13,740,000 tonnes of steel, representing a year-on-year increase of 4.31%, 2.67% and 1.78% respectively). Principal activities of the Company during the reporting period were as follows:

1. Focused on production and maintained stable operation. The iron-making system achieved continuously stable and balanced production by improving the "physical examination" rules and security early-warning mechanism of blast furnace operation; the steel rolling system advanced specialized production and optimized work allocation of production lines to effectively release the capacity of superior production lines; optimizing the management and control system of the utility energy system to promote the economical operation of systematic energy with manufacturing units; developed precision management for key production line equipment and explored comprehensive efficiency ratings of key production line equipment by strengthening the control of equipment status of the equipment system. The Company was awarded the title of The Tenth Nationwide Equipment Management Outstanding Unit.
2. Closely monitored market demand and spared no efforts in product structure adjustment. By expanding the proportion of high value-added products, the production and sales volume of auto sheet exceeded 2,000,000 tonnes and the Company realized an increase of 38.6% in high grade silicon steel production (W470 above); the sales volume of newly developed products was 386,000 tonnes, representing an increase of 38% as compared to last year.

- 
3. Strengthened the management of intellectual property and brand building. The Company's three products: low-alloy high-strength hot-rolled H-shaped steel for structure, hot-rolled H-shaped steel for oceanographic platforms and hot-rolled ridged steel bars for reinforced concrete were awarded the "Golden Cup Prize of Quality Metal Products" in which the hot-rolled H-shaped steel for oceanographic platforms was awarded "Superb Quality Award".
 4. Actively promote outstanding performance management mode. The Company won the Sixteenth National Quality Award presented by China Quality and Assurance Committee; and the title of "Enterprise with Quality and Creditability in China 2016" presented by China Entry & Exit Inspection and Quarantine Association.
 5. Continued benchmarking and cost reduction. The Company strengthened cost management control measures and promoted benchmarking of processes and production lines.
 6. Strengthened marketing operation to create efficiency. Improved market research and decision-making capacity and constructed a new marketing model for the market. Innovated marketing mechanism, improved pricing strategy, developed sales channels to focus on regional markets, expanded E-business sales and optimized export arrangement. Developed 175 new clients throughout the year and increased the direct supply ratio of plates and strips to 66%; sold 520,000 tonnes of steel on E-business platforms and exported 1,210,000 tonnes of steel.
 7. Implemented optimization of human resources. The Company enhanced productivity of employees resulting in significant reduction on salary costs and labor costs in the year.
 8. Strengthened safe production responsibility mechanism, promoted the construction of safe production standardization and maintained stable status of safe production.
 9. Strictly implemented rigid requirements of environmental protection and strengthened the efforts of environmental governance. The Company gained the title of "Clean Production Environmental-Friendly Enterprise" presented by the China Iron and Steel Association.

IV. Report of The Board (Continued)

(1) ANALYSIS OF PRINCIPAL OPERATION

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

Unit: RMB

Items	Amount of the current year	Amount of the same period of last year	Change (%)
Revenue	48,275,100,310	45,108,926,739	7.02
Cost of Sales	42,557,487,675	45,488,440,552	-6.44
Taxes and surcharges	432,096,408	201,228,046	114.73
Selling expenses	694,782,730	635,859,844	9.27
General and administrative expenses	1,780,281,484	1,538,609,887	15.71
Financial expenses	793,650,976	813,036,439	-2.38
Impairment losses	1,064,257,636	1,619,389,979	-34.28
Gain on the changes in fair value	4,051,190	819,265	394.49
Investment income	291,396,463	93,725,198	210.91
Non-operating income	205,202,902	384,059,748	-46.57
Non-operating expenses	84,618,416	17,538,205	382.48
Income tax expense	111,880,234	377,912,379	-70.40
Net profit attributable to owners of the parent company	1,228,892,407	-4,804,299,674	-
Net profit attributable to non-controlling interests	27,802,899	-300,184,707	-
Exchange differences on translation of foreign operation	46,990,704	-28,291,071	-
Net cash flows from operating activities	4,619,861,014	5,865,332,053	-21.23
Net cash flows used in investing activities	-1,937,596,411	-3,621,073,001	-
Net cash flows used in financing activities	-2,090,939,141	-1,554,872,283	-
Research and development expenditure	752,570,000	672,210,000	11.95

- The year-on-year increase of revenue was mainly caused by rising price of steel products in 2016.
- The year-on-year decrease of costs of sales was mainly caused by declining production costs resulted from the Company's continuous cost reduction and efficiency enhancement and the production suspension in Ma Steel (Hefei) Iron & Steel Co., Ltd.
- Taxes and surcharges increased by 114.73% over the previous year, mainly due to inclusion of the property tax, land use tax, vehicle and vessel use tax, stamp duty and other taxes arising from operating activities in this item, since 1 May 2016.
- Impairment losses declined by 34.28% over the previous year, mainly due to rising price of steel product this year and reducing provision for inventory impairment in the current year.
- Gain on the changes in fair value increased by 394.49% over the previous year, mainly due to fair value fluctuation of the currency forward contract this year.
- Investment income increased by 210.91% over the previous year, mainly due to this year's increase in net profit of the associate companies and joint ventures as compared with last year.
- Non-operating income dropped by 46.57% over the previous year, mainly due to this year's reduction in the government's financial subsidies as compared with last year.
- Non-operating expense rose by 382.48% over the previous year, mainly due to this year's increase in losses of fixed asset disposal, caused by engineering construction, technological transformation and demolition, etc.
- Income tax expense decreased by 70.40% over the previous year, mainly due to declined deferred income tax expense this year as compared with last year.

IV. Report of The Board (Continued)

- Net profit attributable to owners of the parent company amounted to RMB1,228,892,407, and the profits increased by RMB6,033,192,081 over the previous year, mainly because of rising steel price leading to an increase in gross profit margin this year.
- Net profit attributable to non-controlling interests amounted to RMB27,802,899, and the profits increased by RMB327,987,606 over the previous year, mainly due to rising profit of non-wholly-owned subsidiaries this year as compared with last year.
- Exchange differences on translation of foreign operation amounted to RMB46,990,704, rising by RMB75,281,775 over the previous year, mainly due to appreciation of the accounting currency against RMB for overseas subsidiaries.

Financial position and exchange risks

As at 31 December 2016, the total loans of the Group amounted to RMB15,317 million. Except for foreign currency loans amounting to US\$249 million and Euro30 million, all other loans were denominated in Renminbi. Except for US dollar loans amounted to US\$210 million with fixed interest rates and US dollar loans of US\$39.44 million and Euro30 million at LIBOR plus premium, among the Renminbi-denominated loans of the Group, loans amounting to RMB6,194 million carried fixed interest rates and loans amounting to RMB7,177 million carried floating interest rates. The Company issued RMB2 billion medium term notes in July and August 2015, respectively, with total issue amount reaching RMB4 billion. On 2 August 2016, the Company issued RMB2 billion short term financing bonds. In addition, the Group settled the 5-year corporate bonds amounting to RMB2.34 billion issued in 2011 on 25 August 2016.

The Group's level of loans and borrowings varies according to the scale of production and progress of construction projects. The Group had no overdue loans in the reporting period, except for Maanshan Iron & Steel Company Limited (Shanghai) Trade Co., Ltd's short-term bank loans. At present, the Group is financing its capital projects primarily via its own funds. As at the end of the Reporting period, banking facilities available to the Group amounted to approximately RMB36.58 billion.

As at 31 December 2016, the Group's cash and bank balances amounted to RMB5,312 million and bills receivable amounted to RMB3,608 million, the majority of which derived from sales proceeds.

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

1. Sales and Cost

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

Unit: RMB million

Industry	Revenue	Cost of sales	Gross profit (%)	Principal operation by industry		
				Increase/ (decrease) of revenue when compared with same period of last year (%)	Increase/ (decrease) of cost of sales when compared with same period of last year (%)	Increase/ (decrease) of gross profit margin when compared with same period of last year (%)
Iron and Steel	46,095	40,197	12.80	7.57	-7.02	Increased by 13.68 percentage points

IV. Report of The Board (Continued)

Unit: RMB million

Principal operation by product

Product	Revenue	Cost of sales	Gross profit (%)	Increase/ (decrease) of revenue when compared with same period of last year (%)	Increase/ (decrease) of cost of sales when compared with same period of last year (%)	Increase/ (decrease) of gross profit margin when compared with same period of last year (%)
Long products	17,713	16,198	8.55	1.37	-9.77	Increased by 11.28 percentage points
Steel plates	25,908	21,736	16.10	13.50	-5.54	Increased by 16.91 percentage points
Wheels and axles	1,462	1,251	14.43	-9.25	-7.88	Decreased by 1.27 percentage points

Principal operation by region

Region	Revenue	Cost of sales	Gross profit (%)	Increase/ (decrease) of revenue when compared with same period of last year (%)	Increase/ (decrease) of cost of sales when compared with same period of last year (%)	Increase/ (decrease) of gross profit margin when compared with same period of last year (%)
Anhui	18,980	17,035	10.25	1.57	-13.09	Increased by 15.14 percentage points
Jiangsu	7,680	6,940	9.64	17.31	5.90	Increased by 9.75 percentage points

Principal operation by region						
Region	Revenue	Cost of sales	Gross profit (%)	Increase/ (decrease) of revenue when compared with same period of last year (%)	Increase/ (decrease) of cost of sales when compared with same period of last year (%)	Increase/ (decrease) of gross profit margin when compared with same period of last year (%)
Shanghai	7,554	6,524	13.64	19.64	7.96	Increased by 9.35 percentage points
Zhejiang	2,829	2,540	10.22	1.29	-8.96	Increased by 10.11 percentage points
Guangdong	1,619	1,381	14.70	23.40	4.15	Increased by 15.77 percentage points
Other Mainland regions	5,938	4,971	16.28	5.58	-8.05	Increased by 12.40 percentage points
Overseas and Hong Kong	3,675	3,166	13.85	-4.12	-16.00	Increased by 12.18 percentage points

Explanations on principal operation by industry, products and regions

During the reporting period, the group's revenue from principal operation was RMB47,324 million, wherein the iron & steel income was RMB46,095 million, accounting for 97% of the principal operation revenue.

IV. Report of The Board (Continued)

(2). Analysis of Production and Sales Volumes

Product	Production Volume	Sales Volume	Inventory	Year-on-year increase/ decrease of production volume (%)	Year-on-year increase/ decrease of sales volume (%)	Year-on-year increase/ decrease of inventory (%)
Long products	8,380,000 tonnes	8,279,000 tonnes	212,000 tonnes	-6.57	-7.45	90.99
Steel plates	9,169,000 tonnes	9,202,000 tonnes	50,000 tonnes	0.47	1.41	-39.76
Wheels and axles	142,000 tonnes	144,000 tonnes	5,000 tonnes	-18.39	-17.24	-28.57

(3). Analysis of Costs

Unit: RMB million

Industry	Cost components	Amount in 2016	% of total cost in 2016 (%)	By industry		Change in proportion of amount in 2016 against amount in 2015 (%)
				Amounts in 2015	% of total cost in 2015 (%)	
Iron and Steel	Raw materials	31,495	74.01	30,252	66.51	4.11
Iron and Steel	Salary	3,273	7.69	3,410	7.50	-4.02
Iron and Steel	Depreciation	3,245	7.63	3,365	7.40	-3.57
Iron and Steel	Fuels	3,260	7.66	4,145	9.11	-21.35
Iron and Steel	Others	1,284	3.01	2,058	4.52	-37.61

(4). Analysis of Major Customers and Major Suppliers

The amount of total sales to the top five customers was RMB4,557 million, accounting for 9% of the annual sales. Among the sales to the top five customers, the amount of sales to the related parties was nil, accounting for 0% of the annual sales.

The amount of the total purchase from the top five suppliers was RMB8,863 million, accounting for 35% of the annual purchase. Among the purchase from the top five suppliers, the amount of purchase from the related parties was RMB2,862 million, accounting for 11% of the annual purchases.

Other explanations

Amongst the key suppliers, was Magang (Group) Holding Co., Ltd., the controlling shareholder of the Company. Beyond that, in 2016, there were no directors or supervisors or their connected persons or any shareholders (to the best knowledge of the board of directors, holding 5% or above of the shares in our company) having any beneficial interests in the top five suppliers or customers of our company.

2. Expenses

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

3. Research and Development (R&D) Expenditure

R&D expenditure breakdown

	Unit: RMB million
Expensed R&D expenditure in 2016	752.57
Capitalized R&D expenditure in 2016	—
Total R&D expenditure	752.57
Total R&D expenditure as a percentage of revenue (%)	1.56
Number of the Company's R&D staff	3,787
Percentage of R&D staff number to the Company's total number of employees (%)	11.80
Percentage of capitalized R&D expenditure (%)	—

4. Cash Flows

Net cash inflow from operating activities was approximately RMB4.6 billion, and the significant difference from the net profit in the reporting period is caused by provision for inventory impairment and depreciation expense this year.

- (1) Net cash inflow from operating activities amounted to RMB4,619,861,014, down by 21.23% over the last year, mainly due to a substantial rise of the note endorsement and transfer settlement in sales activities this year, leading to declined cash inflow from operating activities and increasing inventory compared with the last year.

IV. Report of The Board (Continued)

- (2) Net cash outflow from investing activities amounted to RMB1,937,596,411, while net cash outflow of last year amounted to RMB3,621,073,001, mainly due to a reduction in both the net cash outflow from financial asset investment and the cost of construction in progress this year.
- (3) Net cash outflow from financing activities amounted to RMB2,090,939,141, while net cash outflow of last year amounted to RMB1,554,872,283, mainly due to a reduction in the company's direct financing this year, as well as payment of corporate bonds due within one year.

(2) ANALYSIS OF ASSETS AND LIABILITIES

1. Assets and liabilities

Unit: RMB'000

Item	Closing balance of 2016	Percentage of closing balance of 2016 in total assets (%)	Closing balance of 2015	Percentage of closing balance of 2015 in total assets (%)	Year-on-year Change (%)
Financial assets measured at fair value through profit or loss	555,322	0.84	1,005,271	1.61	-44.76
Interest receivable	4,045	0.01	1,600	-	152.81
Prepayments	925,051	1.40	634,407	1.02	45.81
Other receivables	127,615	0.19	190,348	0.30	-32.96
Inventories	10,548,062	15.92	6,018,496	9.64	75.26
Financial assets purchased under agreements to resell	230,047	0.35	-	-	-
Loans and advances to customers	1,555,213	2.35	732,914	1.17	112.20
Available-for-sale financial investments	577,948	0.87	128,934	0.21	348.25
Construction in process	2,258,191	3.41	4,245,763	6.80	-46.81
Deposits and balances from banks and other financial institutions	3,708,225	5.60	1,901,390	3.04	95.03
Repurchase agreements	596,566	0.90	-	-	-
Bills payable	3,584,228	5.41	5,343,906	8.56	-32.93
Advances from customers	3,682,322	5.56	2,602,554	4.17	41.49
Payroll and benefits payable	550,445	0.83	274,615	0.44	100.44

Item	Percentage of closing balance of		Percentage of closing balance of		Year-on-year Change
	Closing balance of 2016	2016 in total assets (%)	Closing balance of 2015	2015 in total assets (%)	
Taxes payable	274,232	0.41	149,898	0.24	82.95
Dividends payable	8,714	0.01	6,526	0.01	33.53
Other payables	1,912,575	2.89	1,258,464	2.02	51.98
Non-current liabilities due					
within one year	3,211,056	4.85	5,084,859	8.14	-36.85
Accrued liabilities	29,580	0.04	22,233	0.04	33.05
Other current liabilities	2,273,058	3.43	-	-	-
Long-term payroll and					
benefits payable	159,173	0.24	28,857	0.05	451.59
Special reserve	27,970	0.04	14,374	0.02	94.59
General reserve	153,395	0.23	102,539	0.16	49.60
Retained profits	-190,569	-0.29	-1,368,605	-2.19	-

- The financial assets measured at fair value through profit or loss decreased by 44.76% over the previous year, mainly due to a reduction of banking financial products held by the finance company, a subsidiary of the Company.
- Interest receivable increased by 152.81% compared with the end of last year, mainly due to a rise in the interests receivable for loans granted by the finance company to entities beyond the group.
- Prepayments increased by 45.81% compared with the end of last year, mainly due to an increase in the advance payments for purchasing the raw materials and fuels.
- Other receivables decreased by 32.96% compared with the end of last year, mainly due to the decline in the receivable deposits for steel futures trading.
- Inventories increased by 75.26% compared with the end of last year, mainly due to rising price of raw materials, fuel and the cost of finished products.
- Financial assets purchased under agreements to resell was RMB230,047,000 and nil at the end of last year, mainly because the finance company increased reverse repurchase business this year.

IV. Report of The Board (Continued)

- Loans and advances to customers increased by 112.20% compared with the end of last year, mainly because the finance company increased the bill discount amount to third parties.
- Available-for-sale financial investments increased by 348.25% compared with the end of last year, mainly because the finance company purchased policy financial bonds and corporate bonds, plus the interbank deposit this year.
- Construction in process decreased by 46.81% compared with the end of last year, mainly because the company's 4 # blast furnace, as well as the public and ancillary supporting project are transferred to fixed assets upon completion.
- Deposits and balances from banks and other financial institutions rose by 95.03% compared with the end of last year, mainly because Magang (Group) Holding Co., Ltd. and its subsidiaries increased asset deposit into the finance company.
- Repurchase agreements was RMB596,565,698 and nil at the end of last year, mainly due to inter-bank discount of bills and bonds by the finance company to other financial institutions this year.
- Bills payable decreased by 32.93% compared with the end of last year, mainly caused by more frequent receivable note endorsement and transfer, to reduce issuance of notes payable.
- Advances from customers increased by 41.49% compared with the end of last year, mainly due to the rise in steel price and the increase in customers' advance payment for steel this year.
- Payroll and benefits payable increased by 100.44% compared with the end of last year, mainly due to increasing performance bonuses for the improved operation of the Company.
- Taxes payable increased by 82.95% compared with the end of last year, mainly due the increase of value add tax and other taxes for this year's increase of income.
- Dividends payable increased by 33.53% compared with the end of last year, mainly due to the increase in the payable dividends of subsidiaries to minority shareholder.

- Other payables increased by 51.98% compared with the end of last year, mainly because the Group imported iron ore by means of forfeiting this year, and changed the creditor from the holding subsidiary Ma Steel (Hong Kong) Co., Ltd. in prior years to a commercial bank in current year.
- Non-current liabilities due within one year decreased by 36.85% compared with the end of last year, mainly due to this year's payment of corporate bonds due within one year.
- Accrued liabilities increased by 33.05% compared with the end of last year, mainly due to increase in the provision for a pending litigation of MG-VALDUNES S.A.S., Ltd. and the provision for mine rehabilitation in Australia.
- Other current liabilities amounted to RMB2,273,058,356 and nil at the end of last year, mainly due to this year's issuance of RMB2 billion short-term financing bills due within one year.
- Long-term payroll and benefits payable increased by 451.59% compared with the end of last year, mainly due to employee benefits of the retired staff caused by de-capacity and human resource optimization this year.
- Special reserve rose by 94.59% compared with the end of last year, mainly because of changes in production safety expense of the company's subsidiaries ChangJiang Steel and Hefei Steel & Iron and net change in the Company's portion of special reserve in associate companies.
- General reserve increased by 49.60% compared with the end of last year, mainly due to the increase in loan granting and bill discount business of the finance company.
- Retained profits amounted to RMB-190,568,622 at the end of current year and -1,368,605,137 at the end of last year, mainly due to the group's profit for this year.

IV. Report of The Board (Continued)

(3) OPERATIONAL INFORMATION ANALYSIS OF THE INDUSTRY

Operation Information

2016 is the first year to settle the work of iron and steel overcapacity, and in the domestic steel and iron industry, crude steel capacity of more than 65 million tons is resolved. Meanwhile, fixed asset investment in the steel and iron industry stood at RMB513.9 billion, down by 8.6% compared with the last year, which is conducive to solve the severe overcapacity. However, because of low industrial concentration, and the problem of overcapacity is still rather serious; international steel trade frictions are intensified, original fuel prices rise sharply, “ground steel strip” chaos is serious, and the market environment remains to be further improved.

Company Information

The Company is located in Eastern China, which is an area with net inflow of steel products. During the reporting period, the production capacity and utilization rates were as follows:

Product Type	Production capacity (‘000 tonnes)	Utilization rate of production capacity (%)
Pig iron	19,920	89
Crude steel	23,620	79
Steel production	21,270	83

Steel and Iron Industry Operational Information Analysis

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

Type based on processing	Production volume (tonnes)		Sales volume (tonnes)		Revenue		Cost of sales		Gross profit margin (%)	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Cold-rolled steel	4,787,338	4,221,000	4,785,420	4,215,000	14,684	11,676	12,702	11,820	13.50	-1.23
Hot-rolled steel	12,761,582	13,874,000	12,695,554	13,804,000	28,937	28,624	25,232	29,142	12.80	-1.81
Wheel and axles	142,196	174,000	143,814	174,000	1,462	1,611	1,251	1,358	14.43	15.70

Unit: RMB Million

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

Unit: RMB Million

Types based on forms of finished products	Production volume (tonnes)		Sales volume (tonnes)		Revenue		Cost of sales		Gross profit margin (%)	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Long Products	8,380,085	8,969,331	8,278,910	8,944,863	17,713	17,474	16,198	17,951	8.55	-2.73
Steel Plates	9,168,835	9,126,341	9,202,064	9,073,868	25,908	22,826	21,736	23,011	16.10	-0.81
Wheels and axles	142,196	174,000	143,814	174,000	1,462	1,611	1,251	1,358	14.43	15.70

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

Unit: RMB Million

Based on sales channels	Revenue		Percentage (%) in total revenue	
	2016	2015	2016	2015
Offline sales	43,190	40,770	89.47	90.38
Online sales	1,890	1,140	3.92	2.53

4. *Supply source of iron ore*

Unit: RMB Million

Supply source of iron ore	Supply volume (tonnes)		Expenses	
	2016	2015	2016	2015
Domestic source	7,196,830	7,415,151	3,298	3,139
Overseas import	19,864,484	19,803,055	8,273	9,471

IV. Report of The Board (Continued)

(4) INVESTMENT ANALYSIS

1. General Analysis of External Equity Investment

Unit: RMB Million

Investment amount as at the end of the reporting period of the Company	7,278.89
Increase/decrease of investment amount	321.69
Investment amount as at the end of previous year of the Company	6,957.20
Increase/decrease in investment amount (%)	4.62

(1) Significant Equity Investment

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

Name of Invested Company	Main Business	Equity Interest
Ma Steel Rail Transportation Equipment Co., Ltd.	Railway freight car wheel axle, passenger car wheel axle, urban rail traffic wheel axle, high speed CHR unit wheel axle and locomotive wheel axle R&D, manufacturing, repair, sales, as well as bogie R&D, manufacturing, sales and related technical consulting service; wholesale and retail of railway vehicle parts, metal material, building material, chemical product (except for dangerous goods and easy-to-make drugs), hardware, electrical appliances & accessories, grease, housing and equipment rental; self-operation or agent of goods and technology import and export business.	100%
Masteel America INC.	Pre-sale, in-sales and after-sales services in relation to exports of Magang's train wheels and H-shaped steel products to the markets in Americas.	100%
Mascometal Co., Ltd.	Development, manufacturing and sales of steel wire rods and bars used in automobile industry and finished iron and steel products, the provisions of after-sales services and related technical services, as well as trading businesses (excluding distribution).	66%

Name of Invested Company	Main Business	Equity Interest
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Ma Steel (Cihu) Steel Processing & Distribution Co., Ltd.	Production, processing and sales of various steel plates, wire rods, profile products, providing product warehousing and after-sales service, housing rental business.	92%
-----------------------------------------------------------	------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----

In the reporting period, a wholly-owned subsidiary Masteel America INC. was established, with a total investment of USD500,000; and the Mascometal Co., Ltd. was established under joint investment of ASCO Industrial Corporation and Ma'an Shan Yushan District Urban Development Investment Group Co., Ltd., with registered capital of Euro32 million.

In the reporting period, the wholly-owned subsidiary of Ma Steel Rail Transportation Equipment Co., Ltd. increased capital of RMB60 million. Ma Steel (Wuhu) Processing and Distribution Co., Ltd., a subsidiary of the Group agreed to transfer 92% equity interest of Ma Steel (Cihu) Steel Processing & Distribution Co., Ltd. to the Company. Besides, Ma-Steel OCI chemical Co., Ltd. was established in February 2015, and the Company have increased the paid-in capital by amount RMB22.51 million under the capital installment during 2016, in the result of constant equity interest, which is 40%.

(2) Significant Non-equity Investment

Unit: RMB million			
Project Name	Budgeted Investment	New Investment	Project Progress
Product quality projects	6,417	1,344	82%
Energy-saving and environment protection projects	2,623	994	84%
Equipment advancement and other modification projects	2,360	272	85%
Other projects	N/A	416	N/A
Total		<u>3,026</u>	/

IV. Report of The Board (Continued)

During the reporting period, there were additional investment in property, plant and equipment which amounted to RMB112 million, and intangible assets amounted to RMB2 million, except for the construction in progress investment mentioned above.

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

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

- Ma Steel (Hefei) Iron & Steel Co., Ltd. has a registered capital of RMB2,500 million, in which the Company holds a direct stake of 71%. It is mainly engaged in metallurgy and extended processing of ferrous metals and sale of resulting products and by-products; production and sale of coke and coke chemical products and energy, extended processing of iron and steel products, production and sale of metallic products. Net loss for the reporting period amounted to RMB544 million. As at the end of the reporting period, it had total assets amounting to RMB4,734 million and net assets of RMB2,137 million.
- Anhui Changjiang Iron and Steel Co., Ltd. has a registered capital of RMB1,200 million, in which the Company holds a direct stake of 55%. It is mainly engaged in ferrous metal smelting, the production and sales of screw threaded steel, round steel, section steel, angle steel, deformed steel, wire and rod, sales of iron ore and iron ore fines and scrap steel as well as import and export. As at the end of the reporting period, it recorded net profit of RMB296 million, total assets of RMB6,330 million and net assets of RMB2,508 million.
- Magang Group Finance Co., Ltd. has a registered capital of RMB1,000 million and 91% of its equity is directly owned by the Company. It is chiefly responsible for providing corporate finance, financial advisory, consulting and intermediary services to its members. It provides guarantee against borrowing, offers note acceptance and discount, lending and financial leasing services to its members. Its other activities include interlending, collection and payment for transactions between members, approved insurance brokerage, entrustment loans for members, internal transfer and bill settlement, design of settlement and liquidation plans, and taking deposits from members. In the reporting period, it posted a net profit of RMB109 million. At the end of the reporting period, its total asset value was RMB9,024 million and net asset was RMB1,586 million.

- The wholly-owned subsidiary MG-VALDUNES S.A.S., with registered capital of Euro40.2 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 RMB127 million; at the end of reporting period, the total assets stood at RMB534 million, and the net assets were RMB108 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 RMB19 million. As at the end of the reporting period, it had total assets amounting to RMB216 million and net assets of RMB129 million.
- Ma Steel (Wuhu) Processing and Distribution Co., Ltd. has a registered capital of RMB35 million, in which the Company holds direct and indirect stakes of 70% and 27.3%, respectively. It is mainly engaged in the processing and sale of metallic products, processing of automobile spare parts and sale of construction materials and chemical products. Net profit for the reporting period amounted to RMB39 million. As at the end of the reporting period, it had total assets amounting to RMB349 million and net assets of RMB115 million.
- Ma Steel (Yangzhou) Processing and Distribution Co., Ltd. has a registered capital of US\$20 million, in which the Company holds a direct stake of 71%. It is mainly engaged in the production, processing and sale of steel plates, wire rods and section steel, as well as provision of storage and after-sales services. Net profit for the reporting period amounted to RMB17 million. As at the end of the reporting period, it had total assets amounting to RMB293 million and net assets of RMB192 million.
- Maanshan Iron and Steel (Australia) Proprietary Limited, a wholly-owned subsidiary, has a registered capital of AU\$21.7379 million. It is mainly engaged in investment and trading. Net profit for the reporting period amounted to RMB23 million. As at the end of the reporting period, it had total assets amounting to RMB205 million and net assets of RMB199 million.

IV. Report of The Board (Continued)


- Ma Steel (Hefei) Processing and Distribution Co., Ltd. has a registered capital of RMB120 million, in which the Company holds direct and indirect stakes of 61% and 25.48%, respectively. It is mainly engaged in processing and sale of steel plates and production and sale of construction steel framework products, as well as the provision of storage and transportation services. Net loss for the reporting period amounted to RMB31 million. As at the end of the reporting period, it had total assets amounting to RMB425 million and net assets of RMB165 million.
- Masteel (Hong Kong) Co., Ltd. has a registered capital of HK\$260 million, in which the Company holds a direct stake of 91%. 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 RMB18 million. As at the end of the reporting period, it had total assets amounting to RMB1,310 million and net assets of RMB253 million.
- Maanshan BOC-Ma Steel Gases Company Limited has a registered capital of RMB468 million and the company directly holds 50% equity, to mainly produce, sell air or liquid form of air products, and engage in preparation for other industrial gas products. In the reporting period, the net profits amounted to RMB166 million; at the end of reporting period, the total assets stood at RMB729 million, and the net assets were RMB638 million.

In 2016, Anhui Changjiang Iron and Steel Co., Ltd. had a revenue of RMB8,024 million and a profit of RMB826 million from its principal business while MG-VALDUNES S.A.S. had a revenue of RMB338 million and a loss of RMB63 million from its principal business. Ma Steel (Hefei) Iron & Steel Co., Ltd. had a revenue of RMB2,812 million and a profit of RMB69 million from its principal business.

4.4 DISCUSSION AND ANALYSIS ON THE COMPANY'S FUTURE DEVELOPMENT

(1) INDUSTRY LANDSCAPE AND TREND

China's iron and steel industry is now in the latter half period of the production and consumption peak curve and in the period of market pattern in-depth adjustment, showing apparent polarization. The iron and steel industry is still the basic industry of national economy, with certain room for further development. In 2016, BAOSTEEL Group and Wuhan Iron and Steel Group jointly reorganized to establish China BAOWU Steel Group which will dominate the market of domestic high-end auto plate, silicon steel and other fields, putting a significant competitive pressure on the plate products of the group.



At present, the group's product structure covers a wide range; therefore, in the future market competition, it may flexibly deploy resources, and produce the best varieties of steel according to market conditions. In addition, the company is located along the Yangtze River, with short-term and low shipping costs to all places, to ensure a prominent market competitiveness of products.

(2) CORPORATE DEVELOPMENT STRATEGY

Adhere to iron and steel industry as the core, pursue economies of scale, introduce EVI concept in an all-round way, combine product upgrading and service innovation, focus on brand strategy and low cost strategy, reinforce product, optimize structure, establish brand, create a steel and iron material service provider with unique characteristics, strive to ensure industrial competitiveness leading the industry, enhance overall business, environment, employee and social performance, and develop the company with a brand of "good benefit, eco-friendliness, employee morale, customer trust and social respect".

(3) BUSINESS PLAN

In 2017, the group plans to produce pig iron of 18.22 million tons, crude steel of 19.17 million tons and steel of 18.24 million tons (of which the company plans to produce pig iron of 14.40 million tons, crude steel of 15.25 million tons and steel of 14.32 million tons), and there is no significant change compared with the current year.

(4) POTENTIAL RISKS

1. Risks of trade friction on steel exports

In recent years, with the rapid growth of China's steel and iron product export, trade protection measures against China's steel export were increasing. In 2016, the United States launched the most severe "steel & iron 337 investigation" on China, to push trade protectionism to the peak, and the EU also quickly followed up, so as to severely hinder Chinese steel and iron product export to Europe, the United States and other major markets.

Countermeasures: actively respond and defend based on facts, and take trade friction solutions of investigation coordination, reasonable appeal, etc, to enhance competitiveness of company products in the international market.

IV. Report of The Board (Continued)

2. Capacity reduction policy and industrial risk

The country will ban “ground steel strip” prior to the end of June 2017, and reduce steel and iron capacity of around 50 million tons again throughout the year, which is conducive to alleviate the situation of overcapacity, but in view of the promulgated environmental protection and relocation capacity planning program in some areas, the competition of domestic plate market will further intensify in the future, and exert a certain impact on the company.

Countermeasures: intensify development of top-quality end customers of plates, narrow down the ordinary steel market, optimize the layout of long material, and increase market share in East China.

3. Risks of business models

In recent years, direct supply ratio of the Company has been increasing, bringing certain efficiency to the Company, while certain risks come with excessive direct supply ratio: because downstream clients now don't have raw material inventory generally, once the downstream industry shrinks and production slack season comes, the Company's order will be in shortage.

Countermeasures: keep track of changed demand of end users in time, reasonably distribute resource ratio to direct supply, dealers and self marketing and ensure stable production and operation.

4. Risk of significant fluctuations in RMB exchange rate

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

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

4.5 THE COMPANY DID NOT FAIL TO COMPLY WITH DISCLOSURE STANDARDS DUE TO INAPPLICABLE STANDARDS OR SPECIFIC REASONS.

V. Significant Events

5.1 PLAN OR PROPOSED OF PROFIT DISTRIBUTION FOR ORDINARY SHARES, PLAN OR PROPOSAL OF TRANSFERRING CAPITAL RESERVE TO INCREASED EQUITY

(1) Formulation, implementation and adjustment of a cash dividend policy

According to the Article 192 of the Articles of Association of the Company, based on the principle of giving proper regard to both the need to generate reasonable investment return for shareholders and the need to fulfill reasonable funding requirements of the Company, dividends will be distributed to shareholders in proportion to their shareholdings, and the Company's cash dividend policy should be maintained on a continuous and stable basis.

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

(2) The dividend distribution or capital reserves capitalization and bonus sharing declared by the company for the last three years (the reporting period inclusive)

Unit: RMB Million

Year of Distribution	Bonus Shares Distributed Every Ten Shares (share)	Dividends Distributed Every Ten Shares (tax included)	Transferred Shares Every Ten Shares (share)	Amount of Cash Dividends (tax included)	Financial Statements in the Year of Distribution	Ratios to	
						Attributable to ordinary equity holders of Listed Company in Consolidated Financial Statements	Net Profits Attributable to ordinary equity holders of Listed Company in Consolidated Financial Statements (%)
2016	-	-	-	-	1,228.9	-	-
2015	-	-	-	-	-4,804.3	-	-
2014	-	-	-	-	220.6	-	-

V. Significant Events (Continued)

In 2016, the Company realized net profit amounting to RMB1,363 million in accordance with China Accounting Standards for Business Enterprises. The undistributed accumulated loss was RMB126 million as at 31 December 2016 after including the accumulated loss of RMB1,489 million at the beginning of the year. As the Company's profit available for distribution to the shareholders was negative at the end of 2016, the Board suggests that no dividends shall be distributed for the year of 2016 and no capital surplus shall be transferred to share capital. The distribution plan is going to be submitted to the Annual General Meeting for approval.

- (3) **During the reporting period, there were no such circumstances which the Company had profit and the undistributed profit for the ordinary equity holders was available, where the Company did not propose any cash dividend distribution plan for ordinary shares.**

5.2 PERFORMANCE OF UNDERTAKINGS

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

Type of under-taking	Under-taker	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.	24 July 2015	No	No	In 2016, while production was improved at the Group Company, severe overcapacity in the iron and steel industry and the rapid increase of cost of raw materials have dented the fundamentals of the Group Company's profitability. Therefore, it was faced with a shortage of funds for the said further acquisition.	Under the premise of ensuring the normal operation of funds, the Group Company will make more efforts to increase the intensity of financing and implement the increased holding in a legitimate and compliance manner.

- (2) **No explanation or reason on whether the company has achieved profit estimate issued under the reporting period on its assets or project was needed**

5.3 NO APPROPRIATION OF FUND ON A NON-OPERATING BASIS WAS FOUND DURING THE REPORTING PERIOD.

5.4 THE AUDITORS ISSUED "STANDARD AUDIT REPORT" ON THE COMPANY'S FINANCIAL REPORT AND NO SPECIFIC EXPLANATION FROM THE BOARD OF DIRECTORS ON THE "NON-STANDARD AUDIT OPINIONS" WAS NEEDED.

5.5 ANALYSIS AND EXPLANATION OF THE COMPANY ON THE REASONS FOR AND THE IMPACT OF THE CHANGES TO ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND MATERIAL ACCOUNTING ERRORS

(1) ANALYSIS AND EXPLANATION OF THE COMPANY ON THE REASONS FOR AND THE IMPACT OF THE CHANGES TO ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Changes in Accounting Policies

Changes in tax disclosure

In 2016, the Group adjusted the “business tax and surcharges” item in the income statement to “tax and surcharges” in accordance with the requirements of “Value Added Tax Accounting Treatment Regulations” (Accounting [2016] No. 22). The real estate tax, land usage tax, vehicle and vessel tax, stamp tax and other related taxes relating to operating activities since 1 May 2016 were recorded in “tax and surcharges” item instead of “general administrative expenses”; For those occurred before 1 May 2016 were still recorded in “general administrative expenses”. As a result of the above requirements, the contents disclosed in “tax and surcharges” and “general administrative expenses” in 2016 were different from those in 2015, but there was no impact on net profit and shareholders’ equity for 2016 and 2015.

2. Changes to Accounting Estimates

In accordance with the CAS 4 – Fixed Assets and CAS 28 – Changes in Accounting Policy and Estimate and Correction of Errors, the subsidiary of the Company, Anhui Changjiang Iron and Steel Co., Ltd. adjusted the useful life of fixed assets to ensure the adjusted useful life to meet the estimates on the period that the future economic benefits by considering actual useful life of the fixed assets accordingly. On 14 March 2016, the change was approved by the board of directors in “Resolution of the Board of Directors of Changjiang Iron and Steel [2016] No.2”. On 30 March 2016, the change was also reviewed and approved by the board of directors of the Company. The above changes of accounting estimates performed from 1 April 2016 has resulted in an increase of its net profit amounting to RMB82 million for 2016.

V. Significant Events (Continued)

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

(2) During the reporting period, there was no significant accounting errors.

5.6 APPOINTMENT AND REMOVAL OF AUDITORS

Unit: RMB'000

Current Auditors

Name of auditors in the PRC	Ernst & Young Hua Ming LLP
Remuneration of auditors in the PRC	5,185 (including internal control audit fee of RMB600,000)
Tenure of auditors in the PRC	23

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

APPOINTMENT AND REMOVAL OF AUDITORS

As Ernst & Young Hua Ming LLP, the auditors, had developed a thorough understanding of the Company throughout the years, and their work has been conscientious and detailed, the Audit Committee has recommended to re-appoint the firm as the auditors for 2016. The Board of Directors did not have any contrary opinion and the related resolution was approved at the 2015 Annual General Meeting held on 15 June 2016.

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

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

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

5.10 NO EXPLANATION OF THE CREDIBILITY OF THE COMPANY, ITS CONTROLLING SHAREHOLDERS AND ACTUAL CONTROLLER DURING THE REPORTING PERIOD WAS NEEDED

5.11 SUBSTANTIAL CONNECTED TRANSACTIONS

(1) CONNECTED TRANSACTIONS RELATED TO NORMAL OPERATIONS

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

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

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 2016 and 31 December 2016, the payment made by the Company to the Group Company in respect of the "Sale and Purchase of Ore Agreement", which was signed in 2015, was as follows (RMB'000):

	Amount	Proportion of transaction of the same category (%)
Purchase of iron ore, limestone and dolomite	2,883,966	19

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

V. Significant Events (Continued)

All Directors of the Board who are not associated with Holding (including Independent Non-executive Directors) considered that those transactions were carried out under normal commercial terms or were no less favorable than the terms agreed between the Company with any independent third party. They were in the best interest of the Company and its shareholders. The continuing connected transactions contemplated under the “Sale and Purchase of Ore Agreement” between the Company and the Group Company were approved at the shareholders’ general meeting. In the reporting period, such transactions were carried out according to the terms for the “Sale and Purchase of Ore Agreement” for the year of 2016-2018 and their transaction amount was under the annual cap for that agreement, i.e., RMB3,815 million.

- (ii) In the reporting period, businesses between Masteel Financial and Group Company:

Business				
Nature		Amount of loan or deposit	Interest income/expenses	
		RMB'000	RMB'000	
Deposit	Maximum daily deposit	4,354,475	Interest expenses	20,314
	Monthly average maximum daily deposit	3,633,136		
Loan	Maximum daily loan	498,000	Interest income	15,825
	Monthly average maximum daily loan	496,065		
Other income				
Net income from handling fee and commission (RMB'000)				2,206
Income from discount interest (RMB'000)				17,886

The continuing connected transactions contemplated under the “Financial Services Agreement” for the year of 2016 between Masteel Financial and the Group Company were approved by the Board. All Directors of the Board who are not associated with Holding (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 daily cap of RMB500 million, while interests, handling and service fees were less than RMB50 million.

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

In the period between 1 January 2016 and 31 December 2016, the payment made by the Company in respect of the “Energy Saving and Environmental Protection Agreement”, which was signed in 2015, was as follows (RMB'000):

	Amount	Proportion of transaction of the same category (%)
Energy saving and environmental protection engineering and services	597,743	10
Sale of wastes	4,577	–
Total	<u>602,320</u>	–

The “Energy Saving and Environmental Protection Agreement” for the year of 2016 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 Holding (including Independent Non-executive Directors) considered that those transactions were conducted under normal commercial terms and were in the best interest of the Company and its shareholders. Their transaction amount did not exceed the cap of RMB684 million specified in the agreement

V. Significant Events (Continued)

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

	Amount	Proportion of transaction of the same category (%)
Steel products and other products purchased by the Group Company from the Company	168,572	–
Water, electricity, telephone and other services purchased by the Group Company from the Company	120,660	17
Fixed assets and construction services purchased by the Company from the Group Company	422,916	14
Other services and products purchased by the Company from the Group Company	<u>2,318,199</u>	100
Total	<u><u>3,030,347</u></u>	

All Directors of the Board who are not associated with Holding (including Independent Non-executive Directors) considered that such transactions were carried out between the Company and 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 cap of RMB5,334 million.

- As at 31 December 2016, except for the normal course of business, there were no other liabilities or debts thus arising between the Company and connected parties.

- Substantial agreements entered into with controlling shareholder

On 29 December 2016, the Board approved of Financial Services Agreement and Integrated Support Services Agreement entered into between the Company and the Group Company. Except for those agreements, the Company did not enter into any substantial agreements with its subsidiaries or controlling shareholder during the reporting period.

Ernst & Young Hua Ming LLP, the Company's auditors, were engaged to report on the Group's continuing connected transactions for the reporting period in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) and the Practice Note 740 – Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by the HKICPA. Ernst & Young Hua Ming LLP have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Hong Kong Stock Exchange.

(2) OTHERS

The 23rd meeting of the eighth session of the board of directors of the Company convened on 27 October 2016 approved that the Company and the Group Company increase the registered capital of the Finance Company by RMB1 billion in cash by one-off payment according to the original proportion of capital contribution. The Company and the Group Company contributed RMB910 million and RMB90 million, respectively. Please see the connected transaction announcement published on 28 October 2016 on the following address: http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2016-10-28/600808_20161028_2.pdf.

5.12 MATERIAL CONTRACTS AND PERFORMANCE THEREOF

- (1) During the reporting period, there was no entrustment, contracting and leasing made by the company.**

V. Significant Events (Continued)

(2) GUARANTEES

Unit: RMB100 million

Guarantees Offered by the Company (excluding guarantees offered to subsidiaries)

Guarantees incurred in the reporting period (excluding guarantees offered to subsidiaries)	—
Total ending balance of guarantees (excluding guarantees offered to subsidiaries) (A)	—

Guarantees Offered to Subsidiaries

Total amount of guarantees newly offered to subsidiaries during the reporting period	3.2
Total ending balance of guarantees offered to subsidiaries (B)	4.7

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

Total amount of guarantees (A+B)	4.7
Total amount of guarantees as a percentage of net assets of the Company (%)	2.48
Of which:	
Amount of guarantees offered to shareholders, actual controller and their related parties (C)	—
Amount of debt guarantees offered to those with asset-liability ratio exceeding 70%, directly or indirectly (D)	—
The portion of total guarantees in excess of 50% of net assets (E)	—
Total amount of the preceding three types of guarantees (C+D+E)	—

Explanation on guarantees

During the reporting period, the Company provided MG-Valdunes S.A.S., its wholly-owned subsidiary, a guarantee totalled RMB320 million. Additionally, at the end of the reporting period, Changjiang Steel (as a controlling subsidiary of the Company) provided RMB150 million to its wholly-owned subsidiary. All guarantees have obtained approval from the independent directors in prior, as well as the approval from the Board of Directors.

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

- (1) As at 31 December 2016, the approval procedures of all external guarantees offered by the Company complied with related regulations and procedures.
 - (2) As at 31 December 2016, the Company did not provide any guarantees to connected parties in which the Company and its shareholders held less than 50% equity interest, non-legal entities or individuals.
 - (3) As at 31 December 2016, the total amount of external guarantees outstanding and guarantees provided by the Company in the reporting period accounted for less than 50% of the net assets of the Company as stated in its consolidated financial statements.
- (3) During the reporting, there was no entrusted asset management, entrusted loans and other wealth management and derivatives investment was made by the Company.**

V. Significant Events (Continued)

5.13 OTHER MAJOR EVENTS

1. During the reporting period, the Company did not repurchase any of its listed shares and the Group did not purchase or re-sell any of the Company's listed shares.
2. The PRC laws and the Articles of the Association of the Company do not require the Company to give priority to existing shareholders to purchase its new shares in the nomination of the currency of existing shares they hold when issuing new shares.
3. There is no service contract that may be terminated without compensation within one year (other than legitimate compensation) as signed by and between the Directors of the Company and the Company
4. In the report period, no Director or Supervisor of the Company owns, directly or indirectly, material interest in the contracts executed by the Company, its affiliates, the Group Company or any service company of the Group.

5.14 ACTIVE FULFILMENT OF SOCIAL RESPONSIBILITY

(1) POVERTY ALLEVIATION WORKS BY THE COMPANY

Statistics on targeted poverty alleviation efforts by the Company in 2016

Unit: RMB'000

Indicators			Amount and progress
I.	Summary		
	Of which:	1. Capital input	460
		2. In-kind input	60
		3. Number of reduction in registered underprivileged population through help and support	4,420

Indicators			Amount and progress
II.	By category		
1.	Poverty alleviation through industrial development		
Of which:	1.1	Types of projects alleviating poverty through industrial development	<input type="checkbox"/> Through agriculture and forestry development <input type="checkbox"/> Through tourism development <input type="checkbox"/> Through e-commerce development <input checked="" type="checkbox"/> Through generating asset income <input type="checkbox"/> Through technology development <input type="checkbox"/> Others
	1.2	Number of projects alleviating poverty through industrial development	10
	1.3	Amount contributed to projects alleviating poverty through industrial development	160
2.	Poverty alleviation through education		
Of which:	2.1	Amount contributed to improve educational sources in underprivileged areas	39
3.	Poverty alleviation through social participation		
Of which:	3.2	Amount contributed to targeted poverty alleviation	520

(2) SOCIAL RESPONSIBILITY WORK

Further details are stated in "Maanshan Iron & Steel Company Limited Social Responsibility Report 2016". Information sources: www.sse.com.cn, www.hkex.com.hk

V. Significant Events (Continued)

(3) DESCRIPTION OF THE ENVIRONMENTAL PROTECTION OF THE LISTED COMPANIES AND ITS SUBSIDIARIES IN THE HEAVY POLLUTION INDUSTRY AS PRESCRIBED BY THE MINISTRY OF ENVIRONMENTAL PROTECTION

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

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

VI. Movements in Share Capital and Shareholders

6.1 SHARE MOVEMENTS

(1) Table on share movements

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

(2) In the reporting period, there was no changes in ordinary shares of the Company.

6.2 SHAREHOLDER AND ACTUALHOLDERS

(1) Total number of shareholders

Number of ordinary shareholders by the end of reporting period (accounts)	262,775
Number of ordinary shareholders at the end of last month before the disclosure date of annual report (accounts)	248,732

VI. Movements in Share Capital and Shareholders (Continued)

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

Unit: Share

Name of Shareholder (Full Name)	Increase/ Decrease within the Reporting Period	Shareholding of the top ten shareholders			Pledged or Frozen Situations Share status	Number	Shareholder
		No. of Shares at the End of Period	Percentage (%)	No. of Shares under Restricted Condition for Sales			
Magang (Group) Holding Co., Limited	–	3,506,467,456	45.54	–	Pledged	800,000,000	State-owned shareholder
Hong Kong Securities Clearing Company Nominees Limited	606,000	1,710,814,900	22.22	–	Un-known	Unknown	Unknown
Central Huijin Investment Ltd.	Unknown	142,155,000	1.85	–	Unknown	Unknown	State-owned shareholder
China Securities Finance Corporation Limited	Unknown	88,096,538	1.14	–	Unknown	Unknown	State-owned shareholder
Bosera Funds – Agricultural Bank of China (ABC) – Bosera China Securities Finance Asset Management Plan	Unknown	33,609,200	0.44	–	Unknown	Unknown	Unknown
E Fund – ABC – E Fund China Securities Finance Asset Management Plan	Unknown	33,609,200	0.44	–	Unknown	Unknown	Unknown
Dacheng Fund – ABC – Dacheng China Securities Finance Asset Management Plan	Unknown	33,609,200	0.44	–	Unknown	Unknown	Unknown
Harvest Fund – ABC – Harvest China Securities Finance Asset Management Plan	Unknown	33,609,200	0.44	–	Unknown	Unknown	Unknown
GF Fund Management – ABC – GF China Securities Finance Asset Management Plan	Unknown	33,609,200	0.44	–	Unknown	Unknown	Unknown
Zhong Ou Fund – ABC – Zhong Ou China Securities Finance Asset Management Plan	Unknown	33,609,200	0.44	–	Unknown	Unknown	Unknown

Shareholding of top ten shareholders without selling restrictions			
Name	Number of shares held without selling restrictions	Type and number of shares	
		Type	Number
Magang (Group) Holding Company Limited	3,506,467,456	RMB- denominated ordinary shares	3,506,467,456
Hong Kong Securities Clearing Company Nominees Limited	1,710,814,900	Overseas-listed foreign shares	1,710,814,900
Central Huijin Investment Ltd.	142,155,000	RMB- denominated ordinary shares	142,155,000
China Securities Finance Corporation Limited	88,096,538	RMB- denominated ordinary shares	88,096,538
Bosera Funds – Agricultural Bank of China (ABC) – Bosera China Securities Finance Asset Management Plan	33,609,200	RMB- denominated ordinary shares	33,609,200
E Fund – ABC – E Fund China Securities Finance Asset Management Plan	33,609,200	RMB- denominated ordinary shares	33,609,200
Dacheng Fund – ABC – Dacheng China Securities Finance Asset Management Plan	33,609,200	RMB- denominated ordinary shares	33,609,200
Harvest Fund – ABC – Harvest China Securities Finance Asset Management Plan	33,609,200	RMB- denominated ordinary shares	33,609,200
GF Fund Management – ABC – GF China Securities Finance Asset Management Plan	33,609,200	RMB- denominated ordinary shares	33,609,200
Zhong Ou Fund – ABC – Zhong Ou China Securities Finance Asset Management Plan	33,609,200	RMB- denominated ordinary shares	33,609,200

**Notes on the above
shareholders' affiliated
relation or concerted action**

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

VI. Movements in Share Capital and Shareholders (Continued)

Shareholding of the top ten shareholders with selling restrictions

In December 2016, the Company received two notice issued by the Group Company, namely notice on repurchase transaction of the 800 million shares of the Company held by the Group Company used as pledge and notice on the completion of related procedures of the pledged shares. Please refer to the Company's announcement release on 7 July and 14 July for more details: http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2016-12-07/600808_20161207_1.pdf and http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2016-12-14/600808_20161214_1.pdf

Apart from mentioned above, in the reporting period, no other shares held by the group company were pledged, frozen or hosted. However, the Company was unaware whether shares held by other shareholders who have 5% and above of the total were pledged, frozen or hosted.

Hong Kong Securities Clearing Company Nominees Limited held 1,710,814,900 H Shares of the Company on behalf of multiple clients.

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

As at 31 December 2016, none of the directors, supervisors, senior management or their respective associates had any interests or short positions in the share capital or relevant share capital of the Company or any of its associated corporations (definition refers to the Securities and Futures Ordinance).

Save as disclosed above, as at 31 December 2016, 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.

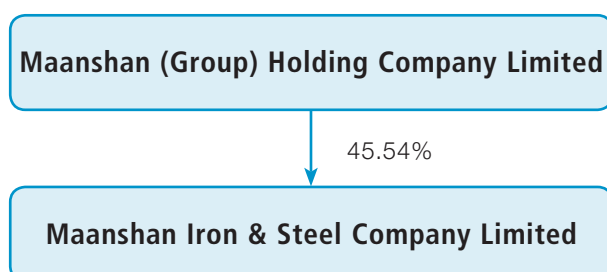
6.3 SUBSTANTIAL SHAREHOLDERS AND ACTUAL HOLDER

(1) Controlling shareholders

1. Legal person

Name	Magang (Group) Holding Company Limited
Head of unit or legal representative	Gao Haijian
Date of Incorporation	1 September 1993
Major business operations	Mining and sorting of mineral products; construction, construction materials, machine manufacturing, maintenance and design; external trading; domestic trading; distribution and storage of materials; property management; consulting service; rental services; agriculture and forestry.
Equity in other domestic and overseas listed companies controlled or partially owned during the reporting period	During the reporting period, the substantial shareholders did not control or partially own any other domestic and overseas listed company.

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



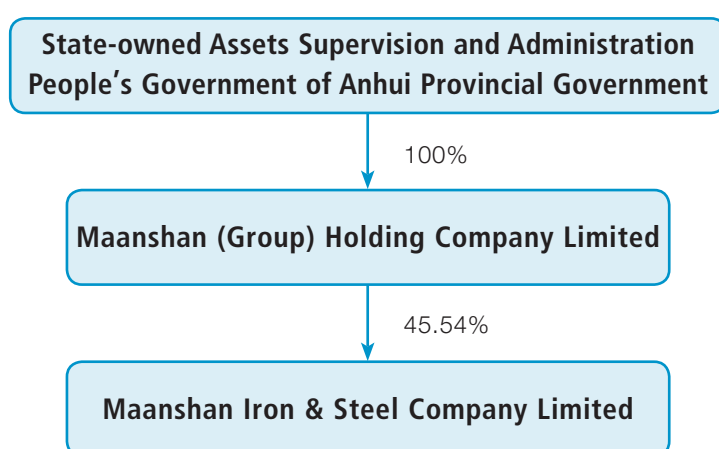
VI. Movements in Share Capital and Shareholders (Continued)

(2) Actual holders

1 Legal person

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



VII. Directors, Supervisors, Senior Management and Employees

7.1 CHANGES IN SHAREHOLDING HELD BY AND EMOLUMENTS

(1) Changes in shareholding held by and emoluments for incumbent and resigned directors, supervisors and senior management in the reporting period:

Name	Position	Gender	Age	Date of term commencement	Date of term termination	Annual emoluments (RMB10 thousand)	Receive emoluments from the Company's connected parties
Ding Yi	Chairman	Male	53	2014-9-1	2017-8-31	-	Yes
Qian Haifan	Director	Male	56	2014-9-1	2017-8-31	56.13	No
Su Shihuai	Director	Male	58	2014-9-1	2017-8-31	-	Yes
Ren Tianbao	Director	Male	53	2014-9-1	2017-8-31	-	Yes
Qin Tongzhou	Independent Director	Male	47	2014-9-1	2017-8-31	10	No
Yang Yada	Independent Director	Female	61	2014-9-1	2017-8-31	10	No
Liu Fangrui	Independent Director	Male	53	2014-9-1	2017-8-31	10	No
Zhang Xiaofeng	Chairman of Supervisory Committee	Male	55	2014-9-1	2017-8-31	56.13	No
Fang Jinrong	Supervisor	Male	53	2014-9-1	2017-8-31	-	Yes
Yan Kailong	Supervisor	Male	52	2015-12-1	2017-8-31	26.65	No
Wong Chun Wa	Independent Supervisor	Male	43	2014-9-1	2017-8-31	7.37	No
Su Yong	Independent Supervisor	Male	62	2014-9-1	2017-8-31	7.37	No
Gao Haichao	Senior Management	Male	59	2014-9-1	2017-8-31	52.04	No
Lu Kecong	Senior Management	Male	53	2014-9-1	2017-8-31	49.82	No
Hu Shunliang	Senior Management	Male	59	2015-6-16	2017-2-14	23.35	No
Tian Jun	Senior Management	Male	56	2017-2-14	2017-8-31	-	No
Zhang Wenyang	Senior Management	Male	49	2017-2-14	2017-8-31	-	No
Total						<u>308.86</u>	

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

VII. Directors, Supervisors, Senior Management and Employees (Continued)

Name	Working Experience
Ding Yi	Mr. Ding served as Deputy General Manager of the Company from January 2004. From July 2011, Mr. Ding served as Deputy General Manager of Magang (Group) Holding Company Limited and no longer served as Deputy General Manager of the Company since then. Effective from 24 June 2013, Mr. Ding served as General Manager of Magang (Group) Holding Company Limited. Effective from 9 August, 2013, Mr. Ding served as Chairman of the Company. In addition, Mr. Ding also serves as Chairman of Magang Group Finance Co., Ltd. and MG Trading and Development Gambit in Germany.
Qian Haifan	Mr. Qian was appointed Deputy General Engineer of the Company in April 2010. Mr. Qian was appointed as the general manager of the Company in July 2011 and Director of the Company in August 2011.
Su Shihuai	Mr. Su served as Deputy General Manager and Chief Engineer of the Company from December 2009 till July 2011. Mr. Su served as Deputy General Manager and Chief Engineer of Magang (Group) Holding Company Limited from July 2011 to present. Mr. Su was appointed as Director of the Company on 5 February 2013.
Ren Tianbao	Mr. Ren was appointed Secretary of the Party Committee, Director and Deputy General Manager of Ma Steel (Hefei) Iron & Steel Co., Ltd. in July 2008. Mr. Ren was appointed Deputy General Manager of the Company in July 2011. He became Director of the Company in August 2011. He was appointed Secretary to the Board on 9 February 2012. He was appointed by Magang (Group) Holding Company Limited as its deputy general manager and resigned as the deputy general manager and company secretary of the Company on 11 May 2015. Besides, Mr. Ren was also appointed as Chairman of Anhui Ma Steel Engineering & Technology Group.
Qin Tongzhou	Mr. Qin is a member of the Chinese Institute of Certified Public Accountants (CICPA). He is presently CFO of China Fire & Security Group Inc. ("CFSG") and Deputy Manager of Sureland Industrial Firefighting Limited, a wholly owned subsidiary of CFSG. Having years of audit experience, Mr. Qin was engaged in audit work in Ernst & Young Hua Ming Certified Public Accountants from March 2001 to March 2010. He was appointed Deputy General Manager of Sureland Industrial Firefighting Limited of CFSG in March 2010 and CFO of CFSG in July 2010. Mr. Qin was appointed Independent Director of the Company on 31 August 2011.

VII. Directors, Supervisors, Senior Management and Employees (Continued)

Name	Working Experience
Yang Yada	Ms. Yang is presently professor, master instructor and Dean of School of Management of Anhui University of Technology. Ms. Yang was appointed professor of School of Management of Anhui University of Technology in September 2002, mainly engaged in teaching and researching in fields of financial management and enterprise strategy. She sequentially served as Head of Business Administration Department and Deputy Dean of School of Management of Anhui University of Technology. She is presently Dean of School of Management of Anhui University of Technology and Deputy Chairman of Economic Association of Maanshan. She was elected as members of 10th and 11th and 12th National People's Congress. Ms. Yang was appointed Independent Director of the Company on 31 August 2011.
Liu Fangduan	Mr. Liu was qualified and practiced as a lawyer in 1991. He currently serves as a supervisor at Anhui Xingwan Law Firm and concurrently holds various positions such as Legal Counsel for the Wuhu Municipal People's Government and Vice-chairman of the Lawyers Association of Wuhu Municipality. Mr. Liu served as Independent Directors from October 25 2012.
Zhang Xiaofeng	Mr. Zhang was appointed Chairman of the Labour Union of Holding and the Company in August 2008. Mr. Zhang was appointed Chairman of the Supervisory Committee of the Company on 31 August 2008.
Fang Jinrong	Mr. Fang was appointed Deputy Manager of the Finance Department of the Group and the Company since February 2004. Mr. Fang has been Supervisor of the Company since 31 August 2005. Mr. Fang was appointed Vice Minister of Supervision and Audit Department since December 2013.
Yan Kailong	In May 2012, he was appointed Director of Equipment Support Department and Chief Technology Officer of the No. 1 Steel-making General Factory of Ma Steel Group. In May 2014, he was appointed Vice Plant Manager of the No. 1 Steel-making General Factory; in December 2014, he was appointed Vice Plant Manager of the Company's Cold Rolling Factory. Since November 2015, Mr. Yan was additionally appointed Vice-chairman of Maanshan Federation of Trade Unions. In December 2015, he was appointed Employee Supervisor of the Company.

VII. Directors, Supervisors, Senior Management and Employees (Continued)

Name	Working Experience
Wong Chun Wa	Mr. Wong is an associate member of Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountant. He established ACT Business Consultants Limited in December 2006 and acted as the company's director. Mr. Wong was appointed Independent Director of the Company on 31 August 2005. He was appointed Independent Supervisor of the Company on 31 August 2011. Mr. Wong is also independent director of China Zhongwang Holdings Limited and Chongqing Iron & Steel Company Limited.
Su Yong	Mr. Su was appointed Deputy Director of the School of Management of Fudan University Eastern Management Research Centre in October 2004. Mr. Su has been Independent Director of the Company since 31 August 2005, and become Independent Supervisor of the Company on 31 August 2011. He also serves as independent director of Shang Gong Group Co., Ltd.
Gao Haicao	Mr. Gao served as deputy chief engineer of the Company from April 2010 to July 2011; and assistant to the general manager of Magang (Group) Holding Co., Ltd. from July 2011 to February 2013, during which he concurrently served as manager of the technology innovation department of Magang (Group) Holding Co., Ltd. from August 2011 to July 2012. He has been the Company's deputy general manager and chief engineer since 17 February 2013. He was appointed as the Company's deputy general manager in 2015.
Lu Kecong	Mr. Lu was appointed Manager and Secretary of the Party General Branch of Ma Steel International Trade & Economics Corporation ("Ma Steel International Trade Corp") and Director of Foreign Affairs Office in July 2004; General Manager (Director) and Secretary of the Party General Branch of Ma Steel International Trade Corp and Raw Material & Fuel Purchasing Center and Director of Foreign Affairs Office in May 2010; General Manager (Director) and Deputy Secretary of the Party General Branch of Ma Steel International Trade Corp and Raw Material & Fuel Purchasing Center and Director of Foreign Affairs Office in February 2011. Mr. Lu was appointed Deputy General Manager of the Company in July 2011. In May 2015, he was appointed Director of Magang (Group) Holding Company Limited. Besides, Mr. Lu was also appointed as Chairman of Maanshan Port (Group) Co., Ltd.

VII. Directors, Supervisors, Senior Management and Employees (Continued)

Name	Working Experience
Hu Shunliang	Mr. Hu was appointed as the Chief of the Secretariat Office of the Board of the Company in February 2010. He was appointed as the Company Secretary with effect from 16 June 2015. He resigned as Secretary to the Board (Company Secretary) on 14 February 2017.
Tian Jun	Mr. Tian was appointed as Manager and Deputy Secretary of the Party Committee of No.1 Energy Plant of the Company in February 2011. He was then appointed as Manager of Facilities Department of the Company in April 2014 and assistant to general manager and Manager of Facilities Department of the Company in August 2015. In addition, Mr. Tian serves as Chairman of BOC-Ma Steel Gases Company, Director in Environmental Protection Company, CFHI Maanshan Heavy Industry Co., Ltd. and the MG Trading and Development Limited.
Zhang Wenyang	Mr. Zhang was appointed as Deputy Manager of Marketing Department of the Company in August 2011. He was then appointed as Manager of Marketing Department of the Company in July 2012 and Manager of Production Department (currently known as Manufacturing Department) in December 2013. He became assistant to general Manager and manager of Manufacturing Department of the Company in August 2015.

- (2) In the reporting period, no directors, supervisors, and senior management of the Company were awarded with stock option incentive.

7.2 POSITIONS OF CURRENT AND OUTGOING DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT PERSONNEL DURING THE REPORTING PERIOD:

(1) Positions in shareholders' company

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

VII. Directors, Supervisors, Senior Management and Employees (Continued)

(2) Positions in other entities

Name	Name of other entities	Position in other entities
Qin Tongzhou	China Fire & Security Group Inc. ("CFSF")	CFO
Yang Yada	Anhui University of Technology	Professor of Business School
Liu Fangduan	Anhui Xingwan Law Firm	Director
Yan Kailong	Maanshan Federation of Trade Unions	Vice-chairman

7.3 EMOLUMENTS FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Decision making process of emoluments for Directors, Supervisors and Senior Management	Annual emoluments of Executive Directors and Senior Management of the Company were determined by the Management Remuneration Committee of the Board in accordance with the amount of emoluments as approved by shareholders general meeting, and based on their respective appraisals. Independent Directors and Independent Supervisors of the Company received a fixed amount of emoluments during their term of office.
Basis for determination of Directors, Supervisors and Senior Management	Appraisals
Actual payment to Directors, Supervisors and Senior Management	Please refer to the previous section "Changes in Shareholding Held by and Emoluments".
Total actual payment to Directors, Supervisors and Senior Management at the end of reporting period	During the reporting period, the total salaries for Directors, Supervisors and Senior Management who received emoluments or allowances from the Company amounted to RMB3,088,600 (tax inclusive).

7.4 PERSONNEL MOVEMENT OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Movement	Reasons of movement
Hu Shunliang	Secretary to the Board (Company Secretary)	Resignation	Reached age of being non-management
Tian Jun	Deputy General Manager	Appointment	Proposal of the General Manager
Zhang Wenyang	Deputy General Manager	Appointment	Proposal of the General Manager

VII. Directors, Supervisors, Senior Management and Employees (Continued)

7.5 THE COMPANY WAS NEVER PUNISHED BY SECURITIES REGULATORS IN RECENT THREE YEARS

7.6 EMPLOYEES IN THE PARENT COMPANY AND ITS MAJOR SUBSIDIARIES

(1) Employees

The number of current employees of the parent company	27,054
The number of current employees of the major subsidiaries	5,052
Total number of current employees	32,106
The number of resigned or retired staff for whom the parent and the major subsidiaries need to pay the expenses	20,278

Professional constitution

Profession category	Number of staff of profession constitution
Production Line	26,063
Sales representative	465
Technician	2,985
Financial staff	247
Administrative Staff	2,346
Total	32,106

Education	Number of staff
Educational level	
Postgraduate	520
Graduate	3,884
Junior College	6,852
Vocational secondary or below	20,850
Total	32,106

VII. Directors, Supervisors, Senior Management and Employees (Continued)

(2) Remuneration policy

The Company has fully implemented the Administrative Measures for Optimizing the Total Wage of Human Resources, and established the model of the basic salary, allowance and bonus for targeted employees of each unit. The Company increased the total wages for labor and their substitutes and approved the basic salary and allowance (including wages for back up personnel) for staff other than the targeted employees. Appraisal which determined income was strictly based on performance while the total amount of bonus was linked to annual operational target issued by the Company. Each unit established its internal performance assessment method and implemented across different positions in various levels. The remuneration of the Company's mid-level and senior management, senior technical director, chief technician, and delegated staff were paid by annual salary which was distributed according to the fulfilment of the Company's annual operational target and the appraised results at the year-end. Through incentive leveraged from the salary, productivity of employees and effectiveness would be enhanced.

(3) Training program

The Company makes full use of external and internal training resources to provide training opportunities for the growth of employees of different professions. In 2016 the Company launched 188 training activities, with a total of 32,306 employees attending the activities.

VIII. Corporate Governance

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

During the reporting period, the Company continued to commit itself to the standard operation and improved its corporate governance and enhanced the fundamental system. Pursuant to the requirements of the CSRC, the Board amended the "Articles of Association" and "Administrative Measures of External Guarantee", formulated the "Management System of Suspension and Exemption of Information Disclosure", and implemented and standardized information disclosure.

8.1 CORPORATE GOVERNANCE REPORT

In 2016, the Company has complied with all the requirements of the Code on Corporate Governance (the "Code") as set out in Appendix 14 of the Hong Kong Listing Rules. The information is summarized as follows:

1 DIRECTORS

Directors and the composition of the Board

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

VIII. Corporate Governance (Continued)

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

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


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

The Company received the independence confirmation letters from the three Independent Directors, which were submitted in accordance with Rule 3.13 of Chapter 3 "Authorized Representatives, Directors, Board Committees and Company Secretary" in the Hong Kong Listing Rules. The Board of the Company was therefore of the opinion that the three Independent Directors were all independent.

Chairman and General Manager

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

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



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

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

Non-executive Directors

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

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

Duties and authorities of the Board and the Management

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

- To convene the shareholders' general meetings and to execute the resolutions of the shareholders' general meetings;
- To decide on the annual operating plans and key investment proposals of the Company;

VIII. Corporate Governance (Continued)

- To formulate the financial budget, the profit appropriation plan, the fundamental management system and substantial acquisitions or disposal plans;
- To decide on the establishment of specialized committees, and appointment and removal of their persons-in-charge;
- To appoint or remove the Company's General Manager, and to appoint or dismiss the Company's Senior Management such as Deputy General Managers and Financial Officers-in-charge pursuant to the General Manager's nomination;
- To appoint or remove the Secretary to the Board;
- To manage information disclosure matters of the Company;
- To propose to the shareholders' general meeting the re-appointment or change of the Company's auditors;
- To receive the report from the Company's General Manager and to review the work of the General Manager;
- To approve the Company's external investments, leasing of assets, pledges of assets and other guarantees, entrustments on operations and trust management within the limit as stipulated in the Articles of Association;
- There are four committees under the Board, namely the Audit Committee, the Remuneration Committee, the Nomination Committee and the Strategic Development Committee. Please refer to "4, 5, 6 and 7" of this section for the major duties of the committees.

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

- To organize the implementation of the Company's annual operating plans and investment proposals;
- To propose the establishment schemes of the Company's internal management structure;
- To propose the Company's fundamental management system;

- To formulate the Company's basic constitutions;
- To appoint or remove the officers-in-charge other than those who are appointed or removed by the Board;
- To decide on the rewards and penalty, promotions and demotions, increase and decrease of salaries, appointments, recruitment or removal and termination of the Company's staff;
- To deal with the important external businesses of the Company on its behalf;
- To propose the convening of extraordinary Board meetings.

The Board Meeting

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

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

VIII. Corporate Governance (Continued)

2 REMUNERATION OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors' remuneration

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

Supervisors' remuneration

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

Senior Management's remuneration

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

3 NOMINATION OF DIRECTORS

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

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

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

4 AUDIT COMMITTEE

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


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

VIII. Corporate Governance (Continued)

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

In 2016, the Committee held four meetings. Details of the meetings in 2016 are as follows:

1. Discussed the unaudited 2015 financial statement with the senior management and the financial department, to scrutinize issues concerned, to approve submission of the financial statement for audit by external accounting firm, and to determine the working schedule for the audit of the financial statement together with the accounting firm.
2. Discussed the audited 2015 financial statement with the Company’s audit department and the external accounting firm to generate written opinion on the statement.
3. Debriefed the internal control work on a periodic basis to urge improvement.
4. Reviewed the audited 2015 financial statement, discussed with the Company’s audit department and external accounting firm on the statement, and concluding that the Company complied with the Enterprise Accounting Rules in all major aspects and made full information disclosure without major omission.
5. Having considered and approved the summary report on the Company’s auditing work in 2015 conducted by the external auditors.
6. Approved the payment of RMB4.985 million to Ernst & Young Hua Ming LLP in 2015, which included an annual audit fee of RMB4.4 million (including an internal control audit fee of RMB600,000) and a fee of RMB585,000 for the agreed-upon procedures on interim financial statements.
7. Considered and agreed that Ernst & Young Hua Ming LLP would be re-appointed as the Company’s auditors for 2016.

- 
8. Reviewed and approved the related party transactions for 2015 between the Company, its affiliate Magang (Group) Holding and its affiliates, and concluding that the transactions were made in the daily business under normal business terms or no inferior than the terms for independent providers (or by independent providers), the transactions were carried out in line with relevant terms, the terms were fair, reasonable and met the best interests of the Company and its shareholders.
 9. Acquired an understanding from the Company's management and the external auditors of the Company's provision of guarantees for external parties as at 31 December 2015, reviewed the relevant information and was of the opinion that: The Company did not provide any guarantee for external companies or subsidiaries.
 10. Considered and approved the Report on the Discharge of Duties by the Audit Committee of the Board of Directors of Maanshan Iron & Steel Co., Ltd. for 2015.
 11. Reviewed the Company's unaudited first quarterly financial statement of 2016 and was of the opinion that the Company had complied with the requirements of the Accounting Standards for Business Enterprises in every material respect and had made adequate disclosure without any material omissions.
 12. Reviewed the Company's unaudited interim financial statement of 2016 and was of the opinion that the Company had complied with the requirements of the Accounting Standards for Business Enterprises in every material respect and had made adequate disclosure without any material omissions.
 13. Reviewed the Company's unaudited third quarterly financial statement of 2016 and was of the opinion that the Company had complied with the requirements of the Accounting Standards for Business Enterprises in every material respect and had made adequate disclosure without any material omissions.

All the procedures for convening and holding the Committee's meetings as well as voting and resolutions thereat were in compliance with the provisions of relevant laws and regulations, the Articles of Association and the Work Rules of the Audit Committee. In 2016, all the members of the Committee faithfully fulfilled their confidentiality obligations towards the matters discussed at the meetings of the Committee in accordance with the relevant rules without any unauthorized disclosure of relevant information.

VIII. Corporate Governance (Continued)

5 REMUNERATION COMMITTEE OF THE BOARD

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

- To recommend to the Board with respect to the remuneration policies for all Directors and Senior Management of the Company, and the procedures of formulating such policies in a proper and transparent manner;
- To review the remuneration of the Directors and Senior Management in accordance with the corporate objectives formulated by the Board;
- To review the compensation to be paid to the Directors or Senior Management with respect to their removal or appointment;
- To ensure that none of the Directors nor their associates could decide on their own remuneration;
- Other responsibilities as delegated by the Board.

In 2016, the Remuneration Committee of the eighth session of the Board held one meeting. All members attended the meeting in person. The details of the meeting are as follows:

1. Reviewed remuneration of directors and senior management for 2015;
2. Reviewed the Remuneration Committee's Report on Discharge of Duties for 2015.

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

6 NOMINATION COMMITTEE

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

- To regularly evaluate the structure and number of members of the Board, and the skills, knowledge and experience needed for Directors based on the shareholding structure and development strategies of the Company, and to make recommendations to the Board on any prospective changes;
- To consider and make recommendations on the selection criteria and procedures for Directors, General Manager and Secretary to the Board;
- To seek candidates for Directors, General Manager and Secretary to the Board, and to nominate the relevant candidates for Directors, General Manager and Secretary to the Board according to the Company's needs after reviewing their qualifications and abilities, and makes recommendations to the Board in this regard;
- To examine the independence of Independent Directors;
- To make recommendations to the Board on matters related to the appointment and reappointment of Directors, and on succession plans for Directors (including Chairman), General Manager and Secretary to the Board.

In 2016, the Nomination Committee held one meeting. All committee members presented each meeting in person. The meeting was chaired by Ms. Yang Yada. Agenda of the meeting was as follows: reviewed the Nomination Committee's Report on Discharge of Duties for 2015.

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

VIII. Corporate Governance (Continued)

7 STRATEGIC DEVELOPMENT COMMITTEE

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

- Research and make suggestions on long-term development strategy and important investment decisions of the Company;
- Research and make suggestions on long- and medium-term planning for strategic development of the Company;
- Monitor the implementation of strategic development plan of the Company and report any significant deviation from the development strategy to the Board of Directors;
- Research material changes in economic situation, industrial policies, technological advances, industry conditions, and force majeure, and make suggestions to the Company as to adjustments to its development strategy;
- Research and make suggestions on other material issues affecting development of the Company;
- Other duties granted by the Board of Directors

In 2016, the Strategic Committee of the Board of Directors totally held two meetings, with all committee members attending in person. Agenda of the meeting was as follows: 1) reviewed the 2015 Duty Performance Report of the Strategic Development Committee; 2) received reports on the Company's preparation of the "13th Five Year Development Plan"; 3) considered the Company's "13th Five Year Development Plan".

All convening procedures of meetings held by the Strategic Committee complied with relevant laws, regulations, Articles of Association and Code of Practice of the Strategic Committee of the Board of Directors. All committee members truthfully performed their duty of confidentiality for reports heard in the meeting according to relevant regulations; no unauthorized disclosure of related information happened.

8 AUDITORS' REMUNERATION

During the year, Ernst & Young Hua Ming LLP was appointed as the auditors of the Company and had issued audit report on the attached financial statements prepared under the PRC Accounting Standards and internal control audit report. The remuneration for Ernst & Young Hua Ming LLP amounted to RMB5,185,000, including annual audit fee (exclusive of taxes) of RMB4,600,000 (including internal control audit fee of RMB600,000) and the fees for agreed upon procedures on interim financial statements of RMB585,000 (exclusive of taxes). The aforementioned audit fees, agreed-upon procedures fees and other professional services were already inclusive of disbursements incurred by the auditors. Meal and accommodation expenses incurred by auditors while performing professional services at the Company were borne by the Company.

As at 31 December 2016, Ernst & Young Hua Ming LLP has provided auditing services to the Group for 23 consecutive years. Ms. An Xiuyan and Ms. Wu Xiaofang were the certified public accountants who have signed the Company's 2016 auditors' reports. Ms. An Xiuyan has provided auditing services to the Company for two consecutive years, while Ms. Wu Xiaofang has provided auditing services to the Company for the first time.

In addition, Ernst & Young Tax Services Limited provided profit tax reporting services in Hong Kong for the Company for RMB35,000, which was not included in the scope of auditing.

9 COMMUNICATION WITH SHAREHOLDERS

Effective communication

The Board maintains a smooth communication channel with the shareholders, striving to maintain communication with the shareholders and encouraging them to attend the shareholders' general meetings.

During the reporting period, the Company stated clearly in the 2015 annual general meeting notice that A shareholders holding the Company's A shares as at the market closing in the afternoon of the respective register dates and registered in the register of members maintained by the Shanghai branch of CSDCC, and H shareholders holding the Company's H-shares on the same date and registered in the register of members maintained by the Hong Kong Registrars Limited were eligible for attending the respective shareholders' general meetings after completing the registration procedures for attending the meetings.

During the reporting period, the Chairman attended the shareholders' general meeting in person and served as the chairman of the meetings. At the shareholders' general meetings, the chairman of the meetings proposed individual resolutions for each independent matter.

VIII. Corporate Governance (Continued)

Voting by poll

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

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

10 OTHER PROVISIONS AS SET OUT IN THE CODE APART FROM THE ABOVE

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

As Ernst & Young Hua Ming LLP has developed a thorough understanding of the Company throughout the years, and their work has been conscientious and detail-oriented, the Audit Committee under the Board recommended reappointing the firm as the auditors for the Company for year 2016. The Board did not have any contrary opinion and the relevant resolutions were considered and approved at the 2015 annual general meeting held on 15 June 2016.

In order to regulate its management on people with access to insider information, the Company has formulated the “Registration and Management System for People with Access to the Company’s Insider Information” and amended regularly. During the reporting period, as far as the Board was aware of, the Company did not discover any trading in the Company’s shares by insiders using insider information before the Company disclosed any material price-sensitive information; nor was there any investigation or rectification carried out by the regulatory departments. As such, the above-mentioned system was executed effectively.

No significant variance exists between the company management and relevant requirements of CSRC.

8.2 SEPARATION OF THE COMPANY AND CONTROLLING SHAREHOLDERS IN PERSONNEL, ASSETS, FINANCE, ORGANIZATION AND BUSINESS:

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

VIII. Corporate Governance (Continued)

8.3 SHAREHOLDERS' GENERAL MEETING

Session of Meeting	Date of Meeting	Specified Website for Publishing Resolutions	Publishing Date of Resolution
2015 Annual General Meeting	2016-6-15	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2016-06-16/600808_20160616_1.pdf	2016-6-16

8.4 PERFORMANCE OF DIRECTORS

(1) Attendance of directors in the board meetings and shareholders' general meeting

Name of Director	Independent Director	Required attendance during the year	Attendance in person	Attendance by way of correspondence	Attendance by proxy	Absence	Two consecutive personal absence	In the General Meeting Attendance
Ding Yi	No	7	7	0	0	0	No	1
Qian Haifan	No	7	6	0	1	0	No	1
Su Shihuai	No	7	6	0	1	0	No	0
Ren Tianbao	No	7	7	0	0	0	No	1
Qin Tongzhou	Yes	7	6	0	1	0	No	1
Yang Yada	Yes	7	7	0	0	0	No	0
Liu Fangduan	Yes	7	7	0	0	0	No	1

No. of The Board Meeting	7
of which: convened on-site	5
Convened by way of correspondence	0
Convened by way of combination of on-site and correspondence	2

(2) The independent directors have no objection toward matters of the Company.

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

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

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

The Supervisory Committee found no risks in the Company.

8.7 ESTABLISHMENT AND IMPLEMENTATION OF APPRAISAL MECHANISM AND INCENTIVE MECHANISM FOR THE SENIOR MANAGEMENT DURING THE REPORTING PERIOD

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

8.8 WHETHER TO DISCLOSE INTERNAL CONTROL SELF-ASSESSMENT

Report on Internal Control Assessment of the Company in 2016 has been discussed and approved by Twenty-Sixth Session of the Eighth Board of Directors of the Company on March 29, 2017, confirming that the Company's internal control in 2016 is effective. Search the follow websites for the report on the internal control assessment: www.sse.com.cn and www.hkex.com.hk.

8.9 PRESENTATION OF RELEVANT CONDITIONS CONCERNING THE AUDIT REPORT ON INTERNAL CONTROL

Ernst & Young Hua Ming LLP has audited the effectiveness of internal control related to the financial report as of 31 December 2016 and issued unqualified audit report on internal control. Search the follow websites for auditing report on internal control: www.sse.com.cn and www.hkex.com.hk.

Whether to disclose audit report on internal control: Yes

IX. Audited Financial Statements

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

Independent Auditor's Report



Ernst & Young Hua Ming (2017) Shen Zi No. 60438514_A01

To the shareholders of Maanshan Iron & Steel Company Limited

1. OPINION

We have audited the financial statements of Maanshan Iron & Steel Company Limited, which are comprised of the consolidated and company statements of financial position as of 31 December 2016, and the consolidated and company statements of profit or loss, statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements.

In our opinion, the accompanying financial statements of Maanshan Iron & Steel Company Limited present fairly, in all material respects, the consolidated and company financial position of Maanshan Iron & Steel Company Limited as of 31 December 2016 and their financial performance and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

2. BASIS FOR OPINION

We conducted our audit in accordance with China Standards on Auditing ("CSAs"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of Maanshan Iron & Steel Company Limited in accordance with the Code of Ethics for Chinese Certified Public Accountants, and we have fulfilled our other ethical responsibilities. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

3. KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Independent Auditor's Report (Continued)

3. KEY AUDIT MATTERS (CONTINUED)

Key audit matter

How our audit addressed the key audit matter

Impairment of property, plant and equipment

Property, plant and equipment ("PPE") amounting to RMB35,522,601,715 as of 31 December 2016, comprised the largest portion of assets representing 53.6% of the total assets and 84.9% of the long-term assets in the consolidated financial statements. Management assessed impairment indicators for these items of PPE. For those with impairment indicators identified, management performed impairment testing by determining the recoverable amounts of the cash generating units ("CGUs") that the PPE belong to and comparing the recoverable amount with the carrying amount of the PPE. The estimation of the recoverable amounts involved estimation of the discounted future cash flows which required significant judgement and estimation, specifically the future selling price, production costs, operating expenses, discount rate and etc. Due to the inherent uncertainty in forecasting and discounting the future cash flows, as the basis of recoverable amount, impairment testing of PPE involves key judgement and estimation.

The disclosures related to the impairment of long-term assets of Maanshan Iron & Steel Company Limited are disclosed in Notes III.14, III.18, III.30 and V.14 to the financial statements.

We evaluated management's assumptions in determining the recoverable amounts of the CGUs that the PPE belong to, specifically the future price of steel by considering the forecast steel price and market trend as provided by third party industry analysts. We also evaluated and challenged other key assumptions such as production volume, production costs and operating expenses by comparing the key assumptions to historical data, existing supporting documentation, evidence obtained subsequent to year-end, and industry forecasts. We involved our internal valuation specialists to assist us in evaluating the methodology and discount rate used in the calculation of value in use. In addition, we tested the design and implementation of related internal controls in place over the asset impairment testing. We also focused on the adequacy of the disclosures regarding the impairment of PPE in the financial statements.

Independent Auditor's Report (Continued)

3. KEY AUDIT MATTERS (CONTINUED)

Key audit matter

How our audit addressed the key audit matter

Recognition of deferred tax assets

As of 31 December 2016, the management had recorded deferred tax assets of RMB348,095,783 in the consolidated financial statements resulting from temporary differences to the extent that it is probable that future taxable profits will allow the deferred tax assets to be recovered. The probability of recovery is impacted by uncertainties regarding the timing and level of future taxable profits together with tax planning strategies and the expiration dates of the tax losses.

The disclosures related to deferred tax assets of Maanshan Iron & Steel Company Limited are disclosed in Notes III.24, III.30, V.17 and V.52 to the financial statements.

We evaluated management's assumptions in determining the future available taxable profits, specifically the future price of steel, and compared this with forecasts issued by third party industry analysts. We involved our tax specialists to assist us in evaluating the technical merits from a tax perspective of management's analysis. In addition, we tested the design and implementation of related internal controls over the recognition of deferred tax. We also focused on the adequacy of the disclosures regarding deferred tax assets in the financial statements.

Impairment of inventories

As of 31 December 2016, inventories amounted to RMB10,548,061,832 in the consolidated financial statements. Management tests the impairment of inventories on a quarterly basis. If the cost is in excess of the net realisable value, impairment of inventories is recognised. Net realisable value is the estimated selling price on normal business terms deducted by the estimated costs to completion, the estimated selling expenses and related taxes. The estimation made by management required significant judgement and estimation, specifically the future selling price, production costs, operating expenses, related taxes and etc. As the impairment testing process is complex, the annual impairment testing of inventories involves key judgements and estimation.

The disclosures related to the impairment of inventories of Maanshan Iron & Steel Company Limited are disclosed in Notes III.11 and V.7 to the financial statements.

We evaluated management's related parameters for impairment testing of inventories, specifically the future selling price, production costs, operating expenses, related taxes and etc. In addition, we tested the design and implementation of related internal controls over impairment testing of inventories. We also focused on the adequacy of the disclosures regarding the impairment testing of inventories in the financial statements.

Independent Auditor's Report (Continued)

4. OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

5. RESPONSIBILITIES OF THE MANAGEMENT AND GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Accounting Standards for Business Enterprises, and designing, implementing and maintaining internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the management is responsible for assessing Maanshan Iron & Steel Company Limited's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless either intend to liquidate Maanshan Iron & Steel Company Limited or to cease operations or have no realistic alternative but to do so.

The Governance is responsible for overseeing Maanshan Iron & Steel Company Limited's financial reporting process.

Independent Auditor's Report (Continued)

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are usually considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with CSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Maanshan Iron & Steel Company Limited's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements according to the CSAs or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Maanshan Iron & Steel Company Limited to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Maanshan Iron & Steel Company Limited to express an opinion on the financial statements. We are responsible for the guidance, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent Auditor's Report (Continued)

6. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

We communicate with the Governance regarding the planned scope, timing of the audit and significant audit findings, including deficiencies worth of attention in internal control that we identify during our audit.

We also provide the Governance with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with the Governance all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Ernst & Young Hua Ming LLP

An Xiu Yan (Engagement Partner)
Chinese Certified Public Accountant

Wu Xiao Fang
Chinese Certified Public Accountant

Beijing, the People's Republic of China

29 March 2017

Consolidated Statement of Financial Position

31 December 2016
Renminbi Yuan

ASSETS	Note V	31 December 2016	31 December 2015
CURRENT ASSETS			
Cash and bank balances	1	5,312,101,041	5,142,711,482
Financial assets			
at fair value through profit or loss	2	555,322,261	1,005,271,054
Bills receivable	3	3,608,459,121	4,689,129,290
Trade receivables	4	859,929,107	796,986,661
Interest receivable		4,044,939	1,600,176
Prepayments	5	925,051,274	634,407,421
Other receivables	6	127,614,834	190,348,070
Inventories	7	10,548,061,832	6,018,495,505
Financial assets purchased under agreements to resell	8	230,047,000	—
Loans and advances to customers	9	1,555,212,556	732,913,869
Other current assets	10	692,471,233	948,518,258
Total current assets		24,418,315,198	20,160,381,786
NON-CURRENT ASSETS			
Available-for-sale financial investments	11	577,947,698	128,934,410
Long term equity investments	12	1,239,776,313	1,029,853,507
Investment properties	13	58,833,998	62,356,583
Property, plant and equipment	14	35,522,601,715	34,605,411,096
Construction in progress	15	2,258,191,398	4,245,762,868
Intangible assets	16	1,821,768,927	1,891,358,160
Deferred tax assets	17	348,095,783	330,407,545
Total non-current assets		41,827,215,832	42,294,084,169
TOTAL ASSETS		66,245,531,030	62,454,465,955

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

Consolidated Statement of Financial Position (Continued)

31 December 2016
Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	Note V	31 December 2016	31 December 2015
CURRENT LIABILITIES			
Deposits and balances from banks and other financial institutions	19	3,708,225,021	1,901,390,488
Repurchase agreements	20	596,565,698	—
Short term loans	21	6,942,952,420	6,791,359,472
Bills payable	22	3,584,228,362	5,343,906,398
Accounts payable	23	6,668,807,923	6,144,664,281
Advances from customers	24	3,682,322,418	2,602,554,258
Payroll and employee benefits payable	25	550,444,683	274,614,723
Taxes payable	26	274,232,114	149,898,321
Interest payable	27	107,691,398	150,829,308
Dividends payable	28	8,713,584	6,525,534
Other payables	29	1,912,575,078	1,258,463,513
Non-current liabilities due within one year	30	3,211,056,320	5,084,859,415
Accrued liabilities	31	29,580,435	22,232,713
Other current liabilities	32	2,273,058,356	—
Total current liabilities		33,550,453,810	29,731,298,424
NON-CURRENT LIABILITIES			
Long term loans	33	5,163,168,960	6,655,171,584
Bonds payable	34	3,987,666,667	3,979,666,667
Deferred income	35	1,269,496,538	1,285,164,299
Long-term employee benefits payable	25	159,173,203	28,857,389
Deferred tax liabilities	17	35,065,411	32,704,732
Total non-current liabilities		10,614,570,779	11,981,564,671
Total liabilities		44,165,024,589	41,712,863,095

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

LIABILITIES AND SHAREHOLDERS' EQUITY	Note V	31 December 2016	31 December 2015
SHAREHOLDERS' EQUITY			
Share capital	36	7,700,681,186	7,700,681,186
Capital reserve	37	8,348,726,741	8,329,067,663
Other comprehensive income	38	(119,263,454)	(165,450,551)
Special reserve	39	27,969,571	14,374,213
Surplus reserve	40	3,843,231,617	3,843,231,617
General reserve		153,394,916	102,539,024
Accumulated losses	41	(190,568,622)	(1,368,605,137)
Equity attributable to owners of the parent company		<u>19,764,171,955</u>	<u>18,455,838,015</u>
Non-controlling interests		<u>2,316,334,486</u>	<u>2,285,764,845</u>
Total shareholders' equity		<u>22,080,506,441</u>	<u>20,741,602,860</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u><u>66,245,531,030</u></u>	<u><u>62,454,465,955</u></u>

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

The financial statements were signed by the following persons:

Legal Representative:
Ding Yi

Chief Accountant:
Qian Haifan

Head of Accounting:
Xing Qunli

Consolidated Statement of Profit or Loss

For the year ended 31 December 2016
Renminbi Yuan

	Note V	2016	2015
Revenue	42	48,275,100,310	45,108,926,739
Less: Cost of sales	42, 51	42,557,487,675	45,488,440,552
Taxes and surcharges	43	432,096,408	201,228,046
Selling expenses	44, 51	694,782,730	635,859,844
General and administrative expenses	45, 51	1,780,281,484	1,538,609,887
Financial expenses	46	793,650,976	813,036,439
Impairment losses	47	1,064,257,636	1,619,389,979
Add: Gain on changes in fair value		4,051,190	819,265
Investment income	48	291,396,463	93,725,198
including: share of profits of associates and joint ventures		232,820,475	75,538,213
Operating profit/(loss)		1,247,991,054	(5,093,093,545)
Add: Non-operating income	49	205,202,902	384,059,748
including: profit from disposal of non-current assets		7,187,676	35,444,537
Less: Non-operating expenses	50	84,618,416	17,538,205
including: loss from disposal of non-current assets		58,376,872	2,478,667
Profit/(loss) before tax		1,368,575,540	(4,726,572,002)
Less: Income tax expense	52	111,880,234	377,912,379
Net profit/(loss)		1,256,695,306	(5,104,484,381)
Net profit/(loss) attributable to owners of the parent company		1,228,892,407	(4,804,299,674)
Net profit/(loss) attributable to non-controlling interests		27,802,899	(300,184,707)

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

	Note V	2016	2015
Other comprehensive income, net of tax			
Total other comprehensive income attributable to owners of the parent company, net of tax			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Fair value changes of available-for-sale financial assets	38	(803,607)	—
Exchange differences on translation of foreign operations	38	<u>46,990,704</u>	<u>(28,291,071)</u>
Total other comprehensive income attributable to non-controlling interests, net of tax	38	<u>912,309</u>	<u>1,725,489</u>
Total comprehensive income		<u>1,303,794,712</u>	<u>(5,131,049,963)</u>
Including:			
Total comprehensive income attributable to owners of the parent company		<u>1,275,079,504</u>	<u>(4,832,590,745)</u>
Total comprehensive income attributable to non-controlling interests		<u>28,715,208</u>	<u>(298,459,218)</u>
EARNINGS/(LOSS) PER SHARE:			
Basic earnings/(loss)	53	<u>15.96 cents</u>	<u>(62.39) cents</u>
Diluted earnings/(loss)	53	<u>15.96 cents</u>	<u>(62.39) cents</u>

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016
Renminbi Yuan

	Attributable to owners of the parent									
	Share capital (Note V 36)	Capital reserve (Note V 37)	Other comprehensive income (Note V 38)	Special reserve (Note V 39)	Surplus reserve (Note V 40)	General reserve	(Accumulated losses)/retained profits (Note V 41)	Sub-total	Non-controlling interests	Total shareholders' equity
1. At 1 January 2016	7,700,681,186	8,329,067,663	(165,450,551)	14,374,213	3,843,231,617	102,539,024	(1,368,605,137)	18,455,838,015	2,285,764,845	20,741,602,860
2. Increase/(decrease) during the year										
1) Total comprehensive income	-	-	46,187,097	-	-	-	1,228,892,407	1,275,079,504	28,715,208	1,303,794,712
2) Capital contribution and withdrawal										
(i) Others	-	15,146,295	-	-	-	-	-	15,146,295	-	15,146,295
3) Profit appropriation										
(i) Transfer to surplus reserve	-	-	-	-	-	-	-	-	-	-
(ii) Transfer to general risk reserve	-	-	-	-	-	50,855,892	(50,855,892)	-	-	-
(iii) Distribution to shareholders	-	-	-	-	-	-	-	-	(2,455,170)	(2,455,170)
4) Special reserve										
(i) Additions	-	-	-	93,143,099	-	-	-	93,143,099	10,212,952	103,356,051
(ii) Utilisation	-	-	-	(84,892,033)	-	-	-	(84,892,033)	(5,903,349)	(90,795,382)
(iii) Changes in the share of associates and joint ventures' special reserve, net	-	-	-	5,344,292	-	-	-	5,344,292	-	5,344,292
5) Others	-	4,512,783	-	-	-	-	-	4,512,783	-	4,512,783
3. At 31 December 2016	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

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

For the year ended 31 December 2015

		Attributable to owners of the parent									
		Share capital (Note V 36)	Capital reserve (Note V 37)	Other comprehensive income (Note V 38)	Special reserve (Note V 39)	Surplus reserve (Note V 40)	General reserve	(Accumulated losses)/retained profits (Note V 41)	Sub-total	Non-controlling interests	Total shareholders' equity
1.	At 1 January 2015	7,700,681,186	8,329,067,663	(137,159,480)	21,511,442	3,831,458,700	98,706,649	3,451,299,829	23,295,565,989	2,593,831,998	25,889,397,987
2.	Increase/(decrease) during the year										
1)	Total comprehensive income	-	-	(28,291,071)	-	-	-	(4,804,299,674)	(4,832,590,745)	(298,459,218)	(5,131,049,963)
2)	Capital contribution and withdrawal										
(i)	Capital contribution from non-controlling interests	-	-	-	-	-	-	-	-	4,950,000	4,950,000
3)	Profit appropriation										
(i)	Transfer to surplus reserve	-	-	-	-	11,772,917	-	(11,772,917)	-	-	-
(ii)	Transfer to general risk reserve	-	-	-	-	-	3,832,375	(3,832,375)	-	-	-
(iii)	Distribution to shareholders	-	-	-	-	-	-	-	-	(11,447,163)	(11,447,163)
4)	Special reserve										
(i)	Additions	-	-	-	86,927,211	-	-	-	86,927,211	5,343,580	92,270,791
(ii)	Utilisation	-	-	-	(89,739,688)	-	-	-	(89,739,688)	(8,454,352)	(98,194,040)
(iii)	Changes in the share of associates and joint ventures' special reserve, net	-	-	-	(4,324,752)	-	-	-	(4,324,752)	-	(4,324,752)
3.	At 31 December 2015	7,700,681,186	8,329,067,663	(165,450,551)	14,374,213	3,843,231,617	102,539,024	(1,368,605,137)	18,455,838,015	2,285,764,845	20,741,602,860

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2016
Renminbi Yuan

	Note V	2016	2015
1. Cash flows from operating activities			
Cash received from sale of goods and rendering of services		53,536,500,347	57,397,210,097
Tax refunds received		43,331,736	232,132,582
Net decrease in deposits in the central bank		–	472,181,056
Net increase in repurchase agreements of financial assets		596,565,698	–
Net increase in customer deposits and deposits from banks		1,806,834,533	201,771,638
Cash received for interest charges, fees and commissions		68,966,168	86,197,602
Cash received relating to other operating activities	54	<u>1,171,286,841</u>	<u>29,297,279</u>
Sub-total of cash inflows		<u>57,223,485,323</u>	<u>58,418,790,254</u>
Cash paid for purchases of goods and services		(45,192,755,217)	(46,085,246,212)
Net increase in deposits in central bank		(103,901,102)	–
Net increase in financial assets purchased under agreements to resell		(230,047,000)	–
Net increase in loans and advances to customers		(852,919,383)	(99,710,592)
Cash paid to or on behalf of employees		(3,759,522,641)	(3,901,087,465)
Taxes and surcharges paid		(2,018,756,738)	(2,021,090,985)
Cash paid for interest charges, fees and commissions		(30,304,313)	(25,489,812)
Cash paid relating to other operating activities	54	<u>(415,417,915)</u>	<u>(420,833,135)</u>
Sub-total of cash outflows		<u>(52,603,624,309)</u>	<u>(52,553,458,201)</u>
Net cash flows from operating activities	55(1)	<u>4,619,861,014</u>	<u>5,865,332,053</u>
2. Cash flows from investing activities			
Cash received from disposal of investments		458,563,915	4,301,307,391
Cash received from investment income		141,575,987	243,447,481
Proceeds from disposal of items of property, plant and equipment, intangible assets, and other non-current assets		21,243,569	22,510,647
Cash received relating to other investing activities	54	<u>103,844,476</u>	<u>186,448,184</u>
Sub-total of cash inflows		<u>725,227,947</u>	<u>4,753,713,703</u>

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

	Note V	2016	2015
2. Cash flows from investing activities <i>(continued)</i>			
Purchases of property, plant and equipment, intangible assets and other non-current assets		(2,130,913,649)	(2,772,760,636)
Cash paid for investments		(531,910,709)	(5,405,067,580)
Acquisition of a subsidiary and other operating units	55(2)	—	(73,191,528)
Increase in restricted cash		—	(123,766,960)
		<u> </u>	<u> </u>
Sub-total of cash outflows		<u>(2,662,824,358)</u>	<u>(8,374,786,704)</u>
Net cash flows used in investing activities		<u>(1,937,596,411)</u>	<u>(3,621,073,001)</u>
3. Cash flows from financing activities			
Cash received from borrowings		17,427,171,551	13,721,926,562
Proceeds from issuance of bonds		—	3,976,000,000
Cash received from investors		—	4,950,000
Including: Capital injection from non-controlling interests		—	4,950,000
		<u> </u>	<u> </u>
Sub-total of cash inflows		<u>17,427,171,551</u>	<u>17,702,876,562</u>
Repayment of borrowings		(18,554,976,223)	(18,176,630,777)
Cash paid for dividends and interest		(963,134,469)	(1,081,118,068)
Including: dividends paid to non-controlling interests by subsidiaries		<u>(267,120)</u>	<u>(11,447,163)</u>
		<u> </u>	<u> </u>
Sub-total of cash outflows		<u>(19,518,110,692)</u>	<u>(19,257,748,845)</u>
Net cash flows used in financing activities		<u>(2,090,939,141)</u>	<u>(1,554,872,283)</u>
4. Effect of foreign exchange rate changes on cash and cash equivalents		<u>186,395,867</u>	<u>147,187,290</u>
5. Net increase in cash and cash equivalents		777,721,329	836,574,059
Add: cash and cash equivalents at the beginning of the year		<u>3,546,410,358</u>	<u>2,709,836,299</u>
6. Cash and cash equivalents at the end of the year	55(3)	<u>4,324,131,687</u>	<u>3,546,410,358</u>

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

Statement of Financial Position

31 December 2016
Renminbi Yuan

ASSETS	Note XIV	31 December 2016	31 December 2015
CURRENT ASSETS			
Cash and bank balances		3,851,576,750	4,531,034,025
Financial assets at fair value through profit or loss		3,789,546	3,145,560
Bills receivable		3,518,320,171	3,751,615,186
Trade receivables	1	1,953,223,578	1,563,775,000
Dividends receivable		5,672,730	7,225,723
Prepayments		649,277,673	371,248,500
Other receivables	2	41,040,509	246,097,801
Inventories	3	7,370,937,053	4,348,287,858
Other current assets		294,632,327	557,052,098
Total current assets		17,688,470,337	15,379,481,751
NON-CURRENT ASSETS			
Available-for-sale financial investments		126,722,160	126,722,160
Long term equity investments	4	7,152,166,287	6,830,479,397
Investment properties		73,988,855	75,681,866
Property, plant and equipment		27,272,692,483	25,954,686,393
Construction in progress		1,629,607,224	4,025,657,145
Intangible assets		933,763,504	971,003,316
Deferred tax assets		261,808,739	314,216,637
Total non-current assets		37,450,749,252	38,298,446,914
TOTAL ASSETS		55,139,219,589	53,677,928,665

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

	31 December 2016	31 December 2015
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short term loans	4,617,240,417	831,000,000
Bills payable	2,766,056,791	3,981,623,516
Accounts payable	5,708,282,008	8,853,140,561
Advances from customers	2,396,866,345	2,132,448,152
Payroll and employee benefits payable	436,242,207	180,534,218
Taxes payable	165,339,271	50,206,106
Interest payable	104,959,511	147,852,499
Dividends payable	6,525,534	6,525,534
Other payables	1,502,658,072	1,001,923,405
Non-current liabilities due within one year	4,448,099,900	5,084,859,415
Other current liabilities	2,273,058,356	—
Total current liabilities	24,425,328,412	22,270,113,406
NON-CURRENT LIABILITIES		
Long term loans	7,113,168,960	9,289,847,408
Bonds payable	3,987,666,667	3,979,666,667
Deferred income	556,222,033	596,438,001
Long-term employee benefits payable	127,425,119	—
Total non-current liabilities	11,784,482,779	13,865,952,076
Total liabilities	36,209,811,191	36,136,065,482
SHAREHOLDERS' EQUITY		
Share capital	7,700,681,186	7,700,681,186
Capital reserve	8,358,017,477	8,338,358,399
Special reserve	3,827,107	(1,517,185)
Surplus reserve	2,993,175,001	2,993,175,001
Accumulated loss	(126,292,373)	(1,488,834,218)
Total shareholders' equity	18,929,408,398	17,541,863,183
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	55,139,219,589	53,677,928,665

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

Statement of Profit or Loss

For the year ended 31 December 2016
Renminbi Yuan

	Note XIV	2016	2015
Revenue	6	41,526,614,764	37,512,900,449
Less: Cost of sales	6	37,095,438,376	38,253,678,839
Taxes and surcharges		333,846,959	133,209,086
Selling expenses		311,149,677	353,703,599
General and administrative expenses		965,419,904	1,082,550,309
Financial expenses		817,756,613	791,940,217
Impairment losses	7	922,543,152	1,239,846,141
Add: Gain/(loss) on changes in fair value		3,789,546	(538,440)
Investment income	8	253,435,060	193,417,900
Including: share of profits of associates and joint ventures		232,820,475	75,219,006
Operating profit/(loss)		1,337,684,689	(4,149,148,282)
Add: Non-operating income		155,525,603	246,820,355
Including: profit from disposal of non-current assets		6,915,183	34,997,590
Less: Non-operating expenses		78,260,549	927,412
Including: loss from disposal of non-current assets		54,410,964	—
Profit/(loss) before tax		1,414,949,743	(3,903,255,339)
Less: Income tax expense		52,407,898	269,300,783
Net profit/(loss)		1,362,541,845	(4,172,556,122)
Other comprehensive income, net of tax		—	—
Total comprehensive income		1,362,541,845	(4,172,556,122)

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

Statement of Changes in Equity

For the year ended 31 December 2016
Renminbi Yuan

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

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

Statement of Changes in Equity (Continued)

For the year ended 31 December 2015
Renminbi Yuan

	Share capital	Capital reserve	Special reserve	Surplus reserve	Retained profits/ (accumulated losses)	Total shareholders' equity
1. At 1 January 2015	7,700,681,186	8,338,358,399	2,807,567	2,993,175,001	2,683,721,904	21,718,744,057
2. Increase/(decrease) during the year						
1) Total comprehensive income	-	-	-	-	(4,172,556,122)	(4,172,556,122)
2) Profit appropriation						
(i) Transfer to surplus reserves	-	-	-	-	-	-
3) Special reserve						
(i) Additions	-	-	75,031,697	-	-	75,031,697
(ii) Utilisation	-	-	(75,031,697)	-	-	(75,031,697)
(iii) Changes in the share of associates and joint ventures' special reserve, net	-	-	(4,324,752)	-	-	(4,324,752)
3. At 31 December 2015	7,700,681,186	8,338,358,399	(1,517,185)	2,993,175,001	(1,488,834,218)	17,541,863,183

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

Statement of Cash Flows

For the year ended 31 December 2016
Renminbi Yuan

	Note XIV	2016	2015
1. Cash flows from operating activities			
Cash received from sale of goods and rendering of services		41,141,395,987	43,398,475,877
Tax refunds received		24,507,200	131,417,800
Cash received relating to other operating activities		797,888,505	9,477,342
Sub-total of cash inflows		41,963,791,692	43,539,371,019
Cash paid for purchase of goods and services		(37,944,724,458)	(37,127,742,995)
Cash paid to or on behalf of employees		(2,930,467,496)	(3,086,960,000)
Cash paid for all taxes		(1,435,486,557)	(1,581,230,486)
Cash paid relating to other operating activities		(83,170,827)	(133,716,328)
Sub-total of cash outflows		(42,393,849,338)	(41,929,649,809)
Net cash flows (used in)/from operating activities	9	(430,057,646)	1,609,721,210
2. Cash flows from investing activities			
Cash received from disposal of investments		4,879,915	1,075,180
Cash received from investment income		124,838,847	318,442,126
Net cash received from disposal of items of property, plant and equipment, intangible assets and other long term assets		13,327,899	11,833,545
Cash received relating to other investing activities		72,790,158	167,466,584
Sub-total of cash inflows		215,836,819	498,817,435
Purchase of property, plant and equipment, intangible assets and other non-current assets		(1,925,759,949)	(2,338,221,784)
Cash paid for investments		(77,539,611)	(104,067,580)
Acquisition of a subsidiary and other operating units		(111,764,084)	(180,141,000)
Increase in restricted cash		—	(279,454,275)
Sub-total of cash outflows		(2,115,063,644)	(2,901,884,639)
Net cash flows used in investing activities		(1,899,226,825)	(2,403,067,204)

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

Statement of Cash Flows (Continued)

For the year ended 31 December 2016
Renminbi Yuan

	Note XIV	2016	2015
3. Cash flows from financing activities			
Proceeds from issuance of bonds, net of issuance costs		—	3,976,000,000
Cash received from borrowings		<u>10,347,247,864</u>	<u>9,974,252,000</u>
Sub-total of cash inflows		<u>10,347,247,864</u>	<u>13,950,252,000</u>
Repayment of borrowings		(7,422,588,144)	(13,139,229,300)
Cash paid for the distribution of dividend or profits and for interest expenses		<u>(919,289,458)</u>	<u>(966,296,684)</u>
Sub-total of cash outflows		<u>(8,341,877,602)</u>	<u>(14,105,525,984)</u>
Net cash flows from/(used in) financing activities		<u>2,005,370,262</u>	<u>(155,273,984)</u>
4. Effect of foreign exchange rate changes on cash and cash equivalents		150,304,664	166,686,730
5. Net decrease in cash and cash equivalents		(173,609,545)	(781,933,248)
Add: Cash and cash equivalents at the beginning of the year		<u>4,025,186,295</u>	<u>4,807,119,543</u>
6. Cash and cash equivalents at the end of the year		<u>3,851,576,750</u>	<u>4,025,186,295</u>

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

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

As of 31 December 2016, the Company had issued 7,700,680,000 shares in total, including ordinary A shares of 5,967,750,000 and ordinary H shares of 1,732,930,000. The nominal value of each share is RMB1.

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

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

The financial statements were approved by the board of directors on 29 March 2017. According to the articles of association of the Company, the financial statements will be submitted to shareholders for approval at a shareholders’ meeting.

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

II. BASIS OF PREPARATION

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

The consolidated financial statements were prepared on going concern basis.

As of 31 December 2016, the net current liabilities of the Group amounted to RMB9,132,138,612. The directors of the Company have considered the availability of funding sources, including but not limited to an unused banking credit quota of RMB16.8 billion obtained on 31 December 2016. After assessment, the Company’s board of directors believes that the Group has sufficient resources to continue as a going concern for not less than 12 months after the end of reporting period. Therefore, the Company’s board of directors continues to prepare the Group’s financial statements for the year ended 31 December 2016 on a going concern basis.

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II. BASIS OF PREPARATION (CONTINUED)

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

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

1. STATEMENT OF COMPLIANCE WITH THE CAS

The financial statements have been prepared in accordance with the CAS, and present truly and completely, the financial position of the Company and the Group as of 31 December 2016, and the results of their operations and their cash flows for the year then ended.

2. ACCOUNTING PERIOD

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

3. REPORTING CURRENCY

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

The Group's subsidiaries use their respective local currencies as the reporting 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".

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

4. BUSINESS COMBINATION (CONTINUED)

Business combination involving entities under common control

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

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

Business combination involving entities not under common control

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

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

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

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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 year ended 31 December 2016. A subsidiary is a company or entity that is controlled by the Company (including separable parts of the enterprise and the invested entity, as well as the structural body controlled by the Company).

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

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

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

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

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

6. JOINT ARRANGEMENT AND JOINT OPERATIONS

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

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

7. CASH AND CASH EQUIVALENTS

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

8. FOREIGN OPERATIONS AND FOREIGN CURRENCY TRANSLATION

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

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

Notes to Financial Statements (Continued)

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

8. FOREIGN OPERATIONS AND FOREIGN CURRENCY TRANSLATION (CONTINUED)

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

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

9. FINANCIAL INSTRUMENTS

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

Recognition and derecognition of financial instruments

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

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. FINANCIAL INSTRUMENTS (CONTINUED)

Recognition and derecognition of financial instruments *(continued)*

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

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

Classification and measurement of financial assets

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

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

Financial assets at fair value through profit or loss

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

Notes to 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 at fair value through profit or loss (continued)

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

- (1) The designation is able to eliminate or obviously reduce the discrepancies in the recognition or measurement of the relevant gains or losses arising from the different measurement bases of financial instruments.
- (2) Official written documents on risk management or investment strategies have recorded that the combination of financial instruments will be managed, evaluated and reported to key management personnel on the basis of fair value.
- (3) Hybrid instruments which contain one or more embedded derivatives, unless the embedded derivatives do not have a substantial effect on the cash flows of the hybrid instruments, or the embedded derivatives obviously should not be separated from the relevant hybrid instruments.
- (4) Hybrid instruments which contain embedded derivatives that should split, but cannot be measured separately when acquired or at the end of the subsequent reporting period.

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

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

In accordance with the above conditions, the financial assets of this kind designated by the Group are mainly financial products issued by banks.

Held-to-maturity investments

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. FINANCIAL INSTRUMENTS (CONTINUED)

Classification and measurement of financial assets (continued)

Loans and receivables

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

Available-for-sale financial assets

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

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

Classification and measurement of financial liabilities

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

The subsequent measurement of financial liabilities depends on their classification:

Financial liabilities at fair value through profit or loss

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

Notes to 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 liabilities at fair value through profit or loss (continued)

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

Other financial liabilities

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

Offsetting of financial instruments

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

Financial guarantee contracts

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

Impairment of financial assets

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. FINANCIAL INSTRUMENTS (CONTINUED)

Impairment of financial assets (continued)

Financial assets carried at amortised cost

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

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

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

Available-for-sale financial assets

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

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

Notes to Financial Statements (Continued)

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. FINANCIAL INSTRUMENTS (CONTINUED)

Impairment of financial assets (continued)

Available-for-sale financial assets (continued)

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

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

Financial assets carried at cost

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

Transfer of financial assets

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

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

10. RECEIVABLES/LOANS AND ADVANCES TO CUSTOMERS

- (1) The Group assesses impairment individually for financial assets that are individually significant. The benchmark is RMB2 million. If there is objective evidence that an impairment loss has been incurred, the amount of loss is charged to the profit or loss.
- (2) For financial assets that are not individually significant, if there is objective evidence that an impairment loss has been incurred, the amount is recognised as an impairment loss and charged to profit or loss.
- (3) Since loans and advances to customers have similar credit risk characteristics, they are managed as a group of financial assets, and the bad debt provision for them is accrued at 3% of the balance as of the year end.

11 INVENTORIES

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

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

Inventories are accounted for using the perpetual inventory system.

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

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

12 LONG TERM EQUITY INVESTMENTS (CONTINUED)

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

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

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

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

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

12 LONG TERM EQUITY INVESTMENTS (CONTINUED)

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

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

13 INVESTMENT PROPERTIES

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

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

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

14 PROPERTY, PLANT AND EQUIPMENT

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

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

Depreciation is calculated on the straight-line basis. 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%

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

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

15. CONSTRUCTION IN PROGRESS

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

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

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

The capitalisation 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 capitalisation 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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

16. BORROWING COSTS (CONTINUED)

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

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

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

17. INTANGIBLE ASSETS

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

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

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

	<u>Useful life</u>
Concession contract	25 years
Land use rights	50 years
Mining rights	25 years
Patent Rights	3 years

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

Notes to Financial Statements (Continued)

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

17. INTANGIBLE ASSETS (CONTINUED)

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

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

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

18. IMPAIRMENT OF ASSETS

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

18. IMPAIRMENT OF ASSETS (CONTINUED)

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

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

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

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

Impairment losses cannot be reversed in the subsequent accounting periods.

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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)

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

19. PAYROLL AND EMPLOYEE BENEFITS PAYABLE (CONTINUED)

Post-employment benefit (defined benefit plans) (continued)

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

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

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

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

Termination benefits

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

Other long-term employee benefits

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

20. PROVISIONS

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

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

Notes to Financial Statements (Continued)

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

20. PROVISIONS (CONTINUED)

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

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

21. REPURCHASE AND REVERSE REPURCHASE TRANSACTIONS

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

22. REVENUE

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

Revenue from the sale of goods

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

Revenue from the rendering of services

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

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

Notes to Financial Statements (Continued)

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

22. REVENUE (CONTINUED)

Interest income

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

Royalty income

Royalty income is recognised according to the agreed contract terms.

Lease income

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

23. GOVERNMENT GRANTS

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

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

24. INCOME TAX

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

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

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

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

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

A deferred tax asset is recognised in respect of all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference will be utilised 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 utilised.

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.

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

24. INCOME TAX (CONTINUED)

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

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

25. LEASES

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

As lessee in operating leases

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

As lessor in operating leases

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

26. PROFIT DISTRIBUTION

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

27. SAFETY PRODUCTION RESERVE

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

28. GENERAL RESERVE

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

29. FAIR VALUE MEASUREMENT

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

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

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

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

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

29. FAIR VALUE MEASUREMENT (CONTINUED)

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

30. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

Going concern

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

Operating lease – as lessor

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

Classification between investment properties and owner-occupied properties

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Judgements (continued)

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

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

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

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

As of 31 December 2016, the Group holds 16.34% equity interests in Anhui Xinchuang Economize Resource Co., Ltd. ("Xinchuang Economize Resource"). The directors represent that the Company is able to exercise significant influence over Xinchuang Economize Resource although the equity interests that the Company holds in Xinchuang Economize Resource are less than 20%, according to the requirements of the Articles of Association of Xinchuang Economize Resource, the Company designated one director and one supervisor to Xinchuang Economize Resource. Thus, the Company can exercise significant influence over Xinchuang Economize Resource, and the investment in Xinchuang Economize Resource is accounted for as an associate.

As of 31 December 2016, the Group holds 12% equity interests in Anhui Linhuan Chemical Co., Ltd. ("Anhui Linhuan Chemical"). The directors represent that the Company is able to exercise significant influence over Anhui Linhuan Chemical although the equity interests that the Company holds in Anhui Linhuan Chemical are less than 20%, according to the requirements of the Articles of Association of Anhui Linhuan Chemical, the Company designated one director to Anhui Linhuan Chemical. Thus, the Company can exercise significant influence over Anhui Linhuan Chemical, and the investment in Anhui Linhuan Chemical is accounted for as an associate.

Notes to Financial Statements (Continued)

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Judgements (continued)

Judgement on entities in which the Group holds more than 50% of voting rights but does not have control over them

In 2016, the Company established Mascometal Co., Ltd. ("Mascometal"), a company jointly established with a foreign invested enterprise (FIE), Asco Industries Ltd., in which the Company and Asco Industries Ltd. hold 75% and 25% of equity interests respectively. According to the requirements of the Articles of Association of Mascometal, the Company designated three directors in the Board of Directors and Asco Industries Ltd. designated one director. According to the Articles of Association of Mascometal, some important financial and operating decisions must be approved by all the directors. According to the requirements of the Articles of Associate as above, the directors represent that the Company is unable to exercise control over Mascometal, but is able to exercise joint control over Mascometal with Asco Industries Ltd.. Therefore, Mascometal is accounted for as a joint venture, and is not included in the consolidation scope of the Group.

Estimation uncertainty

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

Impairment of non-financial assets (other than goodwill)

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty *(continued)*

Deferred tax assets

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

Estimation of useful life of fixed assets

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

Provision for bad debts of receivables

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

Estimation of inventories under net realisable value

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

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

Notes to Financial Statements (Continued)

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

31. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

Changes in accounting policies

Changes in tax disclosure

In 2016, the Group adjusted the “business tax and surcharges” item in the statement of profit or loss to “tax and surcharges” in accordance with the requirements of “Value Added Tax Accounting Treatment Regulations” (Accounting [2016] No. 22). The real estate tax, land usage tax, vehicle and vessel tax, stamp tax and other related taxes relating to operating activities since 1 May 2016 were recorded in “tax and surcharges” item instead of “general administrative expenses”; those occurred before 1 May 2016 were still recorded in “general administrative expenses”. As a result of the above requirements, the contents disclosed in “tax and surcharges” and “general administrative expenses” in 2016 were different from those in 2015, but there was no impact on net profit and shareholders’ equity for 2016 and 2015.

Changes in accounting estimates

In accordance with the CAS 4 – Fixed Assets and CAS 28 – Changes in Accounting Policy and Estimate and Correction of Errors, the subsidiary of the Group, Anhui Changjiang Iron and Steel Co., Ltd. (“Anhui Changjiang Iron and Steel”) adjusted the useful life of fixed assets to ensure the adjusted useful life to meet the estimates on the period that the future economic benefits by considering actual useful life of the fixed assets accordingly. The new useful life applied from 1 April 2016 by adopting prospective method. On 14 March 2016, the change was approved by the board of directors in “Resolution of the Board of Directors of Changjiang Iron and Steel [2016] No.2”. On 30 March 2016, the change was also reviewed and approved by the board of directors of the Company in “Resolution of the Board of Directors of the Company [2016] No. 3”.

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

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

31. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

Changes in accounting estimates (continued)

The above changes of accounting estimates have the following impacts on the financial statement of the year ended 31 December 2016:

The Group:

2016	Before changes in accounting estimates	Changes in useful life	After changes in accounting estimates
	Closing balance/ transaction amount during the year		Closing balance/ transaction amount during the year
Carrying amount of fixed assets	35,413,406,163	109,195,552	35,522,601,715
Depreciation	3,486,961,669	(109,195,552)	3,377,766,117
Total profit	1,259,379,988	109,195,552	1,368,575,540
Income tax	84,581,346	27,298,888	111,880,234
Net profit	1,174,798,642	81,896,664	1,256,695,306
Accumulated loss	(272,465,286)	81,896,664	(190,568,622)

Notes to Financial Statements (Continued)

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IV. TAX

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

Value-added tax	The output VAT rate of domestic sales is 17%. VAT payable is the net difference between output VAT and deductible input VAT. According to national tax regulations, the Company adopted the “Exempt, Offset, Refund” arrangements for VAT in export sales with the refund rates of 9% to 17%. A subsidiary of the Group adopted the “levy first, refund afterwards” arrangements for VAT in its own export sales.
Business tax	Payable based on 3% to 5% of the taxable income. Since 1 May 2016, business tax was replaced by VAT.
City construction and maintenance tax	Payable based on 5% to 7% of the net VAT and business tax to be paid.
Income tax	The Group and certain of its subsidiaries were subject to corporate income tax (“CIT”) at a rate of 25% on their assessable profits.

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%.

IV. TAX (CONTINUED)

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

Land appreciation tax	Payable based on appreciation of land use right and building at a progressive tax rate of 30%-60% as a result of the transfer of ownership
Education surcharge	Payable based on 3% of the net VAT and business tax to be paid.
Local education surcharge	Payable based on 2% of the net VAT and business tax to be paid.
Real estate tax	Payable based on a certain percentage of the cost of real estate with legal title in accordance with relevant regulations.
Other taxes	In accordance with tax laws and other relevant regulations.

2. TAX BENEFITS

- (1) In 2015, the New and High Technology Enterprise certification of the Group's subsidiary, Maanshan Masteel Huayang Equipment Inspection & Engineering Co., Ltd. ("Huayang Equipment") was renewed by the subsidiary's application to the authority and the entity was recognised by local authority as New and High Technology Enterprises. The period of validity is three years from 1 January 2015. In 2016, the applicable income tax rate is 15% accordingly.
- (2) In 2014, the New and High Technology Enterprise certification of the Group's subsidiary, Anhui Masteel Holly Industrial Co., Ltd. ("Holly Industrial"), was renewed by the subsidiary's application to the authority and the entity was recognised by the local authority as a New and High Technology Enterprise. The period of validity is three years from 1 January 2014. In 2016, the applicable income tax rate is 15% accordingly.

Notes to Financial Statements (Continued)

31 December 2016
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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. CASH AND BANK BALANCES

	31 December 2016	31 December 2015
Cash on hand	90,515	138,929
Bank balances	4,324,041,172	3,552,764,882
Other monetary assets	493,121,436	1,198,860,855
Mandatory reserves of Masteel Financial deposited in the central bank	494,847,918	390,946,816
	5,312,101,041	5,142,711,482

As of 31 December 2016, the Group's other monetary assets amounting to RMB493,121,436 have been pledged to banks as security (31 December 2015: RMB1,198,860,855) for bank acceptance bills and performance guarantees. As for bank deposits, no time deposits (31 December 2015: USD1,000,000, which is equivalent to RMB6,493,453) have been pledged to banks to issue letters of credit.

As of 31 December 2016, the Group had cash and bank balances amounting to RMB335,758,549 that have been deposited outside the PRC (31 December 2015: RMB342,704,351).

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

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2016	31 December 2015
Financial assets designated as at fair value through profit or loss		
Investments in equity instruments	<u>555,322,261</u>	<u>1,005,271,054</u>

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

As of 31 December 2016, there was no material restriction on the realisation of these investments.

3. BILLS RECEIVABLE

	31 December 2016	31 December 2015
Bank acceptance bills	<u>3,608,459,121</u>	<u>4,689,129,290</u>

As of 31 December 2016, bank acceptance bills of the Group amounting to RMB738,206,842(31 December 2015: RMB1,120,157,322) were pledged for bank loans.

As of 31 December 2016, the Group had no bank acceptance bills pledged as security to banks to issue bank acceptance bills (31 December 2015: RMB157,001,166).

As of 31 December 2016, the undue bills discounted or endorsed were as follows :

	31 December 2016		31 December 2015	
	Derecognised	Not derecognised	Derecognised	Not derecognised
Bank acceptance bills	<u>5,196,770,076</u>	<u>156,827,864</u>	<u>1,892,413,242</u>	<u>243,602,664</u>

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

Notes to Financial Statements (Continued)

31 December 2016
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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. TRADE RECEIVABLES

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

The aging of trade receivables is analysed below:

	31 December 2016	31 December 2015
Within one year	756,196,252	665,862,003
One to two years	66,905,447	116,554,717
Two to three years	24,337,627	22,417,902
Over three years	33,219,589	11,348,434
	880,658,915	816,183,056
Less: Provisions for bad debts	20,729,808	19,196,395
	859,929,107	796,986,661

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

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. TRADE RECEIVABLES (CONTINUED)

The balances of trade receivables are analysed as follows:

	31 December 2016				31 December 2015			
	Book value		Provisions for bad debts		Book value		Provisions for bad debts	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Individually significant and assessed for impairment individually	825,690,228	94	(6,927,040)	1	768,962,510	94	(6,927,040)	1
Individually insignificant but assessed for impairment individually	54,968,687	6	(13,802,768)	25	47,220,546	6	(12,269,355)	26
	880,658,915	100	(20,729,808)		816,183,056	100	(19,196,395)	

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

	Book value	Provisions for bad debts	Ratio (%)	Reason
Company 1	117,299,709	-	-	/
Company 2	48,312,244	-	-	/
Company 3	35,735,250	-	-	/
Company 4	29,169,562	-	-	/
Company 5	24,738,742	-	-	/
Company 6	21,908,132	-	-	/
Company 7	21,573,834	-	-	/
Company 8	20,666,702	-	-	/
Company 9	20,279,298	-	-	/
Company 10	18,563,390	-	-	/
Company 11	17,592,138	-	-	/
Company 12	17,075,094	-	-	/
Company 13	17,025,890	-	-	/
Company 14	15,632,872	-	-	/
Company 15	13,653,503	-	-	/
Others	386,463,868	(6,927,040)	2	Note1
	825,690,228	(6,927,040)	1	

Notes to Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. TRADE RECEIVABLES (CONTINUED)

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

	Book value	Provisions for bad debts	Ratio (%)	Reason
Company 1	172,899,586	—	—	/
Company 2	48,310,741	—	—	/
Company 3	47,432,229	—	—	/
Company 4	41,970,793	—	—	/
Company 5	38,765,157	—	—	/
Company 6	34,432,434	—	—	/
Company 7	20,279,298	—	—	/
Company 8	19,769,588	—	—	/
Company 9	18,718,442	—	—	/
Company 10	18,349,530	—	—	/
Company 11	18,015,133	—	—	/
Company 12	16,839,663	—	—	/
Company 13	16,186,229	—	—	/
Company 14	15,007,817	—	—	/
Company 15	13,132,791	—	—	/
Others	<u>228,853,079</u>	<u>(6,927,040)</u>	<u>3</u>	Note1
	<u>768,962,510</u>	<u>(6,927,040)</u>	<u>1</u>	

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

In 2016, provision for bad debts was RMB2,517,257 (2015: RMB2,638,179) and the recovery or reversal of provision for bad debts was RMB927,877 (2015: Nil).

In 2016, the write-off of provision for bad debts was RMB55,967 (2015: Nil).

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

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. TRADE RECEIVABLES (CONTINUED)

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

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

31 December 2015	Relationship with the Group	Ending Balance	Aging	Percentage of trade receivables	Ending balance of provision
Company 1	Third Party	172,899,586	Within 1 year	21%	–
Company 2	Third Party	48,310,741	Within 2 years	6%	–
Company 3	Third Party	47,432,229	1-2 years	6%	–
Company 4	Third Party	41,970,793	Within 1 year	5%	–
Company 5	Third Party	38,765,157	Within 1 year	5%	–
		349,378,506		43%	

As of 31 December 2016, the Group had no assets or liabilities deriving from transferring trade receivables in which the Group is continuingly involved (31 December 2015: Nil).

Notes to 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:

	31 December 2016		31 December 2015	
	Balance	Ratio (%)	Balance	Ratio (%)
Within one year	896,450,454	96	612,475,882	96
One to two years	14,669,580	2	12,687,989	2
Two to three years	5,222,283	1	2,180,048	1
Over three years	8,708,957	1	7,063,502	1
	925,051,274	100	634,407,421	100

Prepayments aged over one year were mainly unsettled prepayments for the purchases of materials and equipment. 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:

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

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. PREPAYMENTS (CONTINUED)

31 December 2015	Relationship with the Group	Ending balance	Aging	Percentage of prepayments
Company 1	Third Party	80,159,389	Within 1 year	13%
Company 2	Third Party	76,362,359	Within 1 year	12%
Company 3	Third Party	56,173,337	Within 1 year	9%
Company 4	Third Party	49,786,004	Within 1 year	8%
Company 5	Third Party	41,230,060	Within 1 year	6%
		<u>303,711,149</u>		<u>48%</u>

6. OTHER RECEIVABLES

An aging analysis of other receivables is as follows:

	31 December 2016	31 December 2015
Within one year	66,975,647	139,319,969
One to two years	51,655,401	5,774,543
Two to three years	3,087,522	9,780,275
Over three years	<u>600,141,779</u>	<u>627,032,547</u>
	721,860,349	781,907,334
Less: Provision for bad debts	<u>594,245,515</u>	<u>591,559,264</u>
	<u>127,614,834</u>	<u>190,348,070</u>

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

Notes to Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. OTHER RECEIVABLES (CONTINUED)

The other receivable balance is analysed as follows:

	31 December 2016				31 December 2015			
	Book value		Provision for bad debts		Book value		Provision for bad debts	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Individually significant and assessed for impairment individually	700,662,861	97	(587,934,699)	84	757,221,665	97	(585,248,448)	77
Individually insignificant but assessed for impairment individually	21,197,488	3	(6,310,816)	30	24,685,669	3	(6,310,816)	26
	721,860,349	100	(594,245,515)		781,907,334	100	(591,559,264)	

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

	Book value	Provision for bad debts	Ratio (%)	Reason
Company 1	60,939,960	(60,939,960)	100	(i)
Company 2	127,685,367	(127,685,367)	100	(i)
Company 3	37,243,732	(37,243,732)	100	(i)
Company 4	132,058,434	(132,058,434)	100	(i)
Company 5	57,988,833	(57,988,833)	100	(iv)
Company 6	76,821,224	(76,821,224)	100	(ii)
Company 7	17,079,513	(17,079,513)	100	(ii)
Company 8	34,783,463	(34,783,463)	100	(ii)
Company 9	4,069,419	(4,069,419)	100	(ii)
Company 10	9,051,133	(9,051,133)	100	(ii)
Company 11	7,396,979	(7,396,979)	100	(ii)
Company 12	5,216,988	(5,216,988)	100	(ii)
Company 13	10,056,058	(10,056,058)	100	(ii)
Company 14	5,143,596	(5,143,596)	100	(ii)
Company 15	2,400,000	(2,400,000)	100	(iii)
Others	112,728,162	—	—	/
	700,662,861	(587,934,699)	84	

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. OTHER RECEIVABLES (CONTINUED)

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

	Book value	Provision for bad debts	Ratio (%)	Reason
Company 1	60,939,960	(60,939,960)	100	(i)
Company 2	127,685,367	(127,685,367)	100	(i)
Company 3	37,243,732	(37,243,732)	100	(i)
Company 4	132,058,434	(132,058,434)	100	(i)
Company 5	92,302,582	(55,302,582)	60	(iv)
Company 6	76,821,224	(76,821,224)	100	(ii)
Company 7	17,079,513	(17,079,513)	100	(ii)
Company 8	34,783,463	(34,783,463)	100	(ii)
Company 9	4,069,419	(4,069,419)	100	(ii)
Company 10	9,051,133	(9,051,133)	100	(ii)
Company 11	7,396,979	(7,396,979)	100	(ii)
Company 12	5,216,988	(5,216,988)	100	(ii)
Company 13	10,056,058	(10,056,058)	100	(ii)
Company 14	5,143,596	(5,143,596)	100	(ii)
Company 15	2,400,000	(2,400,000)	100	(iii)
Others	134,973,217	—	—	/
	<u>757,221,665</u>	<u>(585,248,448)</u>	<u>77</u>	

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. OTHER RECEIVABLES (CONTINUED)

- (i) The companies were former steel trading suppliers of the Company, which were in operating difficulties. The fair value of the assets which pledged the receivables has changed, management assessed that it was difficult for the Company to collect the receivables as second in line pledgee, therefore, a full provision for the bad debts was made.
- (ii) The companies were former steel trading suppliers of Maanshan Iron & Steel Company Limited (Shanghai) Trade Co., Ltd ("Shanghai Trading"), a subsidiary of the Company. Management of the Group has assessed that it was difficult to collect the receivables because that the companies were in operating difficulties, and 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 made a full provision for the bad debts.
- (iv) For purpose of protecting the Group's interest as the creditor, Maanshan Iron and Steel (Wuhu) Processing and Distribution Co., Ltd. ("Ma Steel (Wuhu)"), a subsidiary of the Group, signed an equity interest transfer agreement and its supplementary agreement (collectively known as the "Agreements") with this debtor's original shareholder, pursuant to which to acquire its 60% equity interest at a purchase consideration of RMB1. The Agreements stipulated that Ma Steel (Wuhu) would sell all the holding interests to the original shareholders at the original purchase consideration once the debtor repay all the debts to Ma Steel (Wuhu) before 31 December 2014, and Ma Steel (Wuhu) would not participate the daily operation and share the profit or loss before 31 December 2014. In December 2015, Ma Steel (Wuhu) signed a memorandum with the debtor, agreeing to postpone the settlement date to 31 December 2016 and other terms retain unchanged. In 2016, Ma Steel (Wuhu) did not participate the daily operation of the debtor and shared no profit or loss. Therefore, management has made the judgement that the Company does not exert control over it during the year. In October 2016, the debtor repaid part of the debt with real estates, and Ma Steel (Wuhu) returned the equity interest to the original shareholders of the company according to the equity interest transfer agreement. The book value of the rest amounting to RMB57,988,833 is unable to be collected by the Company. Therefore, provision of RMB2,686,251 for bad debts was made in 2016. As a result, full provision was made for the outstanding amount.

In 2016, provision for bad debts was RMB2,986,251 (2015: RMB35,052,464) and no recovery or reversal of provision for bad debts was made (2015: RMB128,000).

In 2016, the write-off of provision for the debts was RMB300,000 (2015: Nil).

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. OTHER RECEIVABLES (CONTINUED)

Other receivables analysed by nature were as follows :

	31 December 2016	31 December 2015
Payment on behalf of other companies	50,733,791	50,733,791
Tax refunds	5,237,911	6,437,911
Prepayment of customs duties and VAT	11,167,848	13,022,912
Prepayment for trading	585,534,699	607,861,547
Prepaid guarantee for steel futures	28,061,996	42,768,562
Others	41,124,104	61,082,611
Provision for bad debts	(594,245,515)	(591,559,264)
	127,614,834	190,348,070

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

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

Notes to Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. OTHER RECEIVABLES (CONTINUED)

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

	Balance	Ratio in other receivables (%)	Nature	Aging	Balance of provision
Company 1	132,058,434	17	Prepayment for trading	More than 3 years	132,058,434
Company 2	127,685,367	16	Prepayment for trading	More than 3 years	127,685,367
Company 3	92,302,582	12	Prepayment for trading	More than 3 years	55,302,582
Company 4	76,821,224	10	Prepayment for trading	More than 3 years	76,821,224
Company 5	60,939,960	8	Prepayment for trading	More than 3 years	60,939,960
	<u>489,807,567</u>	<u>63</u>			<u>452,807,567</u>

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

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

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

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

Note: The balance is the government grant owned by a subsidiary named Anhui Changjiang Iron and Steel in 2009 from the Town Government of Taibai, Dangtu in Anhui Province because of its timely and fully tax payments between 2004 and 2009. This government grant was recorded as non-operating income in 2009. In 2016, the government grant had been recovered partly. After communicating with the government, the rest of the amount is expected to be received in 2017.

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

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. INVENTORIES

	31 December 2016			31 December 2015		
	Balance	Provision for impairment	Carrying amount	Balance	Provision for impairment	Carrying amount
Raw materials	5,068,139,785	(83,746,075)	4,984,393,710	2,804,238,500	(350,365,789)	2,453,872,711
Work in progress	864,371,940	(17,659,670)	846,712,270	921,849,186	(102,234,757)	819,614,429
Finished goods	3,425,296,042	(64,188,089)	3,361,107,953	1,893,162,625	(491,923,981)	1,401,238,644
Spare parts	1,249,285,417	(126,912,167)	1,122,373,250	1,403,342,682	(59,572,961)	1,343,769,721
Others (Note)	233,474,649	-	233,474,649	-	-	-
	10,840,567,833	(292,506,001)	10,548,061,832	7,022,592,993	(1,004,097,488)	6,018,495,505

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

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

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

In 2016, the Group had no reversal of impairment provision against inventories (2015: RMB3,360,982).

As of 31 December 2016, the Group had no pledged inventories (31 December 2015: RMB10,859,823).

Notes to Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. FINANCIAL ASSETS PURCHASED UNDER AGREEMENTS TO RESELL

	31 December 2016	31 December 2015
Bonds	230,047,000	—

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

9. LOANS AND ADVANCES TO CUSTOMERS

	31 December 2016	31 December 2015
Loans	474,500,000	488,500,000
Discounted bills	1,128,238,113	261,318,730
	1,602,738,113	749,818,730
Less : Bad debt provision for loans and advances	47,525,557	16,904,861
	1,555,212,556	732,913,869

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

The customers related to loans and advances are the Holding and its subsidiaries. After risk evaluation, bad debt provision for loans and advances to customers was accrued at 3% of its closing balance. As of 31 December 2016, there was no non-performing loan in the Group's loans and advances to customers. Loans and advances to customers due from shareholders who held 5% or above of the Company's equity interests and other related parties as of 31 December 2016 and 31 December 2015 are stated in Note X.6 to the financial statements.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. OTHER CURRENT ASSETS

	31 December 2016	31 December 2015
Prepaid income tax	301,317,710	310,923,428
Accumulated deductible value added tax	386,609,452	637,594,830
Others	4,544,071	—
	692,471,233	948,518,258

At the end of 2016, the amounts of prepaid corporate income tax and deductible VAT were reclassified as other current assets.

11. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	31 December 2016			31 December 2015		
	Book value	Provision for impairment	Carrying amount	Book value	Provision for impairment	Carrying amount
Available-for-sale debt instruments	451,225,538	—	451,225,538	—	—	—
Available-for-sale equity instruments measured at cost	126,722,160	—	126,722,160	128,934,410	—	128,934,410
	577,947,698	—	577,947,698	128,934,410	—	128,934,410

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

	31 December 2016	31 December 2015
Available-for-sale debt instruments		
Debt instruments' amortized cost	452,402,983	—
Fair value	451,225,538	—
Accumulated fair value changes recorded in other comprehensive income	(1,177,445)	—
Provision	—	—

Notes to Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

Available-for-sale financial assets measured at cost:

31 December 2016

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

Note 1: Ma Steel (HK), a subsidiary of the Group, signed the "Agreement on equity interest transfer of Anhui Masteel Stereoscopic Auto-parking Equipments Company Limited" with Magang (Group) Investment Co., Ltd. in April 2016, to transfer the 8.9367% equity interest of Anhui Masteel Stereoscopic Auto-parking Equipments Company Limited ("Masteel Auto-parking") to Magang (Group) investment Co., Ltd.

As of 31 December 2016, the Group's available-for-sale financial assets are equity investments in non-listed companies in China. These assets are recorded at cost less impairment at the end of each reporting period, and their fair values were not disclosed. The fair values of these assets could not be reliably measured since there were no market prices in the active market. Besides, the Group had no intention to dispose of the investments.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

Available-for-sale financial assets measured at cost: (continued)

31 December 2015

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

Note 1: The company was liquidated in early 2015.

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

As of 31 December 2015, the Group's available-for-sale financial assets were equity investments in non-listed companies in China. These assets are recorded at cost less impairment at the end of each reporting period, and their fair values would not be disclosed. The fair values of these assets could not be reliably measured since there were no market prices in the active market. Besides, the Group had no intention to dispose of the investments.

Notes to Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. LONG TERM EQUITY INVESTMENTS

31 December 2016

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

Note 1: In 2016, the Company jointly established Mascometal with registered capital amounting to EUR32 million with a foreign invested enterprise (FIE), Asco Industries Ltd., in which the Company and Asco Industries Ltd. hold 75% and 25% of equity interests respectively, according to the requirements of the investment contract and the Articles of Association. The Company designated three directors in the Board of Directors and Asco Industries Ltd. designated one director. According to the Articles of Association of Mascometal, some important financial and operating decisions must be approved by all the directors. According to the requirements of the Articles of Association as above, the directors represent that the Company is unable to exercise control over Mascometal, but able to exercise joint control over Mascometal with Asco Industries Ltd.. Therefore, the equity investment in Mascometal is accounted for as a joint venture, and Mascometal has not been included in the consolidation scope of the Group.

In August 2016, the Company disposed of 9% equity interest of Mascometal to Maanshan City Yushan District City Investment and Development Co., Ltd.

As of 31 December 2016, the Company had made an investment commitment to Mascometal amounting to EUR16.07 million.

Note 2: The Company completed the final round of capital contributions amounting to RMB22,513,793 according to the requirements of the Articles of Association of Ma-Steel OCI Chemical.

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

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. LONG TERM EQUITY INVESTMENTS (CONTINUED)

31 December 2015

	Movements during the year									Impairment at the end of the year
	Opening balance	Increase	Decrease	Investment income under the equity method	Other comprehensive income	Other equity movement	Cash dividend received	Provision for impairment	Closing balance	
Joint ventures										
BOC-Ma Steel	311,422,276	-	-	81,325,413	-	(3,216,898)	(73,500,000)	-	316,030,791	-
MASTEEL-CMI	542,669	-	-	(3,327)	-	-	-	-	539,342	-
Associates										
Henan JinMa Energy (Note 1)	207,497,916	37,623,600	-	(4,023,123)	-	-	-	-	241,098,393	-
Shenglong Chemical	245,813,223	-	-	(2,786,831)	-	(624,054)	-	-	242,402,338	-
Shanghai Iron and Steel Electronic	30,977,774	-	-	1,626,747	-	-	(6,000,000)	-	26,604,521	-
Xinchuang Economize Resource	30,967,723	-	-	5,055,768	-	(483,800)	-	-	35,539,691	-
Maanshan Jinxi Rail Transit Equipment Co., Ltd. ("Ma-Steel Rail Transportation") (Note 2)	171,476,241	-	(165,930,369)	(5,545,872)	-	-	-	-	-	-
Jiyuan Jinyuan Chemical Co., Ltd. ("Jiyuan Jinyuan Chemical") (Note 1)	45,794,148	-	(44,961,228)	(832,920)	-	-	-	-	-	-
Anhui Linhuan Chemical (Note 3)	43,200,000	28,800,000	-	-	-	-	-	-	72,000,000	-
Ma-Steel OCI Chemical (Note 4)	-	95,235,280	-	403,151	-	-	-	-	95,638,431	-
Masteel Auto-parking (Note 5)	1,893,043	-	(2,212,250)	319,207	-	-	-	-	-	-
	<u>1,089,585,013</u>	<u>161,658,880</u>	<u>(213,103,847)</u>	<u>75,538,213</u>	<u>-</u>	<u>(4,324,752)</u>	<u>(79,500,000)</u>	<u>-</u>	<u>1,029,853,507</u>	<u>-</u>

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

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. LONG TERM EQUITY INVESTMENTS (CONTINUED)

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

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

Note 4: In February 2015, the Company jointly established Ma-Steel OCI Chemical with OCI (China) Investment Co., Ltd. with the registered capital of USD47,125,000, among which the Company committed to contribute the capital in cash and land use right. According to the Articles of Association of Ma-Steel OCI Chemical, the capital contribution of the Company is USD18,850,000, and both the proportions of capital contribution and shareholding are 40%. On 11 March 2015, the Company contributed RMB27,737,594. On 4 August 2015, the Company contributed RMB27,548,464 in cash. On 25 September 2015, the Company contributed land use rights of RMB23,651,700. On 2 December 2015, the Company contributed RMB16,297,522 in cash. The total capital contributions amounted to RMB95,235,280.

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

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

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. INVESTMENT PROPERTIES

Investment properties measured using the cost method:

2016

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

Note: In 2016, the Group transferred the office leased to Masteel Auto Parking and the vacant plant leased to Ma'an Shan Jiaheng Storage and Transportation Co., Ltd. from investment properties to own-used fixed assets.

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. INVESTMENT PROPERTIES (CONTINUED)

2015

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

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

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

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. PROPERTY, PLANT AND EQUIPMENT

2016

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

Notes to Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

2015

	Plant and buildings	Machinery and equipment	Motor vehicles	Office equipment	Land ownership (Note2)	Total
Cost:						
At 1 January 2015	26,083,777,337	51,931,863,074	393,384,036	237,114,334	10,787,241	78,656,926,022
Addition	12,520,307	31,633,695	2,595,226	4,307,170	-	51,056,398
Acquisition	-	17,794,606	1,805,199	306,760	-	19,906,565
Transfer from construction in progress (Note V.15)	140,873,740	644,444,493	18,025,270	112,300,591	-	915,644,094
Reclassifications	123,748,458	(124,248,265)	499,807	-	-	-
Disposal (Note1)	(17,852,582)	(67,428,660)	(28,048,602)	(60,512)	(521,445)	(113,911,801)
Transferred to investment properties	(2,186,709)	-	-	-	-	(2,186,709)
Other transfer out	(3,062,737)	(274,899)	-	-	-	(3,337,636)
At 31 December 2015	26,337,817,814	52,433,784,044	388,260,936	353,968,343	10,265,796	79,524,096,933
Accumulated depreciation :						
At 1 January 2015	11,231,030,025	29,844,694,588	316,767,843	223,076,706	-	41,615,569,162
Acquisition	-	609,725	311,599	119,934	-	1,041,258
Provided	1,026,098,256	2,232,362,765	21,714,559	120,146,623	-	3,400,322,203
Disposal (Note1)	(9,865,106)	(60,140,645)	(26,694,457)	(9,964)	-	(96,710,172)
Transferred to investment properties	(670,729)	-	-	-	-	(670,729)
Other transfer out	(649,944)	(215,941)	-	-	-	(865,885)
At 31 December 2015	12,245,942,502	32,017,310,492	312,099,544	343,333,299	-	44,918,685,837
Provision for impairment:						
At 1 January 2015	-	-	-	-	-	-
Provided	-	-	-	-	-	-
Disposal	-	-	-	-	-	-
At 31 December 2015	-	-	-	-	-	-
Net carrying amount :						
At 31 December 2015	14,091,875,312	20,416,473,552	76,161,392	10,635,044	10,265,796	34,605,411,096
At 1 January 2015	14,852,747,312	22,087,168,486	76,616,193	14,037,628	10,787,241	37,041,356,860

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Note 1: The fixed assets disposed in 2016 and 2015 were mainly the fixed assets sold and discarded by the Company. Because of 4# blast furnace construction and 5# coke technical transformation in the current year, the Company removed the retired assets in this area.

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

Note 3: The Group recognised impairment of fixed assets amounting to RMB38,607,464 in the current year because the Group disposed of some fixed assets due to the de-capacity plan of the iron and steel segment. The Group determined the amount of provision for the assets based on the assets' recoverable amount which is calculated as the assets' fair value less costs to sell.

Apart from the impairment of assets' related to the de-capacity plan above, when an indication of impairment of other fixed assets existed, the impairment test was performed for each cash-generating unit. The recoverable amount of each cash-generating unit would be compared with its carrying amount. The recoverable amount of each cash-generating unit is calculated by value-in-use method. This method used after-tax cash flows based on a 5-year financial budget made by the management, and for cash flows above five years, a constant growth rate based on the cash flows of the fifth year was used. Significant assumptions for the impairment test include expected production and sales volume, future selling price, production costs, operating expenses and discount rate, etc. Management made those significant assumptions based on historical experiences and forecasts of market development. Management adopted the after-tax discount rate of 9% (2015: 9%), which could represent specific risks of the relevant cash-generating unit. As of 31 December 2016, apart from the impairment of assets related to the de-capacity plan above, the Group made no provision for other fixed assets (2015: Nil).

As of 31 December 2016, certificates of ownership in respect of 33 of the Group's buildings in Mainland China, with an aggregate cost of RMB1,273,300,682 (31 December 2015 RMB1,343,143,878), have not been issued by the relevant government authorities. The directors represent that the Group is in the process of obtaining the relevant certificates, and this will not have any significant adverse impact on the Group's operations.

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. CONSTRUCTION IN PROGRESS

	31 December 2016			31 December 2015		
	Balance	Provision for impairment	Carrying amount	Balance	Provision for impairment	Carrying amount
Product quality projects	387,560,165	-	387,560,165	1,201,603,354	-	1,201,603,354
Energy-saving and environment protection projects	448,789,128	-	448,789,128	1,206,463,445	-	1,206,463,445
Equipment advancement and other modification projects	856,066,507	-	856,066,507	1,651,195,135	-	1,651,195,135
Other projects	565,775,598	-	565,775,598	186,500,934	-	186,500,934
	2,258,191,398	-	2,258,191,398	4,245,762,868	-	4,245,762,868

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

Name of projects	Budget RMB'000	Opening balance RMB	Addition RMB	Transferred to fixed assets (Note V.14) RMB	Closing balance RMB	Source of fund	The proportion projects investment account for budget (%)	Percentage of completion (%)	Accumulated interest capitalisation RMB (Note)	The capitalised interest in current year RMB	The interest capitalisation rate in current year (%)
Product quality projects	6,416,968	1,201,603,354	1,343,913,180	(2,157,956,369)	387,560,165	Internally financed/loan	82	82	9,671,641	2,140,342	4.4
Energy-saving and environment protection projects	2,623,235	1,206,463,445	994,194,028	(1,751,868,345)	448,789,128	Internally financed/loan	84	84	4,816,770	2,761,338	4.4
Equipment advancement and other modification projects	2,359,778	1,651,195,135	272,488,041	(1,067,616,669)	856,066,507	Internally financed/loan	85	85	7,597,740	1,655,800	4.4
Other projects	N/A	186,500,934	415,283,533	(36,008,869)	565,775,598	Internally financed/loan	N/A	N/A	3,005,256	619,779	-
		4,245,762,868	3,025,878,782	(5,013,450,252)	2,258,191,398						
Less: Provision for impairment		-	-	-	-						
		4,245,762,868	3,025,878,782	(5,013,450,252)	2,258,191,398				25,091,407	7,177,259	

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. CONSTRUCTION IN PROGRESS (CONTINUED)

In 2015, the movements of significant projects are as follows:

Name of projects	Budget RMB'000	Opening balance RMB	Addition RMB	Transferred to fixed assets (Note V.14) RMB	Closing balance RMB	Source of fund	The proportion Projects investment account for budget (%)	Percentage of completion (%)	Accumulated interest capitalisation RMB (Note)	The capitalised interest in current year RMB	The interest capitalisation rate in current year (%)
Product quality projects	5,376,735	804,193,624	672,080,460	(274,670,730)	1,201,603,354	Internally financed/loan	74	74	7,531,299	2,789,186	7.9
Energy-saving and environment protection projects	2,426,082	436,691,290	894,818,600	(125,046,445)	1,206,463,445	Internally financed/loan	59	59	2,055,432	2,055,432	7.9
Equipment advancement and other modification projects	2,208,182	1,505,024,955	561,759,062	(415,588,882)	1,651,195,135	Internally financed/loan	77	77	5,941,940	5,941,940	7.9
Other projects	N/A	85,140,313	201,698,658	(100,338,037)	186,500,934	Internally financed/loan	N/A	N/A	2,385,477	2,385,477	-
		2,831,050,182	2,330,356,780	(915,644,094)	4,245,762,868						
Less: Provision for impairment		-	-	-	-						
		2,831,050,182	2,330,356,780	(915,644,094)	4,245,762,868				17,914,148	13,172,035	

Note: The balance represents the capitalisation of borrowing costs included in construction in progress at 31 December 2016 and 31 December 2015 respectively.

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. INTANGIBLE ASSETS

2016

	Concession assets (Note)	Land use rights	Mining rights	Patent	Total
Cost:					
At 1 January 2016	136,979,410	2,296,421,463	137,120,350	587,217	2,571,108,440
Addition	-	1,567,188	-	87,682	1,654,870
Disposals	-	(9,200,000)	-	-	(9,200,000)
Exchange realignment	-	-	2,784,497	17,512	2,802,009
At 31 December 2016	136,979,410	2,288,788,651	139,904,847	692,411	2,566,365,319
Accumulated depreciation:					
At 1 January 2016	24,305,184	614,246,226	41,097,193	101,677	679,750,280
Provided	5,913,441	51,424,739	6,056,366	206,852	63,601,398
Disposals	-	(1,441,863)	-	-	(1,441,863)
Exchange realignment	-	-	2,683,544	3,033	2,686,577
At 31 December 2016	30,218,625	664,229,102	49,837,103	311,562	744,596,392
Provision for impairment:					
At 1 January 2016 and at 31 December 20	-	-	-	-	-
Net carrying amount:					
At 31 December 2016	106,760,785	1,624,559,549	90,067,744	380,849	1,821,768,927
At 1 January 2016	112,674,226	1,682,175,237	96,023,157	485,540	1,891,358,160

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. INTANGIBLE ASSETS (CONTINUED)

2015

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

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

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

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. DEFERRED TAX ASSETS/LIABILITIES

	31 December 2016		31 December 2015	
	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	Deferred tax assets
Deferred tax assets				
Asset impairment provision	251,160,664	62,790,166	609,033,044	152,258,261
Sales incentive	352,819,600	88,204,900	130,156,316	32,539,079
Payroll payable	30,313,204	7,578,301	28,346,060	7,086,515
Government grants	621,341,760	155,335,440	403,793,240	100,948,310
Deductible tax losses	–	–	1,163,156	290,789
Others	136,747,904	34,186,976	149,138,364	37,284,591
	1,392,383,132	348,095,783	1,321,630,180	330,407,545
	31 December 2016		31 December 2015	
	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	117,824,896	29,456,224	129,461,225	32,365,306
Changes in fair value of financial products	1,619,352	404,838	1,357,705	339,426
Others	20,817,396	5,204,349	–	–
	140,261,644	35,065,411	130,818,930	32,704,732

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. DEFERRED TAX ASSETS/LIABILITIES (CONTINUED)

Unrecognised deferred tax assets arising from deductible temporary differences and deductible tax losses were as follows:

	31 December 2016	31 December 2015
Deductible temporary differences	817,739,042	642,204,401
Deductible tax losses	<u>9,605,772,407</u>	<u>10,096,630,655</u>
	<u>10,423,511,449</u>	<u>10,738,835,056</u>

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

	31 December 2016	31 December 2015
To expire in 2016	–	233,247,027
To expire in 2017	3,171,336,504	4,043,686,509
To expire in 2018	483,216,836	483,216,836
To expire in 2019	781,213,612	781,213,612
To expire in 2020	4,555,266,671	4,555,266,671
To expire in 2021	<u>614,738,784</u>	<u>–</u>
Total	<u>9,605,772,407</u>	<u>10,096,630,655</u>

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.

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. DEFERRED TAX ASSETS/LIABILITIES (CONTINUED)

Uncovered deficit and other temporary deductible differences, such as non-deductible provision for trade receivables before tax, inventories, fixed assets, construction in progress and so on, the deferred tax assets are recognised to the extent that the deficit covered by taxable profit which would probably 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.

18. ASSET IMPAIRMENT PROVISIONS

31 December 2016

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

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18. ASSET IMPAIRMENT PROVISIONS (CONTINUED)

31 December 2015

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

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

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19. CUSTOMER DEPOSITS

	31 December 2016	31 December 2015
Demand deposits	2,681,506,250	1,626,727,988
Notice deposit	285,300,000	74,500,000
Time deposits	741,418,771	200,162,500
	3,708,225,021	1,901,390,488

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

20. REPURCHASE AGREEMENTS

	31 December 2016	31 December 2015
Bonds	397,900,000	—
Bills	198,665,698	—
	596,565,698	—

According to the repurchase agreements, Masteel Financial discounted bills and bonds to other financial institutions.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21. SHORT TERM LOANS

	31 December 2016	31 December 2015
Unsecured loans	6,002,740,320	2,398,449,636
Pledged loans (i)	–	100,000,000
Inward documentary bills and usance letters of credit (ii)	940,212,100	4,292,909,836
	6,942,952,420	6,791,359,472

(i) As of 31 December 2016, the Group had no pledged loans which are secured by bank bills (31 December 2015: RMB100,000,000).

(ii) As of 31 December 2016, the outstanding letters of credit of the Group amounted to RMB940,212,100 (31 December 2015: RMB4,292,909,836).

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

As of 31 December 2016 the Group had overdue short term loans as follows:

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

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

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22. BILLS PAYABLE

	31 December 2016	31 December 2015
Bank acceptance bills	3,584,228,362	5,325,406,398
Commercial acceptance bills	—	18,500,000
	<u>3,584,228,362</u>	<u>5,343,906,398</u>

As of 31 December 2016 and 31 December 2015, the aging of the Group's bills payable was all within six months, and there were no overdue bills.

23. ACCOUNTS PAYABLE

The aging analysis of accounts payable is as follows:

	31 December 2016	31 December 2015
Within one year	6,491,661,696	5,942,180,843
One to two years	62,554,813	127,899,157
Two to three years	52,430,647	21,240,086
Over three years	62,160,767	53,344,195
	<u>6,668,807,923</u>	<u>6,144,664,281</u>

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

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

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

23. ACCOUNTS PAYABLE (CONTINUED)

As of 31 December 2016, the material accounts payable aged over one year were as follows:

	Amount due	Reason for non-settlement
Company 1	19,000,000	Note
Company 2	17,000,000	Note
Company 3	14,033,705	Note
Company 4	10,111,310	Note
Company 5	8,447,827	Note
	68,592,842	

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

24. ADVANCES FROM CUSTOMERS

	31 December 2016	31 December 2015
Advances from customers	3,682,322,418	2,602,554,258

As of 31 December 2016, the material deposits received aged over one year were as follows:

	Amount receivable	Reason for outstanding
Company 1	12,236,108	Note
Company 2	2,185,715	Note
Company 3	2,023,692	Note
Company 4	1,258,483	Note
Company 5	970,621	Note
	18,674,619	

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

Notes to Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

25. PAYROLL AND EMPLOYEE BENEFITS PAYABLE

2016

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

2015

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Short-term employee benefits	288,200,550	3,168,777,038	3,193,640,648	263,336,940
Post-employment benefits				
(defined contribution plans)	8,425,484	709,915,499	708,283,724	10,057,259
Supplementary retirement benefits (i)	2,451,178	771,531	2,002,185	1,220,524
	<u>299,077,212</u>	<u>3,879,464,068</u>	<u>3,903,926,557</u>	<u>274,614,723</u>

- (i) MG-VALDUNES provides retired workers with supplementary benefits, including supplementary pension allowance, medical expenses and supplementary medical insurance, which are regarded as defined benefit plans. The present value of the defined benefit plans is equal to the discounted value of the estimated future cash outflow. The discounted rate is determined by the interest rate of government bonds of which maturity is close to the payment date of the defined benefit plans. The payroll and employee benefits payable with maturity of more than one year are recognised in long-term compensation.
- (ii) One-off termination compensation included the termination compensation amounting to RMB152,568,484 paid by Ma Steel (Hefei) Iron & Steel Co., Ltd. ("Ma Steel (Hefei)") to its employees due to the shutting down and transformation and the termination compensation amounting to RMB19,774,851 paid by the Company to its employees due to human resource optimisation.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

25. PAYROLL AND EMPLOYEE BENEFITS PAYABLE (CONTINUED)

Short-term employee benefits:

2016

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

2015

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Salaries, bonuses and subsidies	227,148,455	2,422,073,592	2,437,835,420	211,386,627
Welfare	21,900,908	133,447,693	134,329,379	21,019,222
Social insurance	879,915	261,262,554	262,126,558	15,911
Including: Medical insurance	74,900	208,572,354	208,650,947	(3,693)
Work-related injury insurance	810,674	41,581,435	42,379,105	13,004
Maternity insurance	(5,659)	11,108,765	11,096,506	6,600
Housing fund	24,578,790	295,415,368	294,332,704	25,661,454
Labor union fee and employee education fee	13,692,482	56,577,831	65,016,587	5,253,726
	<u>288,200,550</u>	<u>3,168,777,038</u>	<u>3,193,640,648</u>	<u>263,336,940</u>

Notes to Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

25. PAYROLL AND EMPLOYEE BENEFITS PAYABLE (CONTINUED)

Defined contribution plans:

2016

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

2015

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Pension insurance	(134,056)	565,283,557	564,784,323	365,178
Unemployment insurance	(53,790)	38,463,289	38,225,016	184,483
Supplementary pension scheme	8,613,330	106,168,653	105,274,385	9,507,598
	<u>8,425,484</u>	<u>709,915,499</u>	<u>708,283,724</u>	<u>10,057,259</u>

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

In addition to the basic social endowment insurance, employees (including employees of the Company and some wholly-owned subsidiaries) participated in the established retirement benefit contribution plans (hereinafter referred to as the "Annuity Plan") established by the Group. The employees who participated in the Annuity Plan use the bases of social insurance premiums as their deposit base. The deposit rates of the Group and employees are 5% and 1%, respectively. In 2016, the Group had pay an annuity amount of RMB27,870,391 (2015: RMB105,274,385), and the final balance of provisions but unpaid annuity was RMB471,321 (2015: RMB9,507,598).

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

25. PAYROLL AND EMPLOYEE BENEFITS PAYABLE (CONTINUED)

Long-term compensation:

	31 December 2016	31 December 2015
1. Post-employment benefits – net liability of defined benefit plans (Note1)	159,868,285	–
Less: Early retirement benefits due within one year	32,443,165	–
2. Supplementary retirement benefit	32,875,106	30,077,913
Less: Supplementary retirement benefit due within one year	1,127,023	1,220,524
	<u>159,173,203</u>	<u>28,857,389</u>

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

	Opening balance	Increase	Decrease	Closing balance	Less: Due within one year	Closing balance
2016						
Early retirement benefits	<u>–</u>	<u>175,125,396</u>	<u>(15,257,111)</u>	<u>159,868,285</u>	<u>32,443,165</u>	<u>127,425,120</u>

Notes to Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

25. PAYROLL AND EMPLOYEE BENEFITS PAYABLE (CONTINUED)

Early retirement benefits expected to be paid by the Group:

	31 December 2016	31 December 2015
Undiscounted value		
Within one year	32,443,165	—
One to two years	29,197,924	—
Two to three years	26,523,841	—
Over three years	90,136,936	—
	178,301,866	—
Financial charges to be recognised	(18,433,581)	—
	159,868,285	—
Less: Due within one year	32,443,165	—
	127,425,120	—

Early retirement benefit scheme was implemented by the Company due to the implementation of the human resource optimisation policy, which allowed qualified employees to early retire on a voluntary basis. The Company undertakes obligation to pay the early retirement employees' living expenses for one to ten years in the future. The Company calculated the amounts of monthly payments to employees participating in the early retirement plan based on an internally decided standard, and the Company is also responsible for social insurance and housing fund in accordance with local social security requirement. The Company forecasted the amount of early retirement benefits needed to be paid in the future years using a growth rate of 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 31 December 2016 and accounted in general administrative expenses. As of 31 December 2016, the current portion of the payment responsibility was accounted for in short-term employee benefits.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

26. TAXES PAYABLE

	31 December 2016	31 December 2015
Value-added tax	112,249,203	21,109,732
Corporate income tax	48,757,600	30,194,469
City construction and maintenance tax	34,523,584	23,263,501
Other taxes	78,701,727	75,330,619
	274,232,114	149,898,321

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

27. INTEREST PAYABLES

	31 December 2016	31 December 2015
Interest payables for short-term loans	9,590,649	4,011,073
Installment interest payables for long-term loans		
repayable on due date	10,280,475	11,897,022
Interest payables for corporate bonds	–	47,340,885
Interest payables for medium term notes	87,820,274	87,580,328
	107,691,398	150,829,308

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

Notes to Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

28. DIVIDENDS PAYABLE

	31 December 2016	31 December 2015
Other shareholders	8,713,584	6,525,534

29. OTHER PAYABLES

	31 December 2016	31 December 2015
Payable for construction, maintenance and inspection fees	174,015,328	207,933,025
Sales incentives	106,499,407	80,592,053
Service fees payable	22,336,562	17,926,119
Technology project fund received	41,804,635	34,750,947
Withholding social welfare and housing fund payable	36,408,783	43,903,216
Accrued interest expense for letters of credit	72,642,916	152,354,842
Payable for forfeiting	954,411,901	460,668,886
Others	504,455,546	260,334,425
	1,912,575,078	1,258,463,513

At 31 December 2016, significant other payables aged over one year were as follows:

	Amount payable	Reason for non-settlement
Company 1	3,000,000	Note
Company 2	2,000,000	Note
Company 3	2,000,000	Note
Company 4	2,000,000	Note
Company 5	1,200,952	Note
	10,200,952	

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

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30. NON-CURRENT LIABILITIES DUE WITHIN ONE YEAR

	31 December 2016	31 December 2015
Long term loans due within one year (Note V.33) (Note)	3,211,056,320	2,747,792,896
Bonds payable due within one year (Note V.34)	—	2,337,066,519
	3,211,056,320	5,084,859,415

Note: As of 31 December 2016, the Group had a long-term loan due within one year amounting to RMB600,000,000 which was pledged with bills (31 December 2015: RMB970,000,000).

31. ACCRUED LIABILITIES

2016

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

Note: The accrued liabilities of the pending onerous contract represents an expected loss from executing some sales orders entered by the Group's subsidiary, MG-VALDUNES. Management estimated the cost of executing those orders would exceed the agreed price. Therefore, the accrued liabilities were estimated at RMB14,284,847 at the end of 2016.

Notes to Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

32. OTHER CURRENT LIABILITIES

	31 December 2016	31 December 2015
Other current liabilities (i)	2,046,438,356	—
Others (ii)	226,620,000	—
	<u>2,273,058,356</u>	<u>—</u>

(i) Other current liabilities of the Group were the principal and interest amounting to RMB2,000,000,000 and RMB46,438,356 respectively of the short-term financing bonds issued by the Company on 2 August 2016.

(ii) The Company received the advance of land use tax refund for 2017 from the local Finance Bureau amounting to RMB142,000,000 in 2016 and the advance of development and reform subsidy for 2017 from the municipal government amounting to RMB84,620,000.

33. LONG TERM LOANS

	31 December 2016	31 December 2015
Guaranteed loans	1,175,968,960	1,973,971,584
Unsecured loans	3,987,200,000	4,681,200,000
	<u>5,163,168,960</u>	<u>6,655,171,584</u>

As of 31 December 2016, the interest rates of the above long-term loans ranged from 1.20% to 4.75% (31 December 2015: from 1.20% to 6.00%)

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

33. LONG TERM LOANS (CONTINUED)

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

	31 December 2016	31 December 2015
*Within one year or on demand (Note V. 30)	3,211,056,320	2,747,792,896
One to two years (inclusive)	4,255,056,320	6,243,992,896
Two to three years (inclusive)	761,056,320	238,292,896
Three to five years (inclusive)	51,056,320	117,585,792
Over five years	96,000,000	55,300,000
	8,374,225,280	9,402,964,480

34. BONDS PAYABLE

	31 December 2016	31 December 2015
Medium-term note payable	3,987,666,667	3,979,666,667
Corporate bonds - 5 years	—	2,337,066,519
	3,987,666,667	6,316,733,186
Less: Bonds payable due within one year (Note V.30)		
Including: Corporate bonds	—	2,337,066,519
	3,987,666,667	3,979,666,667

Notes to Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

34. BONDS PAYABLE (CONTINUED)

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

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

As of 31 December 2015, the bonds payable balances were as follows:

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

Medium-term note payable

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

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

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

34. BONDS PAYABLE (CONTINUED)

Corporate bonds

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

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

35. DEFERRED INCOME

2016

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

2015

	Opening balance	Increase	Decrease	Ending balance
Government grants	<u>1,186,358,849</u>	<u>186,448,184</u>	<u>87,642,734</u>	<u>1,285,164,299</u>

Notes to Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35. DEFERRED INCOME (CONTINUED)

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

	Opening balance	Additions	Included in non-operating income	Other changes	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	88,641,669	-	(4,400,000)	-	84,241,669	Assets
Subsidy for land use rights in the new zone (Block No. 31836 & 31837)	44,871,120	-	(5,503,732)	-	39,367,388	Assets
Subsidy for developing emerging strategic industries in Anhui Province	40,788,750	-	(1,980,000)	-	38,808,750	Assets
New-zone Thermal Power Plant CCGP system engineering	35,377,972	-	(4,312,000)	-	31,065,972	Assets
EMU steel wheel production line project	37,174,990	-	(2,200,000)	-	34,974,990	Assets
Cold-rolled sheet project	8,534,639	-	(7,612,000)	-	922,639	Assets
Relocation compensation for Transport Company	10,000,000	-	(5,000,000)	-	5,000,000	Assets
Exhaust gas power generation projects of						
Steel blast furnace	10,090,000	-	(660,000)	-	9,430,000	Assets
1# - 4# coke dry quenching	9,774,893	-	(920,480)	-	8,854,413	Assets
Dezincification engineering of zinc dust and mud rotary hearth furnace for 3rd iron plant	9,628,330	-	(880,000)	-	8,748,330	Assets
Environmental subsidy funds for flue gas desulfurisation and 135 mw thermal power	10,000,000	-	-	-	10,000,000	Assets
Hot-rolled sheet project	1,745,361	-	(1,745,361)	-	-	Assets
Exhaust heat power generation by sintering belt cooler of 3rd iron plant	8,319,817	-	(698,720)	-	7,621,097	Assets
National subsidy for slag muck processing and recycling engineering (AD201050406)	2,818,333	-	-	-	2,818,333	Assets
Subsidy for construction by Wuhu Technique	7,147,112	-	(1,453,650)	-	5,693,462	Assets
6# full burning blast furnace gas boiler works	7,534,084	-	(918,280)	-	6,615,804	Assets
Municipal environmental protection subsidies for desulfurisation engineering of 3rd iron plant's sintering flue gas	7,870,000	-	-	-	7,870,000	Assets
5 # 6 # coke dust removal project	12,247,819	-	(363,000)	-	11,884,819	Assets
Fix assets subsidy for thin plate project	16,501,300	17,054,300	(2,106,927)	-	31,448,673	Assets
Flue gas curtailment project for 1st iron plant's blast furnace	6,366,464	-	(324,249)	-	6,042,215	Assets
Subsidy for technology advancement from open-hearth furnace to converter for 1st steel plant	1,099,840	-	(1,099,840)	-	-	Assets
Rolled wheel works	4,068,000	-	(2,112,000)	-	1,956,000	Assets
Pulse clarifier antipollution	5,514,167	-	-	-	5,514,167	Assets
Environmental funds for desulfurisation project of 3rd iron plant's flue gas (BOT)	5,550,000	-	-	-	5,550,000	Assets
National environmental fund for flue gas treatment by 3rd steel plant (AI201150304)	9,375,700	-	-	-	9,375,700	Assets
Subsidies for environmental protection funds of smoke desulfurisation project	5,000,000	-	-	-	5,000,000	Assets

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35. DEFERRED INCOME (CONTINUED)

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

	Opening balance	Additions	Included in non-operating income	Other changes	Closing balance	Related to assets/ income
No.3 Iron general factory thermoelectricity plant						
135MW generators	5,000,000	-	-	-	5,000,000	Assets
New-zone coking field project	6,166,501	-	(926,640)	-	5,239,861	Assets
Comprehensive utilisation of water resources	3,080,550	-	(871,200)	-	2,209,350	Assets
Subsidy for Masteel new-zone CDQ project	600,000	-	-	-	600,000	Assets
Subsidy for material modification of high speed wheel and axle	33,720,000	-	-	-	33,720,000	Assets
Environment protection subsidy for the thermal power plant Denitrification	4,500,000	-	-	-	4,500,000	Assets
Subsidies for environmental protection funds of smoke desulfurisation project No.2 Iron general factory 2# Sintering machine	7,000,000	13,296,887	-	-	20,296,887	Assets
Subsidies for environmental protection funds of smoke desulfurisation project No.1 Iron general factory 3# Sintering machine	3,000,000	-	-	-	3,000,000	Assets
Interest subsidy for rail transit industrialisation project of Masteel	11,121,099	-	(10,271,882)	-	849,217	Assets
Development and reform subsidy	55,000,000	-	(466,400)	-	54,533,600	Assets
Development fund of efficient and economical construction steel technology	12,164,850	-	-	-	12,164,850	Assets
Technology development fund by Ministry of science and technology	19,857,445	-	-	-	19,857,445	Assets
Intelligent manufacturing fund for Ma-Steel Rail Transportation	6,564,032	-	(553,251)	-	6,010,781	Assets
Subsidy for Maanshan railway industry	-	14,000,000	-	-	14,000,000	Assets
Comprehensive utilisation of gas for power generation of a thermal power plant	-	24,790,000	-	-	24,790,000	Assets
Environmental subsidy for biochemical water upgrade project of coke old area upgration project of coke old	-	4,960,000	-	-	4,960,000	Assets
Government subsidy for desulphurisation and denitrification of gases project of a thermal power plant	-	4,800,000	-	-	4,800,000	Assets
Government subsidy for dust elimination of hot mental pouring on converter roof	-	3,600,000	-	-	3,600,000	Assets
Others	59,211,143	21,343,289	(59,600,371)	(2,532,254)	18,421,807	Assets
Total	1,285,164,299	103,844,476	(116,979,983)	(2,532,254)	1,269,496,538	

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

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35. DEFERRED INCOME (CONTINUED)

As of 31 December 2015, liabilities related to government subsidies were as follows:

	Opening balance	Additions	Included in non-operating income	Other changes	Closing balance	Related to assets/ income
Compensation of land purchasing and storage	652,138,319	–	–	–	652,138,319	Income
Technological transformation fund for						
Phase II silicon steel	93,041,669	–	(4,400,000)	–	88,641,669	Assets
Subsidy for land use rights in the new zone (Block No. 31836 & 31837)	50,374,852	–	(5,503,732)	–	44,871,120	Assets
Subsidy for developing emerging strategic industries in Anhui Province	42,768,750	–	(1,980,000)	–	40,788,750	Assets
New-zone Thermal Power Plant CCGP system engineering	39,689,972	–	(4,312,000)	–	35,377,972	Assets
EMU steel wheel production line project	39,374,990	–	(2,200,000)	–	37,174,990	Assets
Cold-rolled sheet project	16,146,639	–	(7,612,000)	–	8,534,639	Assets
Relocation compensation for Transport Company	15,000,000	–	(5,000,000)	–	10,000,000	Assets
Exhaust gas power generation projects of						
Steel blast furnace	10,750,000	–	(660,000)	–	10,090,000	Assets
1# – 4# coke dry quenching	10,695,373	–	(920,480)	–	9,774,893	Assets
Dezincification engineering of zinc dust and mud rotary hearth furnace for 3rd iron plant	10,508,330	–	(880,000)	–	9,628,330	Assets
Environmental subsidy funds for flue gas desulfurisation and 135 MW thermal power	10,000,000	–	–	–	10,000,000	Assets
Hot-rolled sheet project	9,973,361	–	(8,228,000)	–	1,745,361	Assets
Exhaust heat power generation by sintering belt cooler of 3rd iron plant	9,018,537	–	(698,720)	–	8,319,817	Assets
National subsidy for slag muck processing and recycling engineering (AD201050406)	8,617,500	–	(5,799,167)	–	2,818,333	Assets
Subsidy for construction by Wuhu Technique	8,600,762	–	(1,453,650)	–	7,147,112	Assets
6# full burning blast furnace gas boiler works	8,452,364	–	(918,280)	–	7,534,084	Assets
Municipal environmental protection subsidies for desulfurisation engineering of 3rd iron plant's sintering flue gas	7,870,000	–	–	–	7,870,000	Assets
5# 6# coke dust removal project	12,610,819	–	(363,000)	–	12,247,819	Assets
Fix assets subsidy for thin plate project	7,031,000	9,944,300	(474,000)	–	16,501,300	Assets
Flue gas curtailment project for 1st iron plant's blast furnace	6,690,713	–	(324,249)	–	6,366,464	Assets
Subsidy for technology advancement from open-hearth furnace to converter for 1st steel plant	6,284,800	–	(5,184,960)	–	1,099,840	Assets

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35. DEFERRED INCOME (CONTINUED)

As of 31 December 2015, liabilities related to government subsidies are as follows: (continued)

	Opening balance	Additions	Included in non-operating income	Other changes	Closing balance	Related to assets/ income
Rolled wheel works	6,180,000	-	(2,112,000)	-	4,068,000	Assets
Pulse clarifier anti-pollution	5,839,167	-	(325,000)	-	5,514,167	Assets
Environmental funds for desulfurisation project of 3rd iron plant's flue gas (BOT)	5,550,000	-	-	-	5,550,000	Assets
National environmental fund for flue gas treatment by 3rd steel plant (AI201150304)	9,375,700	-	-	-	9,375,700	Assets
Subsidies for environmental protection funds of smoke desulfurisation project	5,000,000	-	-	-	5,000,000	Assets
No.3 Iron general factory thermoelectricity plant 135MW generators	5,000,000	-	-	-	5,000,000	Assets
New-zone coking field project	7,093,141	-	(926,640)	-	6,166,501	Assets
Comprehensive utilisation of water resources	3,951,750	-	(871,200)	-	3,080,550	Assets
Subsidy for Masteel new-zone CDQ project	-	600,000	-	-	600,000	Assets
Subsidy for material modification of high speed wheel and axle	-	33,720,000	-	-	33,720,000	Assets
Environment protection subsidy for the thermal power plant denitrification	-	4,500,000	-	-	4,500,000	Assets
Subsidies for environmental protection funds of smoke desulfurisation project No.2 Iron general factory 2# Sintering machine	-	7,000,000	-	-	7,000,000	Assets
Subsidies for environmental protection funds of smoke desulfurisation project No.1 Iron general factory 3# Sintering machine	-	3,000,000	-	-	3,000,000	Assets
Interest subsidy for rail transit industrialisation project of Masteel	-	25,650,000	(14,528,901)	-	11,121,099	Assets
Development and reform subsidy	-	55,000,000	-	-	55,000,000	Assets
Development fund of efficient and economical construction steel technology	-	12,164,850	-	-	12,164,850	Assets
Technology development fund by Ministry of Science and Technology	-	19,857,445	-	-	19,857,445	Assets
Intelligent manufacturing fund for Ma-Steel Rail Transportation	-	9,000,000	(2,435,968)	-	6,564,032	Assets
Others	62,730,341	6,011,589	(9,073,403)	(457,384)	59,211,143	
Total	1,186,358,849	186,448,184	(87,185,350)	(457,384)	1,285,164,299	

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36. SHARE CAPITAL

31 December 2016

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

31 December 2015

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

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

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

37. CAPITAL RESERVE

31 December 2016

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium	8,338,358,399	-	-	8,338,358,399
Business combination involving entities under common control	(9,290,736)	-	-	(9,290,736)
Others	-	19,659,078	-	19,659,078
	<u>8,329,067,663</u>	<u>19,659,078</u>	<u>-</u>	<u>8,348,726,741</u>

31 December 2015

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

38. OTHER COMPREHENSIVE INCOME

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

	1 January 2015	Increase/ (decrease)	31 December 2015	Increase/ (decrease)	31 December 2016
Change in fair value of available-for- sale financial assets	-	-	-	(803,607)	(803,607)
Exchange differences arising from foreign currency translation	(137,159,480)	(28,291,071)	(165,450,551)	46,990,704	(118,459,847)
	<u>(137,159,480)</u>	<u>(28,291,071)</u>	<u>(165,450,551)</u>	<u>46,187,097</u>	<u>(119,263,454)</u>

Notes to Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

38. OTHER COMPREHENSIVE INCOME (CONTINUED)

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

2016

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

2015

	Amount before tax	Income tax	Amount after tax
Exchange differences arising from foreign currency translation	(28,291,071)	—	(28,291,071)
Less: Recorded in other comprehensive income originally, transferred in and included in current profit or loss	—	—	—
	<u>(28,291,071)</u>	<u>—</u>	<u>(28,291,071)</u>

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

39. SPECIAL RESERVE

2016

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

2015

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

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

40. SURPLUS RESERVES

2016

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Statutory reserve (i)	3,152,880,381	-	-	3,152,880,381
Discretionary surplus reserve (ii)	529,154,989	-	-	529,154,989
Reserve fund (iii)	95,685,328	-	-	95,685,328
Enterprise expansion fund (iii)	<u>65,510,919</u>	<u>-</u>	<u>-</u>	<u>65,510,919</u>
	<u>3,843,231,617</u>	<u>-</u>	<u>-</u>	<u>3,843,231,617</u>

Notes to Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

40. SURPLUS RESERVES (CONTINUED)

2015

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Statutory reserve (i)	3,141,371,281	11,509,100	–	3,152,880,381
Discretionary surplus reserve (ii)	529,154,989	–	–	529,154,989
Reserve fund (iii)	95,271,485	413,843	–	95,685,328
Enterprise expansion fund (iii)	65,660,945	(150,026)	–	65,510,919
	<u>3,831,458,700</u>	<u>11,772,917</u>	<u>–</u>	<u>3,843,231,617</u>

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

In 2016, the Group did not accrue statutory reserve (2015: RMB11,509,100).

- (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 CAS and related regulations to the enterprise expansion fund and the reserve fund. The allocation rates are determined by their respective boards of directors.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

41. ACCUMULATED LOSSES

	2016	2015
(Accumulated losses)/retained profits	(1,368,605,137)	3,451,299,829
Add: Net profit/(loss) attributable to the owners of the parent company	1,228,892,407	(4,804,299,674)
Less: Transfer to surplus reserve	—	11,509,100
Transfer to discretionary surplus reserve	—	—
Transfer to reserve fund	—	413,843
Transfer to enterprise expansion fund	—	(150,026)
Transfer to general reserve	50,855,892	3,832,375
Accumulated losses at the end of year	<u>(190,568,622)</u>	<u>(1,368,605,137)</u>

42. REVENUE AND COST OF SALES

	2016		2015	
	Revenue	Cost of sales	Revenue	Cost of sales
Principal operating income	47,323,785,914	41,607,003,797	44,008,587,535	44,086,048,485
Other operating income	951,314,396	950,483,878	1,100,339,204	1,402,392,067
	<u>48,275,100,310</u>	<u>42,557,487,675</u>	<u>45,108,926,739</u>	<u>45,488,440,552</u>

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

Revenue is stated as follows:

	2016	2015
Sale of products	47,958,420,215	44,901,171,263
Rendering of services	245,269,164	121,856,692
Others	71,410,931	85,898,784
	<u>48,275,100,310</u>	<u>45,108,926,739</u>

Notes to Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

43. TAXES AND SURCHARGES

	2016	2015
City construction and maintenance tax	127,680,294	103,166,959
Education surcharge	90,272,915	73,138,711
Land use tax	121,610,785	—
Vehicle and vessel tax	128,034	—
Real estate tax	58,703,632	—
Stamp tax	20,585,286	—
Others	13,115,462	24,922,376
	432,096,408	201,228,046

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

44. SELLING EXPENSES

	2016	2015
Employee benefits	49,174,129	38,059,285
Transportation fees	584,756,840	544,579,610
Insurance premium	14,999,545	10,773,823
Others	45,852,216	42,447,126
	694,782,730	635,859,844

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45. GENERAL AND ADMINISTRATIVE EXPENSES

	2016	2015
Employee benefits	526,947,185	481,575,855
Other taxes other than taxes and surcharges and income tax	129,161,233	399,170,094
Employee termination benefits	347,468,731	–
Office expenses	280,419,514	283,748,867
Rental fees	57,481,284	64,881,598
Amortisation of intangible assets	45,346,730	40,776,728
Research and development expenses	57,374,638	37,635,638
Depreciation of property, plant and equipment	136,541,889	34,269,997
Travel and entertainment expenses	23,535,483	24,801,396
Maintenance expenses	36,822,717	28,425,184
Auditors' remuneration	5,907,723	5,674,300
Others	133,274,357	137,650,230
	1,780,281,484	1,538,609,887

46. FINANCIAL EXPENSES

	2016	2015
Interest expenses (Note)	896,088,299	1,070,794,132
Less: Interest income	42,161,978	142,535,189
Less: Capitalised interest	7,177,259	13,172,035
Exchange gain	(100,247,410)	(136,909,896)
Others	47,149,324	34,859,427
	793,650,976	813,036,439

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.

* The interest expense of the Group included interest on bank loans that expired within five years, other borrowings' interest, interest on corporate bonds, interest on MTN (medium-term note) and short-term financing bonds and the interest on bank loans that did not need to be repaid within five years.

Notes to Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

46. FINANCIAL EXPENSES (CONTINUED)

	2016	2015
Interest expense:		
Interest on bank loans, other loans, corporate bonds and MTN (medium-term note) repayable within five years	895,080,899	1,070,562,292
Interest on bank loans repayable beyond five years	1,007,400	231,840
	896,088,299	1,070,794,132

47. ASSET IMPAIRMENT LOSS

	2016	2015
Provision for bad debts	35,196,327	37,562,643
Including: Trade receivables	1,589,380	2,638,179
Other receivables	2,986,251	34,924,464
Loans and advances	30,620,696	—
Provision for inventories	990,453,845	1,581,827,336
Provision for fixed assets	38,607,464	—
	1,064,257,636	1,619,389,979

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48. INVESTMENT INCOME

	2016	2015
Investment income from long term equity investments under the equity method	232,820,475	75,538,213
Investment income from the fair-value re-measurement of the newly acquired subsidiary's interests held before acquisition	–	4,160,631
Investment income from available-for-sale financial assets during holding period	40,000	12,994,828
Investment income/(loss) from disposal of available-for-sale financial assets	11,635,767	(48,310)
Investment income from disposal of financial assets measured at fair value through profit or loss	46,900,221	8,429,744
Others	–	(7,349,908)
	291,396,463	93,725,198

* During the current year, the Group's investment income from unlisted and listed companies amounted to RMB291,396,463 and nil, respectively (2015: the investment income from listed companies and unlisted companies amounted to RMB625,118 and RMB93,100,080, respectively).

49. NON-OPERATING INCOME

	2016	2015	Included in non-recurring gains and losses of 2016
Gain on disposal of non-current assets	7,187,676	35,444,537	7,187,676
Including: Gain on disposal of fixed assets	272,493	14,733,331	272,493
Gain on disposal of intangible assets	6,915,183	20,711,206	6,915,183
Government grants	191,502,761	346,238,178	191,502,761
Others	6,512,465	2,377,033	6,512,465
	205,202,902	384,059,748	205,202,902

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49. NON-OPERATING INCOME (CONTINUED)

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

	2016	2015
Government grants related to assets (Note V.35)	116,979,983	87,185,350
Government grants related to income:		
– Tax refund	43,331,736	232,132,582
– Others	31,191,042	26,920,246
	191,502,761	346,238,178

50. NON-OPERATING EXPENSES

	2016	2015	Included in non-recurring gains and losses of 2016
Loss on disposal of non-current assets	58,376,872	2,478,667	58,376,872
Including: Loss on disposal of fixed assets	58,376,872	2,478,667	58,376,872
Public relief donation	726,550	372,800	726,550
Penalty expenditure	1,466,061	1,655,671	1,466,061
Compensation for sales transaction (Note)	22,880,000	12,213,494	22,880,000
Others	1,168,933	817,573	1,168,933
	84,618,416	17,538,205	84,618,416

Note: On 19 August 2016, the London Court of International Arbitration announced the second arbitral result for the arbitration case between the Company and Fushun Shipping Company. The Company paid RMB22,880,000 to Fushun Shipping Company as compensation due to iron ore purchase dispute in 2007.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51. EXPENSES CLASSIFIED BY NATURE

Supplemental information for the Group's cost of sales, selling expenses and general and administrative expenses is presented below by nature:

	2016	2015
Raw materials and consumables used	37,253,413,632	36,654,808,686
Changes in inventories of finished goods and work in progress	(3,176,701,503)	(683,010,602)
Employee benefit	4,160,324,147	3,883,586,650
Depreciation and amortisation	3,443,075,985	3,467,477,556
Transport and inspection fees	1,429,431,321	1,569,008,234
Repair and maintenance	966,185,799	970,844,568
Office expenses	280,419,514	283,748,867
Taxes	129,161,233	399,170,094
Rental	57,481,284	64,881,598
Others	489,760,477	1,052,394,632
	<u>45,032,551,889</u>	<u>47,662,910,283</u>

52. INCOME TAX EXPENSE

	2016	2015
Mainland China:		
*Current income tax expense	115,687,036	47,666,699
Deferred tax (income)/expense	(9,243,667)	312,816,387
*Hong Kong current income tax expense	2,945,143	1,822,979
*Overseas current income tax expense	8,869,975	11,474,111
Overseas deferred income tax (income)/expense	(6,378,253)	4,132,203
	<u>111,880,234</u>	<u>377,912,379</u>

Notes to Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

52. INCOME TAX EXPENSE (CONTINUED)

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

	2016	2015
Profit/(loss) before tax	1,368,575,540	(4,726,572,002)
Tax at the applicable tax rate of 25% (Note)	342,143,885	(1,181,643,001)
Effect of different tax rates of subsidiaries	(11,296,146)	(6,095,186)
Non-deductible expenses	23,615,578	34,566,469
Adjustments in respect of current tax of previous periods	–	181,419
Other tax preference	(79,926,635)	(15,436,489)
Income not subject to tax	(2,652,988)	(3,696,052)
Unrecognised deductible temporary difference and tax losses	174,600,917	1,165,864,998
Write-off of deferred tax assets recognised in prior years	–	401,140,566
Tax losses utilised	(276,399,258)	–
Profits and losses attributable to joint ventures and associates	(58,205,119)	(16,970,345)
Income tax charge at the Group's effective rate	111,880,234	377,912,379
The Group's effective rate	8%	8%

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

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

53. EARNINGS PER SHARE

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

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

	2016	2015
Earnings/(Loss)		
Profit/(loss) attributable to ordinary equity holders of the parent as used in the basic/diluted earnings per share calculations	<u>1,228,892,407</u>	<u>(4,804,299,674)</u>
Number of shares		
Weighted average number of ordinary shares in issue during the year as used in the basic earnings per share calculation	<u>7,700,681,186</u>	<u>7,700,681,186</u>

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

Notes to Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

54. NOTES TO THE STATEMENT OF CASH FLOWS

	2016	2015
Cash received relating to other operating activities:		
Specific subsidies granted by the government	257,811,042	26,920,246
Interest income	42,161,978	—
Government-allocated employee relocation compensation	152,568,484	—
Deposit for bills, credit and guarantee	712,232,872	—
Others	6,512,465	2,377,033
	1,171,286,841	29,297,279
Cash paid relating to other operating activities:		
Logistics expense	183,963,715	176,823,787
Insurance expenses	30,893,025	40,586,383
Packing fees	21,193,416	22,747,742
Flood prevention fund	17,491,568	18,033,433
Environmental improvement fee	48,778,900	67,022,227
Research and development expenses	57,374,638	50,510,285
Bank charges	47,149,324	34,859,426
Others	8,573,329	10,249,852
	415,417,915	420,833,135
Cash received relating to other investing activities:		
Government funding for particular projects	103,844,476	186,448,184

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

55. SUPPLEMENTS TO THE STATEMENT OF CASH FLOWS

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

	2016	2015
Net profit/(loss)	1,256,695,306	(5,104,484,381)
Add: Provisions for bad debts	35,196,327	37,562,643
Provision for inventories	990,453,845	1,581,827,336
Provision for termination benefits	175,125,396	—
Provision for impairment of fixed assets	38,607,464	—
Depreciation of fixed assets	3,377,766,117	3,400,322,203
Amortisation of investment properties	1,708,470	2,063,607
Amortisation of intangible assets	63,601,398	65,091,746
Amortisation of deferred income	(116,979,983)	(87,185,350)
Loss/(gain) on disposal of non-current assets	51,189,196	(32,965,870)
Increase/(decrease) in special reserves	13,595,358	(5,923,249)
Financial expenses	662,543,109	778,177,012
Investment income	(291,396,463)	(93,725,198)
Gain on fair value changes	(4,051,190)	(819,265)
(Increase)/decrease in deferred tax assets	(17,688,238)	317,435,278
Increase/(decrease) in deferred tax liabilities	2,360,679	(486,688)
(Increase)/decrease in inventories	(5,520,020,172)	1,084,654,072
(Increase)/decrease in receivables from operating activities	(7,629,297,320)	2,654,109,348
Increase in payables from operating activities	11,530,451,715	1,259,923,451
Others	—	9,755,358
Net cash flows from operating activities	<u>4,619,861,014</u>	<u>5,865,332,053</u>
Endorsements of bank acceptance bills received from sales of goods or rendering of services	<u>8,112,736,826</u>	<u>1,488,128,608</u>

Notes to Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

(2) Acquisition of subsidiaries and other business units:

	2016	2015
Acquisition price of subsidiaries and other business units	–	170,091,000
Cash and cash equivalents on acquisition of subsidiaries and other units	–	170,091,000
Less: Cash and cash equivalents held by acquired subsidiaries and other operation units	–	96,899,472
	<u>–</u>	<u>96,899,472</u>
Net cash paid on acquisition of subsidiaries and other operating units	<u>–</u>	<u>73,191,528</u>

(3) Cash and cash equivalents

Net movement of cash and cash equivalents:

	2016	2015
Closing balance of cash	4,324,131,687	3,546,410,358
Less: Opening balance of cash	3,546,410,358	2,709,836,299
Add: Closing balance of cash equivalents	–	–
Less: Opening balance of cash equivalents	–	–
	<u>–</u>	<u>–</u>
Net increase in cash and cash equivalents	<u>777,721,329</u>	<u>836,574,059</u>
	31 December 2016	31 December 2015
Cash		
Include: Cash on hand	90,515	138,929
Balances in banks without restriction	<u>4,324,041,172</u>	<u>3,546,271,429</u>
Ending balance of cash and cash equivalents	<u>4,324,131,687</u>	<u>3,546,410,358</u>

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

56. DIVIDEND*

	31 December 2016	31 December 2015
Proposed final dividend	<u>-</u>	<u>-</u>

The board of directors did not recommend the payment of any dividends for the year ended 31 December 2016.

57. RESTRICTED ASSETS

	31 December 2016	31 December 2015	
Cash and bank balances (Note V.1)	987,969,354	1,596,301,124	(i)
Bills receivable (Note V.3)	738,206,842	1,277,158,488	(ii)
Inventories (Note V.7)	<u>-</u>	<u>10,859,823</u>	(iii)
	<u>1,726,176,196</u>	<u>2,884,319,435</u>	

(i) As of 31 December 2016, the Group's cash and bank balances amounting to RMB987,969,354 (31 December 2015: RMB1,596,301,124) had been pledged to banks, including cash deposits as collateral amounting to RMB493,121,436 (31 December 2015: RMB1,198,860,855) pledged as security for trade facilities and performance bonds, and no time deposits had been pledged to banks to issue letters of credit for current year (31 December 2015: USD1,000,000, equivalent to RMB6,493,453), and mandatory reserves with the central bank of RMB494,847,918 (31 December 2015: RMB390,946,816).

(ii) As of 31 December 2016, the Company had bills of RMB738,206,842 (31 December 2015: RMB1,120,157,322) in the Ma'an Shan Branch of Industrial and Commercial Bank of China pledged as security to obtain bank long-term loans due within one year of RMB600,000,000 (31 December 2015: RMB970,000,000). The Group had no bank acceptance bills pledged as security to banks to issue bank acceptance bills (31 December 2015: RMB157,001,166).

(iii) As of 31 December 2016, the Group had no restricted inventories (31 December 2015: RMB10,859,823).

Notes to Financial Statements (Continued)

31 December 2016
Renminbi Yuan

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

58. MONETARY ITEMS DENOMINATED IN FOREIGN CURRENCIES

	31 December 2016			31 December 2015		
	Original currency	Exchange rate	RMB	Original currency	Exchange rate	RMB
Cash and bank balances						
HKD	2,584,446	0.8945	2,311,787	5,695,550	0.8378	4,771,732
USD	249,525,036	6.9370	1,730,955,175	391,718,720	6.4936	2,543,664,680
EUR	17,340,991	7.3068	126,707,153	12,579,765	7.0952	89,255,949
JPA	3,311	0.0596	197	24,050	0.0539	1,296
AUD	15,816,608	5.0157	79,331,361	10,144,811	4.7276	47,960,608
CAD	1,226,862	5.1406	6,306,807	1,476,774	4.6814	6,913,370
GBP	1,389	8.5094	11,820	991	9.6159	9,529
			1,945,624,300			2,692,577,164
Trade receivables						
USD	23,181,111	6.9370	160,807,367	13,167,430	6.4936	85,504,023
EUR	9,366,726	7.3068	68,440,794	9,545,274	7.0952	67,725,628
CAD	172,568	5.1406	887,103	95,316	4.6814	446,212
AUD	5,535,040	5.0157	27,762,100	5,489,661	4.7276	25,952,921
HKD	5,306,863	0.8945	4,746,989	-	-	-
ZAR	15,097,946	0.5083	7,674,286	-	-	-
			270,318,639			179,628,784
Other receivables						
HKD	7,265,781	0.8945	6,499,241	328,589	0.8378	275,292
EUR	1,165,632	7.3068	8,517,040	1,645,122	7.0952	11,672,470
AUD	4,019	5.0157	20,158	23,244	4.7276	109,888
			15,036,439			12,057,650
Account payables						
GBP	-	-	-	1,520	9.6159	14,616
AUD	60,135	5.0157	301,619	39,721	4.7276	187,785
USD	7,012	6.9370	48,642	395,445	6.4936	2,567,862
EUR	12,798,731	7.3068	93,517,768	7,408,245	7.0952	52,562,980
HKD	47,251,614	0.8945	42,266,569	140,665,035	0.8378	117,849,166
			136,134,598			173,182,409

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

58. MONETARY ITEMS DENOMINATED IN FOREIGN CURRENCIES (CONTINUED)

	31 December 2016			31 December 2015		
	Original currency	Exchange rate	RMB	Original currency	Exchange rate	RMB
Other payables						
AUD	208,721	5.0157	1,046,882	3,080,622	4.7276	14,563,949
HKD	81,210,639	0.8945	72,642,917	181,851,088	0.8378	152,354,842
EUR	1,862,155	7.3068	13,606,394	1,674,790	7.0952	11,882,970
			87,296,193			178,801,761
Short-term loans						
USD	219,672,148	6.9370	1,523,865,691	641,071,173	6.4936	4,162,859,769
EUR	29,868,315	7.3068	218,241,804	–	–	–
			1,742,107,495			4,162,859,769
Long-term loans due within one year						
USD	7,360,000	6.9370	51,056,320	7,360,000	6.4936	47,792,896
Long-term loans						
USD	22,080,000	6.9370	153,168,960	29,440,000	6.4936	191,171,584

Notes to Financial Statements

VI. CHANGE IN THE SCOPE OF CONSOLIDATION

1. NEWLY ESTABLISHED SUBSIDIARY

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

	Date of establishment	Registered capital	Percentage of equity	Investment form	Capital paid as of year end
Masteel America	February 2016	USD500,000	100%	Cash	USD500,000

VII. INTERESTS IN OTHER ENTITIES

1. INTERESTS IN SUBSIDIARIES

Details of the subsidiaries are as follows:

Name of investee	Place of operation	Place of registration	Business nature	Paid-in capital	Percentage of equity (%)	
					Direct	Indirect
Subsidiaries acquired by establishment or investment						
Anhui Masteel K.Wah New Building Materials Co., Ltd. (New Build Masteel K. Wah.)	Anhui, PRC	Anhui, PRC	Manufacturing	USD8,389,000	70	–
Ma Steel (Wuhu)	Anhui, PRC	Anhui, PRC	Manufacturing	RMB35,000,000	70	27.3
Ma Steel (Cihu) Processing and Distribution Co., Ltd. ("Ma Steel (Cihu)")(Note 1)	Anhui, PRC	Anhui, PRC	Manufacturing	RMB30,000,000	92	–
Ma Steel (Guangzhou) Processing and Distribution Co., Ltd. ("Ma Steel (Guangzhou)")	Guangdong, PRC	Guangdong, PRC	Manufacturing	RMB120,000,000	66.66	–
Ma Steel (HK)	Hong Kong, PRC	Hong Kong, PRC	Manufacturing	HKD260,000,000	91	–
Holly Industrial	Anhui, PRC	Anhui, PRC	Manufacturing	RMB30,000,000	71	26.39
Huayang Equipment	Anhui, PRC	Anhui, PRC	Manufacturing	RMB1,000,000	90	–
Ma Steel (Jinhua) Processing and Distribution Co., Ltd. ("Ma Steel (Jinhua)")	Zhejiang, PRC	Zhejiang, PRC	Manufacturing	RMB120,000,000	75	–
MG Trading	Germany	Germany	Trading	EUR153,388	100	–
			Mine production			
Ma Steel (Australia)	Australia	Australia	and sale	AUD21,737,900	100	–
Ma Steel (Hefei)	Anhui, PRC	Anhui, PRC	Manufacturing	RMB2,500,000,000	71	–
Ma Steel (Hefei) Processing and Distribution Co., Ltd. ("Ma Steel (Hefei) Processing")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB120,000,000	61	25.48

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. INTERESTS IN SUBSIDIARIES (CONTINUED)

Name of investee	Place of operation	Place of registration	Business nature	Paid-in capital	Percentage of equity (%)	
					Direct	Indirect
Subsidiaries acquired by establishment or investment <i>(continued)</i>						
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	–
Anhui Chang Jiang Iron and Steel Trading Co., Ltd., Heifei ("Chang Jiang Iron and Steel, Hefei")	Anhui, PRC	Anhui, PRC	Trading	RMB30,000,000	–	100
Anhui Chang Jiang Iron and Steel Trading Co., Ltd., Nanjing ("Chang Jiang Iron and Steel, Nanjing")	Jiangsu, PRC	Jiangsu, PRC	Trading	RMB30,000,000	–	100

Notes to Financial Statements (Continued)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. INTERESTS IN SUBSIDIARIES (CONTINUED)

Name of investee	Place of operation	Place of registration	Business nature	Paid-in capital	Percentage of equity (%)	
					Direct	Indirect
Subsidiaries acquired by establishment or investment <i>(continued)</i>						
Ma'anshan Chang Jiang Iron and Steel Metal Trading Co., Ltd. ("Chang Jiang Iron and Steel Metal Trading")	Anhui, PRC	Anhui, PRC	Trading	RMB30,000,000	–	100
MG-VALDUNES	French	French	Manufacturing	EUR 40,200,000	100	–
Ma'anshan Oubang Color-coated Technology Co., Ltd. ("Masteel Oubang Color-coated")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB50,000,000	67	–
Masteel America (Note 2)	USA	USA	Service industry	USD500,000	100	–
Subsidiaries acquired 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 (Note 3)	Anhui, PRC	Anhui, PRC	Manufacturing	RMB360,000,000	100	–
Subsidiary acquired under common control						
Masteel Financial	Anhui, PRC	Anhui, PRC	Financial services	RMB1,000,000,000	91	–

Note 1: Ma Steel (Wuhu) transferred 92% of equity interests of Ma Steel (Cihu) to the Company in December 2016. As a result, Ma Steel (Cihu) became the direct holding subsidiary of the Company.

Note 2: For the information of the newly established subsidiary, please refer to Note VI.1.

Note 3: The Company injected capital of RMB60,000,000 to Ma-steel Rail Transportation in August 2016.

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. INTERESTS IN SUBSIDIARIES (CONTINUED)

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

	31 December 2016	31 December 2015
The proportion of equity held by non-controlling shareholders:		
Ma Steel (Hefei)	29%	29%
Anhui Chang Jiang Iron and Steel	45%	45%
Masteel Financial	9%	9%
	2016	2015

Profit attributable to non-controlling shareholders:

Ma Steel (Hefei)	(157,681,514)	(186,736,219)
Anhui Chang Jiang Iron and Steel	133,019,817	(98,134,232)
Masteel Financial	9,765,701	9,668,950
	2016	2015

Dividends paid to non-controlling shareholders:

Ma Steel (Hefei)	—	—
Anhui Chang Jiang Iron and Steel	—	11,426,163
Masteel Financial	—	—
	31 December 2016	31 December 2015

Cumulative balances of non-controlling interests at the end of the reporting period:

Ma Steel (Hefei)	619,631,673	774,849,514
Anhui Chang Jiang Iron and Steel	1,128,514,595	993,647,826
Masteel Financial	142,729,220	133,042,997

Notes to Financial Statements (Continued)

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 elimination.

	Ma Steel (Hefei)	Anhui Chang Jiang Iron and Steel	Masteel Financial
2016			
Current assets	781,451,671	2,015,885,136	3,190,666,377
Non-current assets	3,952,650,687	4,314,065,378	5,833,102,023
Total assets	<u>4,734,102,358</u>	<u>6,329,950,514</u>	<u>9,023,768,400</u>
Current liabilities	(1,912,013,349)	(3,794,758,309)	(7,437,233,334)
Non-current liabilities	(685,428,067)	(27,381,995)	(654,837)
Total liabilities	<u>(2,597,441,416)</u>	<u>(3,822,140,304)</u>	<u>(7,437,888,171)</u>
Revenue	2,967,652,002	8,131,356,505	183,656,551
Net (loss)/profit	(543,729,359)	295,599,594	108,507,791
Total comprehensive income	<u>(543,729,359)</u>	<u>295,599,594</u>	<u>108,507,791</u>
Net cash flows from operating activities	<u>273,032,455</u>	<u>317,460,887</u>	<u>148,934,820</u>

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. INTERESTS IN SUBSIDIARIES (CONTINUED)

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

Notes to Financial Statements (Continued)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. INTERESTS IN JOINT VENTURES AND ASSOCIATES

	Place of operation	Place of registration	Business nature	Registered capital	Percentage of equity (%)		Accounting method
					Directly	Indirectly	
Joint ventures							
BOC-Ma Steel	Anhui, PRC	Anhui, PRC	Manufacturing	RMB468,000,000	50	-	Equity method
MASTEEL-CMI	Anhui, PRC	Anhui, PRC	Service industry	RMB1,000,000	50	-	Equity method
Mascometal (Note1)	Anhui, PRC	Anhui, PRC	Manufacturing	EUR32,000,000	66	-	Equity method
Associates							
Henan JinMa Energy	Henan, PRC	Henan, PRC	Manufacturing	RMB400,000,000	36	-	Equity method
Shenglong Chemical	Shandong, PRC	Shandong, PRC	Manufacturing	RMB568,800,000	32	-	Equity method
Shanghai Iron and Steel Electronic	Shanghai, PRC	Shanghai, PRC	Manufacturing	RMB20,000,000	20	-	Equity method
Xinchuang Economize Resource (Note 2)	Anhui, PRC	Anhui, PRC	Service industry	RMB122,381,990	16.34	-	Equity method
Anhui Linhuan Chemical (Note 3)	Anhui, PRC	Anhui, PRC	Manufacturing	RMB600,000,000	12	-	Equity method
Ma-Steel OCI Chemical	Anhui, PRC	Anhui, PRC	Manufacturing	USD47,125,000	40	-	Equity method

Note 1: In 2016, the Company jointly established Mascometal with a foreign invested enterprise (FIE), Asco Industries Ltd., in which the Company and Asco Industries Ltd. hold 75% and 25% equity interests respectively, according to the requirements of the investment contract and the Articles of Association. The Company designated three directors in the Board of Directors and Asco Industries Ltd. designated one director. According to the Articles of Association of Mascometal, certain important financial and operating decisions must be approved by all the directors. According to the requirements of the Articles of Associate as above, the directors deemed that the Company was unable to exercise control over Mascometal, but able to exercise jointly control over Mascometal with Asco Industries Ltd. Therefore, the equity investment in Mascometal was accounted for as a joint venture, and Mascometal had not been included in the consolidation scope of the Group.

Note 2: As of 31 December 2016, the Group held 16.34% of equity interests of Xinchuang Economize Resource. The directors deemed that the Company was able to exercise significant influence over Xinchuang Economize Resource although the equity interests in Xinchuang Economize Resource holding by the Company was less than 20%, as according to the requirements of the Articles of Association of Xinchuang Economize Resource, the Company designated one director and one supervisor to Xinchuang Economize Resource. Thus, the equity investment in Xinchuang Economize Resource was accounted as an associate.

Note 3: As of 31 December 2016, the Group held 12% equity interests of Anhui Linhuan Chemical. The directors deemed that the Company was able to exercise significant influence over Anhui Linhuan Chemical although the equity interests in Anhui Linhuan Chemical holding by the Company was less than 20%, as according to the requirement of the Articles of Association of Anhui Linhuan Chemical, the Company designated one director to Anhui Linhuan Chemical. Thus, the equity investment in Anhui Linhuan Chemical was accounted as an associate.

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.

	2016	2015
Current assets	428,661,283	345,030,431
Including: Cash and cash equivalents	357,837,175	284,346,880
Non-current assets	299,955,412	343,776,987
Total assets	728,616,695	688,807,418
Current liabilities	90,580,560	56,745,837
Non-current liabilities	—	—
Total liabilities	90,580,560	56,745,837
Non-controlling interests	—	—
Equity attributable to the parent company	638,036,135	632,061,581
The Group's share of net assets	319,018,068	316,030,791
Adjustment	—	—
The carrying value of the investment	319,018,068	316,030,791
Revenue	559,537,585	585,082,278
Financial expenses – Interest income	6,036,712	5,941,620
Financial expenses – Interest expenses	—	—
Income tax expenses	54,639,719	52,750,173
Net profit	166,383,868	156,231,473
Other comprehensive income	—	—
Total comprehensive income	166,383,868	156,231,473
Dividends received	79,000,000	73,500,000

Notes to Financial Statements (Continued)

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 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	Shenglong Chemical
2016		
Current assets	1,177,771,242	1,201,094,921
Non-current assets	1,101,444,297	1,569,224,908
Total assets	2,279,215,539	2,770,319,829
Current liabilities	868,068,750	1,803,456,004
Non-current liabilities	557,179,565	—
Total liabilities	1,425,248,315	1,803,456,004
Non-controlling interests	31,199,473	—
Equity attributable to the parent company	822,767,751	966,863,825
The Group's share of net assets	296,196,390	309,396,424
Adjustment	—	—
The carrying value of the investment	296,196,390	309,396,424
Revenue	3,411,084,023	2,715,372,259
Income tax expenses	68,616,802	60,307,248
Net profit	207,108,797	214,207,608
Other comprehensive income	—	—
Total comprehensive income	207,108,797	214,207,608
Dividends received	25,560,000	—

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. INTERESTS IN JOINT VENTURES AND ASSOCIATES (CONTINUED)

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

Notes to Financial Statements (Continued)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. INTERESTS IN JOINT VENTURES AND ASSOCIATES (CONTINUED)

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

	2016	2015
Joint ventures		
The carrying value of the Group's investments	53,825,470	539,342
Total shown as below (calculated according to the respective equity holding percentage)		
Net loss	(5,335)	(3,327)
Other comprehensive income	—	—
Total comprehensive income	<u>(5,335)</u>	<u>(3,327)</u>
	2016	2015
Associates		
The carrying value of the Group's investments	261,339,961	229,782,643
Total shown as below (calculated according to the respective equity holding percentage)		
Net profit	7,861,488	7,085,666
Other comprehensive income	—	—
Total comprehensive income	<u>7,861,488</u>	<u>7,085,666</u>

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:

31 December 2016

Financial assets

	Financial assets at fair value through profit or loss		Loans and receivables	Available-for-sale financial assets	Total
	Initial recognition	Held for trading			
Cash	-	-	5,312,101,041	-	5,312,101,041
Financial assets at fair value through profit or loss	555,322,261	-	-	-	555,322,261
Bills receivable	-	-	3,608,459,121	-	3,608,459,121
Trade receivables	-	-	859,929,107	-	859,929,107
Other receivables	-	-	98,676,949	-	98,676,949
Interest receivable	-	-	4,044,939	-	4,044,939
Financial assets purchased under agreements to resell	-	-	230,047,000	-	230,047,000
Loans and advances to customers	-	-	1,555,212,556	-	1,555,212,556
Available-for-sale financial assets	-	-	-	577,947,698	577,947,698
	<u>555,322,261</u>	<u>-</u>	<u>11,668,470,713</u>	<u>577,947,698</u>	<u>12,801,740,672</u>

Financial liabilities

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

Notes to Financial Statements (Continued)

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:

31 December 2015

Financial assets

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

Financial liabilities

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

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

2. OFFSETTING OF FINANCIAL INSTRUMENTS

In 2016, there were no offsetting arrangements for account receivables (2015: Nil).

3. TRANSFER OF FINANCIAL ASSETS

Financial assets transferred but not yet fully derecognised

As of 31 December 2016, the Group endorsed (but not yet fully derecognised) bank acceptance bills to its suppliers with a carrying amount of RMB156,827,864 for settlement of account payables, and there was no bank acceptance bill discounted to banks which was not derecognised. As of 31 December 2016, their maturity period ranged from 1 to 12 months. Pursuant to the relevant provisions of “Law of Negotiable Instruments”, the holders of commercial instruments shall have the right of recourse against the Group (“Continuing Involvement”) if relevant acceptance bank defaults. As the Group was of the opinion that the Group had retained substantially all their risks and rewards, including the default risk associated, the Group continued to recognise them and the settled accounts payable or short-term borrowings associated therewith. After the endorsement or discount, the Group no longer reserved the rights to use them, including the rights to sell, transfer or pledge to any other third party. As of 31 December 2016, the carrying amount of accounts payable settled by the Group through them amounted to RMB156,827,864 (31 December 2015: RMB132,410,064), and there were no short term loans which were secured by bills receivable (31 December 2015: RMB111,192,600).

Transferred financial assets fully derecognised but with continuing involvement

As to 31 December 2016, the Group endorsed (and fully derecognised) bank acceptance bills to its suppliers with a carrying amount of RMB5,196,770,076 (31 December 2015: RMB1,488,128,608) for settlement of account payables, and there was no bank acceptance bill discounted to banks which was fully derecognised (31 December 2015: RMB404,284,634). As of 31 December 2016, their maturity period ranged from 1 to 12 months. Pursuant to the relevant provisions of “Law of Negotiable Instruments”, the holders of commercial instruments shall have the right of recourse against the Group (“Continuing Involvement”) if relevant acceptance bank defaults. As the Group was of the opinion that the Group had transferred substantially all their risks and rewards, the Group had derecognised them and then settled account payables associated therewith.

During the year of 2016, no gain or loss was recognised in the date of transfer. No income or expense was recognised for the current year or on an accumulative basis as a result of the Group’s Continuing Involvement in derecognised financial assets. Endorsements were incurred basically evenly during the year.

Notes to Financial Statements (Continued)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. FINANCIAL INSTRUMENTS RISK

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

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

Credit risk

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

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

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Credit risk is managed in accordance with customer, counterparty, geographical region and industry intensively. At the end of the reporting period, the Group had a certain concentration of credit risk as 13% (2015: 21%) and 29% (2015: 43%) of the Group's trade receivables were due from the Group's largest customer and five largest customers in terms of trade receivables respectively. The Group did not hold any collateral or credit enhancements for the balance of trade receivables.

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

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. FINANCIAL INSTRUMENTS RISK (CONTINUED)

Credit risk (continued)

As of 31 December 2015 and 2016, the aging analysis of the Group's financial assets that are not considered to be impaired is as follows:

31 December 2016

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

31 December 2015

	Total	Neither overdue nor impaired	Overdue	
			Less than six months	Over six months
Trade receivables	796,986,661	494,583,497	221,067,740	81,335,424
Bills receivable	4,689,129,290	4,689,129,290	-	-
Other receivables	190,348,070	151,306,871	29,028,874	10,012,325
Available-for-sale financial assets	128,934,410	128,934,410	-	-
Interest receivable	1,600,176	1,600,176	-	-
Loans and advances to customers	732,913,869	732,913,869	-	-

As of 31 December 2016, 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 2016.

Notes to Financial Statements (Continued)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. FINANCIAL INSTRUMENTS RISK (CONTINUED)

Liquidity risk

The Group applies a liquidity planning tool to manage liquidity risk of funding shortfalls, which takes both maturity of financial instruments and estimated operating cash flows of the Group into consideration. The Group's aim is to balance the sustainability and flexibility of the financing through interest-bearing loans and other instruments. The Group's policy is that no more than 80% of the borrowings should be due within 12 months according to the book value in the financial statements. As of 31 December 2016, 76% of the Group's debts were due within 12 months (31 December 2015: 59%).

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

31 December 2016

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

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. FINANCIAL INSTRUMENTS RISK (CONTINUED)

Liquidity risk (continued)

31 December 2015

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

Market risk

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in market interest rates, with all other variables held constant, of the Group's net profit/(loss) (through the impact on floating rate borrowings).

Notes to Financial Statements (Continued)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. FINANCIAL INSTRUMENTS RISK (CONTINUED)

Market risk (continued)

Interest rate risk (continued)

	Increase/ (decrease) in basis points	Increase/ (decrease) in net profit
2016		
RMB	50	(37,553,708)
USD	50	(965,033)
EUR	50	(358,115)
RMB	(50)	37,553,708
USD	(50)	965,033
EUR	(50)	358,115
2015		
RMB	50	(27,945,438)
USD	50	(2,809,479)
RMB	(50)	27,945,438
USD	(50)	2,809,479

Exchange rate risk

The Group faces transactional foreign currency risk. This risk arises from the sales and purchases carried out by operating units which were denominated in currencies other than its functional currencies.

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

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. FINANCIAL INSTRUMENTS RISK (CONTINUED)

Market risk (continued)

Exchange rate risk (continued)

The carrying amounts and related maximum exposure to foreign currency risk of Group's cash, trade receivables, other receivables, short term loans, account payables, other payables and long term loans are stated in Notes V.1, 4, 6, 21, 23, 29, 30, 33 to the financial statements, respectively.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the exchange rates of the USD, EUR, JPY, AUD, HKD, CAD, GBP and ZAR 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).

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in net profit	Increase/ (decrease) in equity (Note)
2016			
Depreciation of RMB to USD	1%	(1,209,031)	(29,008)
Depreciation of RMB to EUR	1%	(341,902)	(1,340,107)
Depreciation of RMB to JPY	1%	(1)	–
Depreciation of RMB to AUD	1%	–	(1,870,414)
Depreciation of RMB to HKD	1%	(99)	(1,752,142)
Depreciation of RMB to CAD	1%	(53,954)	–
Depreciation of RMB to GBP	1%	(89)	–
Depreciation of RMB to ZAR	1%	(57,553)	–
Appreciation of RMB to USD	(1%)	1,209,031	29,008
Appreciation of RMB to EUR	(1%)	341,902	1,340,107
Appreciation of RMB to JPY	(1%)	1	–
Appreciation of RMB to AUD	(1%)	–	1,870,414
Appreciation of RMB to HKD	(1%)	99	1,752,142
Appreciation of RMB to CAD	(1%)	53,954	–
Appreciation of RMB to GBP	(1%)	89	–
Appreciation of RMB to ZAR	(1%)	57,553	–

Notes to Financial Statements (Continued)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. FINANCIAL INSTRUMENTS RISK (CONTINUED)

Market risk (continued)

Exchange rate risk (continued)

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

Note: Except for the surplus reserve.

5. CAPITAL MANAGEMENT

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

The Group manages its capital structure and makes adjustments according to changes in economic conditions and the risk characteristics of the relevant assets. In order to maintain or adjust the capital structure, the Group may adjust the distribution of profits to shareholders, return capital to shareholders or issue new shares. The Group is not subject to externally imposed capital requirements constraints. For the years ended 31 December 2016 and 2015, the capital management objectives, policies or procedures of the Group did not change.

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

5. CAPITAL MANAGEMENT (CONTINUED)

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, bills payable, bonds payable, account payables accrued, payroll, interest payable, dividend payable and other payables, minus cash. Capital refers to total capital attributable to owners of the parent company. The Group's gearing ratio at the end of the reporting period was as follows:

	31 December 2016	31 December 2015
Customer deposits	3,708,225,021	1,901,390,488
Repurchase agreements of financial assets	596,565,698	—
Short-term loans	6,942,952,420	6,791,359,472
Bills payable	3,584,228,362	5,343,906,398
Account payables	6,668,807,923	6,144,664,281
Payroll and benefits payable	550,444,683	274,614,723
Interest payable	107,691,398	150,829,308
Dividend payable	8,713,584	6,525,534
Other payables	1,912,575,078	1,258,463,513
Other current liabilities	2,273,058,356	—
Non-current liabilities due within one year	3,211,056,320	5,084,859,415
Long-term loans	5,163,168,960	6,655,171,584
Bonds payable	3,987,666,667	3,979,666,667
Long-term employee benefits payable	159,173,203	28,857,389
Less: Cash and bank balances	<u>5,312,101,041</u>	<u>5,142,711,482</u>
Net liabilities	<u>33,562,226,632</u>	<u>32,477,597,290</u>
Capital attributable to owners of the parent company	<u>19,764,171,955</u>	<u>18,455,838,015</u>
Adjusted capital	<u>19,764,171,955</u>	<u>18,455,838,015</u>
Capital and net liabilities	<u>53,326,398,587</u>	<u>50,933,435,305</u>
Gearing ratio	<u>63%</u>	<u>64%</u>

Notes to Financial Statements (Continued)

IX. DISCLOSURE OF FAIR VALUE

1. FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

31 December 2016

	Inputs used by fair value measurement			Total
	Quoted prices	Significant	Significant	
	in active	observable	unobservable	
	markets	inputs	inputs	
	Level 1	Level 2	Level 3	
Recurring fair value measurement for:				
Financial assets at fair value through				
profit or loss	555,322,261	-	-	555,322,261
Available-for-sale financial assets--				
investments in debt instruments	451,225,538	-	-	451,225,538

31 December 2015

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

IX. DISCLOSURE OF FAIR VALUE (CONTINUED)

2. FINANCIAL ASSETS AND LIABILITIES DISCLOSED AT FAIR VALUE

31 December 2016

	Inputs used by fair value measurement			Total
	Quoted prices	Significant	Significant	
	in active	observable	unobservable	
	markets	inputs	inputs	
	Level 1	Level 2	Level 3	
Long-term loans	-	5,490,140,427	-	5,490,140,427
Bonds payable	-	4,086,113,423	-	4,086,113,423

31 December 2015

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

3. VALUATION OF FAIR VALUE

Fair value of financial instruments

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

	Carrying amounts		Fair values	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Financial liabilities				
Long-term loans	5,163,168,960	6,655,171,584	5,490,140,427	6,475,332,986
Bonds payable	3,987,666,667	3,979,666,667	4,086,113,423	3,976,000,000

Notes to Financial Statements (Continued)

IX. DISCLOSURE OF FAIR VALUE (CONTINUED)

3. VALUATION OF FAIR VALUE (CONTINUED)

Fair value of financial instruments *(continued)*

Management had assessed the fair value of cash, bills receivable, account receivables, interest receivable, other receivables, financial assets purchased under agreements to resell, bills payable, account payables, interest payable, dividend payable, other payables, loans and advances to customers, customer deposits, repurchase agreements, short term loans, non-current liabilities due within one year and other non-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 and medium-term note payable, in which the market return rate of other financial instruments with similar contract terms, credit risk, remaining maturity and yield characteristics is used as the discount rate. As of 31 December 2016, the default risk for the long term loans was evaluated as not significant for corporate bonds payable, quoted market prices were adopted to determine their fair value.

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

1. PARENT COMPANY

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

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 OF THE GROUP

Details of associates and joint ventures of the Group are stated in Note VII.2 to the financial statements.

4. OTHER RELATED PARTIES

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

Notes to Financial Statements (Continued)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. OTHER RELATED PARTIES (CONTINUED)

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

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

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

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

(1) Purchases of ore from related parties

	Note	2016	2015
The Holding	(i)	2,562,984,067	2,245,530,588
Ma Steel International Trade and Economic Co., Ltd.	(i)	43,628,143	201,182,139
Tongling Yuanda Co., Ltd.	(i)	16,723,217	58,983,607
Anhui Masteel Luo He Mining Co., Ltd.	(i)	1,815,419	7,964,460
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	(i)	87,370,671	—
Maanshan Iron & Steel Group Mining Co., Ltd.	(i)	171,444,673	—
		<u>2,883,966,190</u>	<u>2,513,660,794</u>

- (i) The terms for the purchases of iron ore from the Holding were determined in accordance with an agreement dated 10 September 2015 entered into between the Company and the Holding. The agreement stipulated that the price should be determined based on the Platts Index. The Group purchased ore from Tongling Yuanda Co., Ltd., Ma Steel International Trade and Economic Co., Ltd., and Anhui Masteel Luo He Mining Co., Ltd., and the price was subject to negotiation according to market prices.

Notes to Financial Statements (Continued)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

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

(2) Fees paid for labour, logistics and other services

	Note	2016	2015
The Holding	(ii)	91,109,831	75,259,657
Masteel Refractory Materials Co., Ltd.	(ii)	673,010,112	523,732,813
Xinchuang Economize Resource	(ii)	394,361,735	271,977,349
Masteel Automobile Transportation Service Co., Ltd.	(ii)	215,856,439	209,864,614
Masteel Heavy Machinery Manufacturing Co., Ltd.	(ii)	267,864,102	205,379,949
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(ii)	170,311,795	146,979,560
Masteel Automation and Information Technology Co., Ltd.	(ii)	92,120,193	71,562,326
Masteel Engineering Technology (Group) Co., Ltd.	(ii)	398,832,280	406,968,817
Masteel Transportation Equipment Manufacturing Co., Ltd.	(ii)	75,670,153	64,823,345
Ma Steel International Trade and Economic Co., Ltd.	(ii)	36,686,520	87,392,730
Maanshan Gang Chen Industry Co., Ltd.	(ii)	5,314,444	4,666,849
Others	(ii)	247,675,539	374,050,176
		<u>2,668,813,143</u>	<u>2,442,658,185</u>

- (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.

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

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

(3) Agency fees paid to related parties

	Note	2016	2015
Maanshan Gang Chen Industry Co., Ltd.	(iii)	2,005,176	2,558,962
Masteel Shen Ma Metal Co., Ltd.	(iii)	2,320	67,986
Ma Steel International Trade and Economic Co., Ltd.	(iii)	46,972	215,029
Shanghai Masteel International Trade and Economic Co., Ltd.	(iii)	94,058	81,617
		<u>2,148,526</u>	<u>2,923,594</u>

(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	2016	2015
The Holding	(iv)	<u>41,599,065</u>	<u>48,540,000</u>

(iv) The Holding leased a building to the Group and the rental was determined by the terms of mutually agreed between the Group and the Holding.

Notes to Financial Statements (Continued)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

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

(5) Purchases of fixed assets and construction services

	Note	2016	2015
Xinchuang Economize Resource	(iii)	69,867,835	198,870,368
Masteel Engineering Technology (Group) Co., Ltd.	(iii)	354,895,467	334,450,389
Masteel Automation and Information Technology Co., Ltd.	(iii)	51,137,271	19,601,634
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(iii)	5,946,815	8,372,508
Masteel Transportation Equipment Manufacturing Co., Ltd.	(iii)	1,125,003	3,581,034
Masteel Heavy Machinery Manufacturing Co., Ltd.	(iii)	9,180,268	20,574,500
Maanshan Masteel Electric Repair Co., Ltd.	(iii)	607,479	—
Others		24,270	5,963,013
		492,784,408	591,413,446

(iii) The transactions with the Holding and its subsidiaries were conducted on terms of mutually agreed according to market prices between the Group and the related parties.

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

	Note	2016	2015
The Holding	(iii)	6,921,945	3,543,613
Masteel Heavy Machinery Manufacturing Co., Ltd.	(iii)	18,789,192	27,568,934
Xinchuang Economize Resource	(iii)	137,550,678	66,637,669
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	(iii)	6,436	116,144
Ma Steel Powder Metallurgy Co., Ltd.	(iii)	12,980,730	12,630,013
Masteel Refractory Materials Co., Ltd.	(iii)	7,541,308	8,406,103
Masteel Transportation Equipment Manufacturing Co., Ltd.	(iii)	2,100,497	3,067,278
Maanshan Jia Hua Commodity Concrete Co., Ltd.	(iii)	485,730	3,552,094
Maanshan Gang Chen Industry Co., Ltd.	(iii)	898,078	1,291,525
Masteel Engineering Technology (Group) Co., Ltd.	(iii)	30,892,903	14,035,029
Anhui BRC & Masteel Weldmesh Co., Ltd.	(iii)	10,647,183	—
Others	(iii)	29,395,898	20,254,525
		258,210,578	161,102,927

(iii) The transactions with the Holding and its subsidiaries were conducted on terms of mutually agreed according to market prices between the Group and the related parties.

Notes to Financial Statements (Continued)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

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

(7) Sales of steel products and other by-products

	Note	2016	2015
Masteel Engineering Technology (Group) Co., Ltd.	(iii)	115,086,118	153,747,683
Maanshan Gang Chen Industry Co., Ltd.	(iii)	41,537,457	4,071,037
Ma Steel International Trade and Economic Co., Ltd.	(iii)	2,837,657	1,663,939
Masteel Heavy Machinery Manufacturing Co., Ltd.	(iii)	597,979	12,565,062
Others	(iii)	9,052,448	—
		<u>169,111,659</u>	<u>172,047,721</u>

(iii) The transactions with the Holding and its subsidiaries were conducted on terms of mutually agreed according to market prices between the Group and the related parties.

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

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

(8) Financial service interest cost paid to related parties

	Note	2016	2015
The Holding	(v)	9,384,146	10,485,794
Masteel Engineering Technology (Group) Co., Ltd.	(v)	2,536,206	1,755,364
Maanshan Gang Chen Industry Co., Ltd.	(v)	379,592	861,963
Maanshan Iron & Steel Group Mining Co., Ltd.	(v)	1,732,811	1,237,573
Ma Steel International Trade and Economic Co., Ltd.	(v)	553,390	626,396
Xinchuang Economize Resource	(v)	513,327	—
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(v)	501,628	1,051,055
Others	(v)	4,712,827	6,766,809
		20,313,927	22,784,954

- (v) Masteel Financial absorbed deposits from the Holding and its subsidiaries, and paid interest to them with the interest rate ranging from 0.385% to 3.25% in 2016 (2015: 0.385% to 3.25%).

Notes to Financial Statements (Continued)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

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

(9) Financial service income received from related parties

	Note	2016	2015
The Holding	(vi)	13,622,321	2,150,493
Maanshan Gang Chen Industry Co., Ltd.	(vi)	2,957,266	1,336,425
Anhui Masteel Luo He Mining Co., Ltd.	(vi)	4,552,536	5,273,311
Maanshan Iron & Steel Group Mining Co., Ltd.	(vi)	13,085,118	17,334,088
Anhui BRC & Masteel Weldmesh Co., Ltd.	(vi)	622,781	1,591,106
Xinchuang Economize Resource	(vi)	157,368	109,740
Ma Steel International Trade and Economic Co., Ltd.	(vi)	322,992	577,379
Others	(vi)	596,695	499,085
		35,917,077	28,871,627

- (vi) Masteel Financial, a subsidiary of the Group, obtained financial service income for the financial services it rendered to the Holding and its subsidiaries, including providing loans, bank acceptance bills 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.

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

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

(10) Rental income from an associate

	Note	2016	2015
Masteel Auto-parking	(vii)	<u>-</u>	<u>189,395</u>

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

(11) Rental expenses paid to an associate

	Note	2016	2015
Masteel Auto-parking	(vii)	<u>-</u>	<u>14,952</u>

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

(12) Sale of wheel to an associate

	Note	2016	2015
Ma-Steel Rail Transportation	(viii)	<u>-</u>	<u>1,199,500</u>

- (viii) On 28 May 2015, the Company acquired another 50% equity interests of Ma-Steel Rail Transportation from Jinxi Axle Company Limited. After the acquisition, the Company owned 100% equity interests in Ma-Steel Rail Transportation. Therefore, the Company began to account for Ma-Steel Rail Transportation as a subsidiary rather than an associate.

Notes to Financial Statements (Continued)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

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

(13) Sales of coke-related products to an associate

	Note	2016	2015
Shenglong Chemical	(ix)	<u>-</u>	<u>841,809</u>

(ix) These transactions were made between the Group and Shenglong Chemical and were conducted in accordance with the terms of mutually agreed according to market prices between the parties.

(14) Purchases of coke from an associate

	Note	2016	2015
Shenglong Chemical	(ix)	<u>-</u>	<u>120,258,337</u>

(ix) These transactions were made between the Group and Shenglong Chemical and were conducted in accordance with the terms of mutually agreed according to market prices between the parties.

(15) Rental income from a joint venture

	Note	2016	2015
BOC-Ma Steel	(x)	<u>1,250,000</u>	<u>1,250,000</u>

(x) These transactions were made between the Group and BOC-Ma Steel and were conducted in accordance with the terms of mutually agreed according to market prices between the parties.

(16) Fees received for the supply of electricity from a joint venture

	Note	2016	2015
BOC-Ma Steel	(x)	<u>248,519,202</u>	<u>293,461,802</u>

(x) These transactions were made between the Group and BOC-Ma Steel and were conducted in accordance with the terms of mutually agreed according to market prices between the parties.

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

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

(17) Fee received for utilities and facilities from a joint venture

	Note	2016	2015
BOC-Ma Steel	(x)	<u>5,850,823</u>	<u>5,742,143</u>

(x) These transactions were made between the Group and BOC-Ma Steel and were conducted in accordance with the terms of mutually agreed according to market prices between the parties.

(18) Purchase of gas products from a joint venture

	Note	2016	2015
BOC-Ma Steel	(x)	<u>548,384,100</u>	<u>569,954,048</u>

(x) These transactions were made between the Group and BOC-Ma Steel and were conducted in accordance with the terms of mutually agreed according to market prices between the parties.

(19) Fee received for providing equipment inspection from a joint venture

	Note	2016	2015
BOC-Ma Steel	(x)	<u>150,000</u>	<u>150,000</u>

(x) These transactions were made between the Group and BOC-Ma Steel and were conducted in accordance with the terms of mutually agreed according to market prices between the parties.

Notes to Financial Statements (Continued)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

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

(20) Guarantee from a related party

2016

	Note	Guarantee's name	Guarantee amount (RMB)	Start date	End Date	Has guarantee matured or not
The Holding	(xi)	The Company	2.487 billion	2014.7	2025.10	Not yet as of the approval date of the report

2015

	Note	Guarantee's name	Guarantee amount (RMB)	Start date	End Date	Has guarantee matured or not
The Holding	(xi)	The Company	4.812 billion	2014.3	2025.10	Not yet as of the approval date of the report

- (xi) In 2016, the Holding had guaranteed additional certain bank loans of the Group amounting to approximately RMB0.94 billion (2015: approximately RMB3.89 billion) in 2016 without attached conditions. The Holding had guaranteed part of bank loans without attached conditions amounting to approximately RMB2.487 billion as of 31 December 2016 (31 December 2015: approximately RMB4.812 billion).

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

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

(21) Borrowings from related parties

2016

	Note	Amount	Start date	End date
Anhui Zhonglian Shipping Co., Ltd.	(xii)	70,000,000	2016/09/27	2017/09/26
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(xii)	20,000,000	2016/07/29	2017/07/28
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(xii)	20,000,000	2016/11/18	2017/11/17
The Holding		40,000,000	2016/08/30	2017/08/29

(xii) On 27 September 2016, Anhui Zhonglian Shipping Co. Ltd. entrusted Masteel Financial to provide the Company a short-term loan of RMB70,000,000 with the annual interest rate of 3.915%, and repay the principal and interest on the expiration date. The Company accrued interest of RMB723,188, which was not paid yet as of 31 December 2016.

On 29 July 2016, Maanshan Masteel Surface Engineering Technology Co., Ltd. entrusted Masteel Financial to provide the Company a short-term loan of RMB20,000,000 with the annual interest rate of 3.915%, and repay the principal and interest on the expiration date. The Company accrued interest of RMB337,125, which was not paid yet as of 31 December 2016.

On 18 November 2016, Maanshan Masteel Surface Engineering Technology Co., Ltd. entrusted Masteel Financial to provide the Company a short term loan of RMB20,000,000 with the annual interest rate of 3.915%, and repay the principal and interest on the expiration date. The Company accrued interest of RMB93,525, which was not paid yet as of 31 December 2016.

On 30 August 2016, The Holding entrusted Masteel Financial to provide the Company a short term loan of RMB40,000,000 with the annual interest rate of 4.35%, and repay the principal and interest on the expiration date. The Company accrued interest of RMB594,500, which was not paid yet as of 31 December 2016.

Notes to Financial Statements (Continued)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

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

(22) Remuneration of key management

The total amount of key management remuneration (including forms of cash, benefits in kind and others) totally amounted to RMB2,641,209 during the current year (2015: RMB2,254,598), which excluded the remuneration paid to independent directors, and independent supervisors.

(23) Directors' and supervisors' emoluments*

	2016	2015
Fee	<u>447,368</u>	<u>447,368</u>
Other emoluments:		
Salaries, allowances and benefits in kind	572,000	652,142
Performance-related bonuses	813,206	560,962
Pension scheme contributions	<u>3,930</u>	<u>25,676</u>
	<u>1,389,136</u>	<u>1,238,780</u>
	<u>1,836,504</u>	<u>1,686,148</u>

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

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

(23) Directors' and supervisors' emoluments* (continued)

(i) Independent directors and independent supervisors

The fees paid to independent directors and independent supervisors during the year were as follows:

	2016	2015
<i>Independent directors</i>		
Mr. Qin Tongzhou	100,000	100,000
Ms. Yang Yada	100,000	100,000
Mr. Liu Fangduan	100,000	100,000
	<u>300,000</u>	<u>300,000</u>
<i>Independent supervisors</i>		
Mr. Wong Chun Wa	73,684	73,684
Mr. Su Yong	73,684	73,684
	<u>147,368</u>	<u>147,368</u>
	<u>447,368</u>	<u>447,368</u>

There was no other emoluments except above fee paid to the independent directors and independent supervisors during the year (2015: Nil).

Notes to Financial Statements (Continued)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

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

(23) Directors' and supervisors' emoluments* (continued)

(ii) Non-independent directors and non-independent supervisors

	Fee	Salaries, allowances and benefits in kind	Performance- related bonuses	Pension scheme contributions	Total remuneration
2016					
<i>Executive directors</i>					
Mr. Ding Yi (iii)	-	-	-	-	-
Mr. Qian Haifan	-	240,000	320,000	1,310	561,310
	-	240,000	320,000	1,310	561,310
<i>Non-executive directors</i>					
Mr. Su Shihuai (iii)	-	-	-	-	-
Mr. Ren Tianbao (i)	-	-	-	-	-
	-	-	-	-	-
<i>Supervisors</i>					
Mr. Zhang Xiaofeng	-	240,000	320,000	1,310	561,310
Mr. Fang Jinrong (iii)	-	-	-	-	-
Mr. Yan Kailong	-	92,000	173,206	1,310	266,516
	-	332,000	493,206	2,620	827,826
	-	572,000	813,206	3,930	1,389,136

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

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

(23) Directors' and supervisors' emoluments* (continued)

(ii) Non-independent directors and non-independent supervisors (continued)

	Fee	Salaries, allowances and benefits in kind	Performance- related bonuses	Pension scheme contributions	Total remuneration
2015					
<i>Executive director</i>					
Mr. Ding Yi (iii)	-	-	-	-	-
Mr. Qian Haifan	-	240,052	192,042	7,515	439,609
Mr. Ren Tianbao (i)	-	80,017	61,550	3,131	144,698
	-	320,069	253,592	10,646	584,307
<i>Non-executive directors</i>					
Mr. Su Shihuai (iii)	-	-	-	-	-
	-	-	-	-	-
<i>Supervisors</i>					
Mr. Zhang Xiaofeng	-	240,052	192,042	7,515	439,609
Ms. Yan Taixia (ii)	-	85,021	105,783	6,889	197,693
Mr. Fang Jinrong (iii)	-	-	-	-	-
Mr. Yan Kailong	-	7,000	9,545	626	17,171
	-	332,073	307,370	15,030	654,473
	-	652,142	560,962	25,676	1,238,780

Notes to Financial Statements (Continued)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

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

(23) Directors' and supervisors' emoluments* (continued)

(ii) Non-independent directors and non-independent supervisors (continued)

- (i) Appointed as a non-executive director since 11 May 2015 instead of an executive director.
- (ii) Resigned from the supervisor position since 1 December 2015.
- (iii) In 2015 and 2016, the remuneration of Mr. Ding Yi, Mr. Su Shihuai and Mr. Fang Jinrong was paid by the Holding, rather than the Company.

There was no arrangement under which an executive director or a supervisor waived or agreed to waive any remuneration during the year (2015: Nil).

(24) Five highest paid individuals*

The two highest paid employees during the year were director and supervisor (2015: two), details of whose remuneration are stated in Note X 5 (23) above. Details of the remuneration of the remaining three highest paid employees (non-director, non-supervisor) in 2016 are as follows:

	2016	2015
The Group		
Salaries, allowances and benefits in kind	535,000	492,107
Performance-related bonuses	713,144	401,653
Pension scheme contributions	3,930	18,161
	<u>1,252,074</u>	<u>911,921</u>

In 2016, the remuneration of the remaining three non-director and non-supervisor, as the highest paid employees, fell within the band of nil to HKD1,000,000.

- (25) The Group had not obtained any long-term entrusted loans from the Holding in 2016 (2015: Nil).

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

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

- (26) According to the financial service agreement signed by Masteel Financial and the Holding on 22 December 2015, Masteel Financial provides financing services and deposit transactions to the Group and its subsidiaries, and from 1 January 2016 to 31 December 2016, the highest daily outstanding loan should be less than RMB500 million, other financial service charge should be less than RMB50 million. The annual cap was the highest demand for daily deposits, which was decided according to the Holding and its affiliates' expectations of the capital and operational requirement. In 2016, the highest daily deposit balance was RMB4.35 billion (2015: RMB3.32 billion); the highest average daily deposit balance on a monthly basis was RMB3.63 billion (2015: RMB2.3 billion); the highest daily loan balance was RMB0.498 billion (2015: RMB0.575 billion); the highest average daily loan balance on a monthly basis was RMB0.496 billion (2015: RMB0.573 billion).
- (27) Ma Steel (HK), a subsidiary of the Group, signed the "Agreement on equity interest transfer of Anhui Masteel Stereoscopic Auto-parking Equipments Company Limited" with Magang (Group) Investment Co., Ltd. in April 2016, pursuant to which Ma Steel (HK) would transfer the 8.9367% equity interest of Masteel Auto Parking to Magang (Group) investment Co., Ltd. at the consideration of RMB6,232,741 based on the result of equity valuation of Masteel Auto Parking by Anhui Guoxin Capital Valuation Limited.

The directors believed that the above transactions of from (1) to (9), (20) and (21) above were in the ordinary course of business of the Group.

- * The related party transactions disclosed from (1) to (9), (25) and (26) above constituted connected transactions or continuing connected transactions which were defined in Chapter 14A of the Hong Kong Stock Exchange's Listing Rules.

Notes to Financial Statements (Continued)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

6. RECEIVABLES FROM/PAYABLES TO RELATED PARTIES

	31 December 2016	31 December 2015
Trade receivables:		
The Holding and its subsidiaries		
The Holding	–	1,347,893
Maanshan Jiahua Commodity Concrete Co., Ltd.	5,212,842	5,081,610
Masteel Heavy Machinery Manufacturing Co., Ltd.	8,234,542	3,073,274
Ma Steel Powder Metallurgy Co., Ltd.	10,355,549	1,278,576
Anhui Masteel Luo He Mining Co., Ltd.	3,458,390	–
Masteel Engineering Technology (Group) Co., Ltd.	12,304,092	3,605,160
Others entities controlled by the Holding	2,986,118	958,486
	<u>42,551,533</u>	<u>15,344,999</u>
Joint venture of the Group		
BOC-Ma Steel	24,738,742	–
	<u>24,738,742</u>	<u>–</u>

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

6. RECEIVABLES FROM/PAYABLES TO RELATED PARTIES (CONTINUED)

	31 December 2016	31 December 2015
Prepayments:		
The Holding and its subsidiaries		
The Holding	28,164	—
Ma Steel International Trade and Economic Co., Ltd.	25,316,196	39,493,238
Others entities controlled by the Holding	313,060	100
	<u>25,657,420</u>	<u>39,493,338</u>
Associate of the Group		
Henan JinMa Energy	100,000,000	—
	<u>100,000,000</u>	<u>—</u>
Other receivables:		
The Holding and its subsidiaries		
Masteel Engineering Technology (Group) Co., Ltd.	4,000	—
Masteel Automobile Transportation Service Co., Ltd.	323	—
Masteel Heavy Machinery Manufacturing Co., Ltd.	—	15,900
Masteel Refractory Materials Co., Ltd.	—	66,886
	<u>4,323</u>	<u>82,786</u>

Notes to Financial Statements (Continued)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

6. RECEIVABLES FROM/PAYABLES TO RELATED PARTIES (CONTINUED)

	31 December 2016	31 December 2015
Short-term loans:		
The Holding and its subsidiaries		
The Holding	40,000,000	—
Anhui Zhonglian Shipping Co., Ltd.	70,000,000	110,000,000
Maanshan Masteel Surface Engineering Technology Co., Ltd.	40,000,000	20,000,000
	<u>150,000,000</u>	<u>130,000,000</u>
Bills receivable:		
The Holding and its subsidiaries		
Maanshan Gang Chen Industry Co., Ltd.	897,719	58,237,357
Anhui BRC & Masteel Weldmesh Co., Ltd.	1,965,529	—
Xinchuang Economize Resource	—	4,382,352
Masteel Heavy Machinery Manufacturing Co., Ltd.	100,000	100,000
Masteel Engineering Technology (Group) Co., Ltd.	—	7,000,000
	<u>2,963,248</u>	<u>69,719,709</u>

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

6. RECEIVABLES FROM/PAYABLES TO RELATED PARTIES (CONTINUED)

	31 December 2016	31 December 2015
Account payables:		
The Holding and its subsidiaries		
The Holding	988,765	6,191,529
Xinchuang Economize Resource	54,584,324	70,920,636
Masteel Engineering Technology (Group) Co., Ltd.	150,278,616	128,500,973
Maanshan Masteel Surface Engineering Technology Co., Ltd.	47,203,701	46,679,719
Masteel Automation and Information Technology Co., Ltd.	19,950,761	19,117,929
Masteel Automobile Transportation Service Co., Ltd.	21,490,195	19,490,919
Masteel Shen Ma Metal Co., Ltd.	5,314,349	14,045,409
Masteel Heavy Machinery Manufacturing Co., Ltd.	44,360,504	38,786,784
Others entities controlled by the Holding	75,002,591	81,434,478
	419,173,806	425,168,376
Joint ventures and associates of the Group		
BOC-Ma Steel	55,481,931	40,667,490
Ma-Steel OCI Chemical	159,811	–
Shenglong Chemical	366,902	5,666,902
	56,008,644	46,334,392

Notes to Financial Statements (Continued)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

6. RECEIVABLES FROM/PAYABLES TO RELATED PARTIES (CONTINUED)

	31 December 2016	31 December 2015
Advances from customers:		
The Holding and its subsidiaries		
The Holding	190,788	177,646
Maanshan Gang Chen Industry Co., Ltd.	32,651,727	28,947,879
Anhui BRC & Masteel Weldmesh Co., Ltd.	5,283,354	12,239,725
Others entities controlled by Holding	11,987,789	9,778,657
	<u>50,113,658</u>	<u>51,143,907</u>
Joint ventures and associates of the Group		
Ma-Steel OCI Chemical	7,078,117	–
Shenglong Chemicals	11	86,559
	<u>7,078,128</u>	<u>86,559</u>
Other payables:		
The Holding and its subsidiaries		
Masteel Automobile Transportation Service Co., Ltd.	6,295,101	4,940,235
Masteel Engineering Technology (Group) Co., Ltd.	13,720,456	15,731,388
Xinchuang Economize Resource	22,495,594	8,359,710
Maanshan Masteel Electric Repair Co., Ltd.	963,873	650,686
Maanshan Gang Chen Industry Co., Ltd.	110,040	1,039,760
Other entities controlled by the Holding	3,233,755	9,520,203
	<u>46,818,819</u>	<u>40,241,982</u>
Joint venture of the Group		
BOC-Ma Steel	70,000	70,000
	<u>70,000</u>	<u>70,000</u>

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

6. RECEIVABLES FROM/PAYABLES TO RELATED PARTIES (CONTINUED)

	31 December 2016	31 December 2015
Loans and advances to customers:		
The Holding and its subsidiaries		
The Holding	16,698,711	38,000,000
Anhui Masteel Luo He Mining Co., Ltd.	112,224,379	139,973,938
Anhui BRC & Masteel Weldmesh Co., Ltd.	31,811,230	13,779,345
Ma Steel International Trade and Economic Co., Ltd.	50,982,046	61,019,697
Maanshan Iron & Steel Group Mining Co., Ltd.	1,193,527,145	251,250,000
Other entities controlled by the Holding	136,864,275	64,833,022
	1,542,107,786	568,856,002

Customer deposits:

The Holding and its subsidiaries		
The Holding	1,830,191,701	1,003,221,893
Masteel Engineering Technology (Group) Co., Ltd.	273,754,756	160,410,862
Maanshan Gang Chen Industry Co., Ltd.	19,128,371	20,797,705
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	252,042,388	93,901,242
Ma Steel International Trade and Economic Co., Ltd.	304,878,663	64,550,368
Masteel Group Kang Tai Land Development Co., Ltd.	49,183,147	111,461,440
Masteel Heavy Machinery Manufacturing Co., Ltd.	94,000,665	79,758,924
Other entities controlled by the Holding	621,115,481	215,267,964
	3,444,295,172	1,749,370,398

The fee charged by Masteel Financial for the financing services and deposit transactions provided to the Holding and its subsidiaries was determined based on negotiation between the two parties.

* As of 31 December 2016, in current assets and current liabilities, except for the interests charge for the deposit and loans provided by Masteel Financial, all these receivables and payables had no interest, no pledge and would be paid in the future.

Notes to Financial Statements (Continued)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (CONTINUED)

7. THE COMMITMENT OF THE GROUP WITH RELATED PARTIES

As of 31 December 2016, the Company had made an investment commitment to Mascometal, which was a Joint Venture, amounting to EUR16.07 million.

XI. COMMITMENTS AND CONTINGENCIES

1. SIGNIFICANT COMMITMENTS

	31 December 2016	31 December 2015
Contracted, but not provided for		
Capital commitments	2,419,658,635	9,067,160,505
Investment commitments	155,870,276	60,891,437
	2,575,528,911	9,128,051,942

Unrecognised commitments related to investments in joint ventures 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 a 15% preferential tax rate in the previous year. After understanding the above information, the Company and the tax authorities issued a comprehensive communication and according to the tax authorities, the applicable corporate income tax rate in 2007 was 33%, which was adjusted from the original 15%. The Company had not been recovered prior year income tax differences.

Based on the comprehensive communication between the Company and the tax authorities, it is uncertain whether the tax authorities will recover the difference between the previous year's income tax at this stage, and the final result of this matter cannot be estimated reliably. Therefore, the financial statements have not made any preparation or adjustments related to additional tax, tax credits, deferred tax, penalties and interest.

XI. COMMITMENTS AND CONTINGENCIES (CONTINUED)

2. CONTINGENCIES (CONTINUED)

Pending litigation

As of 31 December 2016, the significant pending litigation of the Group and the Company is as follows:

Industrial and Commercial Bank of China Co., Ltd. Hefei Heping Road Branch sued the Company for four financial loan contract dispute cases, and the relevant claim amounts were RMB11,348,995, RMB6,317,966, RMB4,777,092 and RMB3,860,989. The four cases were accepted and heard by the Hefei Yaohai District People's Court, which are currently pending for judicial decisions by the court.

XII. POST BALANCE SHEET EVENTS

On 14 February 2017, the Board of Directors of the Company approved shutting down and permanently sealing up a converter (of which the nominal capacity was 40 tons and the annual output of crude steel was 640 thousand tons) and a blast furnace (of which the volume was 500 cubic meters and the annual output of pig iron was 620 thousand tons).

As of the date of approval of the financial statements, save as disclosed above, the Group had no other disclosure of events after the balance sheet date.

XIII. OTHER SIGNIFICANT EVENTS

1. LEASES

As lessor

The Group had leased certain of its investment properties under operating lease arrangements ranging from one to eighteen years. The periodic rental was fixed during the operating lease periods.

	31 December 2016	31 December 2015
Remaining lease period		
Within 1 year, inclusive	1,301,120	1,373,707
1 to 2 years, inclusive	1,250,000	1,250,000
2 to 3 years, inclusive	1,250,000	1,250,000
Over 3 years	3,907,534	5,157,534
	<u>7,708,654</u>	<u>9,031,241</u>

Notes to Financial Statements (Continued)

XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

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 Financial
- Financial service: Masteel Financial

The Group did not consider financial service as an individual reportable segment, as Masteel Financial mainly offers financial service to internal companies. Therefore, the Group focuses on the production and sale of iron and steel products and by-products, and it is unnecessary for the Group to disclose more detailed information.

Other information

Product and service information

External principal operating income

	2016	2015
Sale of steel products	45,084,086,119	41,911,446,585
Sale of steel billets and pig iron	1,011,424,422	941,516,355
Sale of coke by-products	276,107,588	423,297,920
Others	952,167,785	732,326,675
	<u>47,323,785,914</u>	<u>44,008,587,535</u>

XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

2. OPERATING SEGMENT INFORMATION (CONTINUED)

Other information (continued)

Geographical information

External principal operating income

	2016	2015
The PRC	43,649,644,385	40,175,752,326
Overseas	3,674,141,529	3,832,835,209
	<u>47,323,785,914</u>	<u>44,008,587,535</u>

Non-current assets

	31 December 2016	31 December 2015
The PRC	40,595,765,043	41,601,037,262
Overseas	305,407,308	233,704,952
	<u>40,901,172,351</u>	<u>41,834,742,214</u>

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 revenue.

3. OTHER FINANCIAL INFORMATION*

	Group		Company	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Current assets	24,418,315,198	20,160,381,786	17,688,470,337	15,379,481,751
Less: Current liabilities	33,550,453,810	29,731,298,424	24,425,328,412	22,270,113,406
Net current liabilities	<u>(9,132,138,612)</u>	<u>(9,570,916,638)</u>	<u>(6,736,858,075)</u>	<u>(6,890,631,655)</u>

Notes to Financial Statements (Continued)

XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

3. OTHER FINANCIAL INFORMATION* (CONTINUED)

	Group		Company	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Total assets	66,245,531,030	62,454,465,955	55,139,219,589	53,677,928,665
Less: Current liabilities	33,550,453,810	29,731,298,424	24,425,328,412	22,270,113,406
Total assets less current liabilities	<u>32,695,077,220</u>	<u>32,723,167,531</u>	<u>30,713,891,177</u>	<u>31,407,815,259</u>

4. EMPLOYEE COSTS (EXCLUDING DIRECTORS' AND SUPERVISORS' REMUNERATION) (NOTE X.5(23))*

	2016	2015
Wages and salaries	2,587,028,878	2,420,410,656
Welfare	679,193,430	746,703,446
Pension scheme contributions (i)	544,796,605	714,783,936
Employee termination benefits	347,468,731	—
	<u>4,158,487,644</u>	<u>3,881,898,038</u>

- (i) As of 31 December 2016 and 31 December 2015, no contribution was capitalised or waived to reduce the Group's liability to pay pension scheme contributions in the future.

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS

1. TRADE RECEIVABLES

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

An ageing analysis of trade receivables is as follows:

	31 December 2016	31 December 2015
Within one year	1,782,014,214	1,474,257,377
One to two years	125,625,110	71,144,875
Two to three years	27,273,361	23,011,493
Over three years	31,693,096	8,743,458
	1,966,605,781	1,577,157,203
Less: Provisions for bad debts	13,382,203	13,382,203
	1,953,223,578	1,563,775,000

The trade receivable balances are analysed as follows:

	31 December 2016				31 December 2015			
	Book value		Provision for bad debts		Book value		Provision for bad debts	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Individually significant and assessed for impairment individually	1,952,062,818	99	(6,927,040)	-	1,562,158,216	99	(6,927,040)	-
Other insignificant but assessed for impairment individually	14,542,963	1	(6,455,163)	44	14,998,987	1	(6,455,163)	43
	1,966,605,781	100	(13,382,203)		1,577,157,203	100	(13,382,203)	

The movements of provision for bad debts against trade receivables for the year are disclosed in Note XIV.5.

Notes to Financial Statements (Continued)

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

1. TRADE RECEIVABLES (CONTINUED)

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

	Book value	Provision for bad debts	Ratio (%)	Reason
Company 1	694,446,823	-	-	/
Company 2	214,069,244	-	-	/
Company 3	117,299,709	-	-	/
Company 4	92,487,872	-	-	/
Company 5	90,266,047	-	-	/
Company 6	64,514,240	-	-	/
Company 7	61,374,572	-	-	/
Company 8	55,798,074	-	-	/
Company 9	48,312,244	-	-	/
Company 10	35,735,250	-	-	/
Company 11	29,117,360	-	-	/
Company 12	24,738,742	-	-	/
Company 13	24,563,898	-	-	/
Company 14	21,908,132	-	-	/
Company 15	21,573,834	-	-	/
Others	355,856,777	(6,927,040)	2	Note1
	<u>1,952,062,818</u>	<u>(6,927,040)</u>	<u>-</u>	

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

1. TRADE RECEIVABLES (CONTINUED)

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

	Book value	Provision for bad debts	Ratio (%)	Reason
Company 1	239,500,275	—	—	/
Company 2	172,899,586	—	—	/
Company 3	166,890,028	—	—	/
Company 4	149,482,786	—	—	/
Company 5	102,483,957	—	—	/
Company 6	92,322,593	—	—	/
Company 7	89,314,611	—	—	/
Company 8	48,310,741	—	—	/
Company 9	41,970,793	—	—	/
Company 10	40,204,245	—	—	/
Company 11	34,432,434	—	—	/
Company 12	27,439,840	—	—	/
Company 13	21,187,937	—	—	/
Company 14	20,279,298	—	—	/
Company 15	19,769,588	—	—	/
Others	295,669,504	(6,927,040)	2	Note1
	<u>1,562,158,216</u>	<u>(6,927,040)</u>	<u>—</u>	

Note 1: The Company had confirmed that one of the Company's trade receivable cannot be recovered, therefore, a full provision for the bad debts amounting to RMB6,927,040 was made.

In 2016, there was no provision for bad debts (2015: Nil), and there was no recovery or reversal of provision for bad debts (2015: Nil).

In 2016, there was no trade receivables that had been written off (2015: Nil).

Notes to Financial Statements (Continued)

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

1. TRADE RECEIVABLES (CONTINUED)

The top five trade receivables classified by debtor:

31 December 2016

	Relationship with the Company	Ending balance	Aging	Percentage of trade receivables	Ending balance of provision
Company 1	Subsidiary	694,446,823	Within one year	36%	-
Company 2	Subsidiary	214,069,244	Within one year	11%	-
Company 3	Third party	117,299,709	Within one year	6%	-
Company 4	Subsidiary	92,487,872	One to two years	5%	-
Company 5	Subsidiary	90,266,047	Within one year	5%	-
		<u>1,208,569,695</u>		<u>63%</u>	

31 December 2015

	Relationship with the Company	Ending Balance	Aging	Percentage of trade receivables	Ending balance of provision
Company 1	Third party	172,899,586	Within one year	11%	-
Company 2	Third party	48,310,741	Within two years	3%	-
Company 3	Third party	41,970,793	Within one year	3%	-
Company 4	Third party	34,432,434	Within two years	2%	-
Company 5	Third party	20,279,298	Two to three years	1%	-
		<u>317,892,852</u>		<u>20%</u>	

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

2. OTHER RECEIVABLES

An ageing analysis of the other receivables is as follows:

	31 December 2016	31 December 2015
Within one year	39,486,862	204,859,233
One to two years	615,777	1,128,177
Two to three years	1,093,937	3,110,391
Over three years	422,691,173	457,160,989
	463,887,749	666,258,790
Less: Provision for bad debts	422,847,240	420,160,989
	41,040,509	246,097,801

The movements of provisions for bad debts against other receivables for the year are disclosed in Note XIV.5.

The other receivable balances are analysed as follows:

	31 December 2016				31 December 2015			
	Book value Amount	Ratio (%)	Provision for bad debts Amount	Ratio (%)	Book value Amount	Ratio (%)	Provision for bad debts Amount	Ratio (%)
Individually significant and assessed for impairment individually	452,496,848	98	(418,316,326)	92	655,815,368	98	(415,630,075)	63
Individually insignificant but assessed for impairment individually	11,390,901	2	(4,530,914)	40	10,443,422	2	(4,530,914)	43
	463,887,749	100	(422,847,240)		666,258,790	100	(420,160,989)	

Notes to Financial Statements (Continued)

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

2. OTHER RECEIVABLES (CONTINUED)

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

	Book value	Provision for bad debts	Ratio (%)	Reason
Company 1	132,058,434	(132,058,434)	100	Note
Company 2	127,685,367	(127,685,367)	100	Note
Company 3	60,939,960	(60,939,960)	100	Note
Company 4	57,988,833	(57,988,833)	100	Note
Company 5	37,243,732	(37,243,732)	100	Note
Company 6	2,400,000	(2,400,000)	100	Note
Others	34,180,522	—	—	/
	452,496,848	(418,316,326)	92	

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

	Book value	Provision for bad debts	Ratio (%)	Reason
Company 1	60,939,960	(60,939,960)	100	Note
Company 2	127,685,367	(127,685,367)	100	Note
Company 3	37,243,732	(37,243,732)	100	Note
Company 4	132,058,434	(132,058,434)	100	Note
Company 5	92,302,582	(55,302,582)	60	Note
Company 6	2,400,000	(2,400,000)	100	Note
Others	203,185,293	—	—	/
	655,815,368	(415,630,075)	63	

Note: Provision for bad debts were made as a result of these long-term uncollected other receivables were less expected to recover.

At the end of 2016, provision for bad debts of expected uncollected other receivables was RMB2,686,251 (2015: RMB35,000,000), and there was no recovery or reversal of provision for bad debts (2015: RMB128,000).

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

2. OTHER RECEIVABLES (CONTINUED)

In 2016, there were no other receivables that had been written off (2015: Nil).

Other receivables classified by nature:

	31 December 2016	31 December 2015
Prepayment for trading	415,916,327	594,230,077
Guarantee for steel futures	28,061,996	42,768,562
Prepayment of custom duties and VAT	11,167,848	13,022,912
Others	8,741,578	16,237,239
Provision for bad debts	(422,847,240)	(420,160,989)
	41,040,509	246,097,801

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

	Balance	Ratio to total other receivables (%)	Nature	Ageing	Balance of bad debts
Company 1	132,058,434	28	i	More than 3 years	132,058,434
Company 2	127,685,367	28	i	More than 3 years	127,685,367
Company 3	60,939,960	13	i	More than 3 years	60,939,960
Company 4	57,988,833	13	i	More than 3 years	57,988,833
Company 5	37,243,732	8	i	More than 3 years	37,243,732
	415,916,326	90			415,916,326

Notes to Financial Statements (Continued)

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

2. OTHER RECEIVABLES (CONTINUED)

As of 31 December 2015, 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	20	i	More than 3 years	132,058,434
Company 2	127,685,367	19	i	More than 3 years	127,685,367
Company 3	92,302,582	14	i	More than 3 years	55,302,582
Company 4	60,939,960	9	i	More than 3 years	60,939,960
Company 5	37,243,732	6	i	More than 3 years	37,243,732
	450,230,075	68			413,230,075

i: The nature of the other receivables was prepayment for trading.

3. INVENTORIES

	31 December 2016			31 December 2015		
	Balance	Provision for impairment	Carrying amount	Balance	Provision for impairment	Carrying amount
Raw materials	2,924,952,493	(59,447,545)	2,865,504,948	1,568,921,850	(333,960,186)	1,234,961,664
Work in progress	684,820,099	(1,712,855)	683,107,244	772,043,075	(86,639,975)	685,403,100
Finished goods	2,484,308,810	(14,372,398)	2,469,936,412	1,285,841,324	(170,751,556)	1,115,089,768
Spare parts	1,215,968,100	(97,054,300)	1,118,913,800	1,372,406,287	(59,572,961)	1,312,833,326
Others	233,474,649	-	233,474,649	-	-	-
	7,543,524,151	(172,587,098)	7,370,937,053	4,999,212,536	(650,924,678)	4,348,287,858

The movements of impairment provision against inventories for the year are disclosed in Note XIV.5.

At the balance sheet date, inventories were measured at the lower of costs and net 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. In the years of 2016 and 2015, there was no reversal of impairment provision against inventories.

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

4. LONG TERM EQUITY INVESTMENTS

	31 December 2016	31 December 2015
Long term investments under the equity method		
Joint ventures (i)	372,843,538	316,570,133
Associates (i)	866,932,775	713,283,374
Long term investments under the cost method		
Subsidiaries (ii)	5,972,389,974	5,860,625,890
Subtotal	7,212,166,287	6,890,479,397
Less: Provision for impairment	60,000,000	60,000,000
Total	7,152,166,287	6,830,479,397

In the opinion of the directors, there was no material restriction on the realisation of investments as at the balance sheet date.

* The above investments in joint ventures and associates under the equity method and the investments in subsidiaries under the cost method were all unlisted equity investments.

The movements of impairment provision for long term investments for the year are disclosed in Note XIV.5.

Notes to Financial Statements (Continued)

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

4. LONG TERM EQUITY INVESTMENTS (CONTINUED)

(i) Joint ventures and associates

2016

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

Note: Please refer to Note V.12 for details.

2015

	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	311,422,276	-	-	81,325,413	-	(3,216,898)	(73,500,000)	-	316,030,791	-
MASTEEL-CMI	542,669	-	-	(3,327)	-	-	-	-	539,342	-
Associates										
Henan JinMa Energy (Note)	207,497,916	37,623,600	-	(4,023,123)	-	-	-	-	241,098,393	-
Shenglong Chemical	245,813,223	-	-	(2,786,831)	-	(624,054)	-	-	242,402,338	-
Shanghai Iron and Steel Electronic	30,977,774	-	-	1,626,747	-	-	(6,000,000)	-	26,604,521	-
Xinchuang Economize Resource	30,967,723	-	-	5,055,768	-	(483,800)	-	-	35,539,691	-
Ma-steel Rail Transportation (Note)	171,476,241	-	(165,930,389)	(5,545,872)	-	-	-	-	-	-
Jiyuan Jinyuan Chemical (Note)	45,794,148	-	(44,961,228)	(832,920)	-	-	-	-	-	-
Anhui Linhuan Chemical (Note)	43,200,000	28,800,000	-	-	-	-	-	-	72,000,000	-
Ma-Steel OCI Chemical (Note)	-	95,235,280	-	403,151	-	-	-	-	95,638,431	-
	<u>1,087,691,970</u>	<u>161,658,880</u>	<u>(210,891,597)</u>	<u>75,219,006</u>	<u>-</u>	<u>(4,324,752)</u>	<u>(79,500,000)</u>	<u>-</u>	<u>1,029,853,507</u>	<u>-</u>

Note: Please refer to Note V.12 for details.

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

4. LONG TERM EQUITY INVESTMENTS (CONTINUED)

(ii) Subsidiaries

2016

	Opening balance	Movements during the year				Closing balance	Impairment at the end of the year	Cash dividends declared
		Increase	Decrease	Other equity movement	Provision for impairment			
New Build Mastee K. Wah.	44,443,067	-	-	-	-	44,443,067	-	-
Ma Steel (Wuhu)	8,225,885	-	-	-	-	8,225,885	-	-
Ma Steel (Guangzhou)	80,000,000	-	-	-	-	80,000,000	-	-
Ma Steel (HK)	21,146,421	-	-	-	-	21,146,421	-	-
MG Trading	1,573,766	-	-	-	-	1,573,766	-	-
Holly Industrial	21,478,316	-	-	-	-	21,478,316	-	-
Huayang Equipment	900,000	-	-	-	-	900,000	-	-
Ma Steel (Jinhua)	90,000,000	-	-	-	-	90,000,000	-	-
Ma Steel (Australia)	126,312,415	-	-	-	-	126,312,415	-	-
Ma Steel (Hefei)	1,775,000,000	-	-	-	-	1,775,000,000	-	-
Ma Steel (Hefei) Processing	73,200,000	-	-	-	-	73,200,000	-	-
Ma Steel (Yangzhou) Processing	116,462,300	-	-	-	-	116,462,300	-	-
Wuhu Technique	106,500,000	-	-	-	-	106,500,000	-	-
Masteel Scrap	100,000,000	-	-	-	-	100,000,000	-	-
Masteel Shanghai Trading	-	-	-	-	-	-	60,000,000	-
Chongqing Material	175,000,000	-	-	-	-	175,000,000	-	-
Anhui Chang Jiang Iron and Steel	1,234,444,444	-	-	-	-	1,234,444,444	-	-
Masteel Financial	933,172,609	-	-	-	-	933,172,609	-	-
Hefei Materials	140,000,000	-	-	-	-	140,000,000	-	-
MG-VALDUNES	336,695,298	-	-	-	-	336,695,298	-	-
Ma Steel Guangzhou Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma Steel Hangzhou Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma Steel Wuxi Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma Steel Chongqing Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma Steel Nanjing	10,000,000	-	-	-	-	10,000,000	-	-
Ma Steel Wuhan Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma Steel Shanghai Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma-Steel Rail Transportation (i)	336,021,369	60,000,000	-	-	-	396,021,369	-	-
Masteel Oubang Color-coated	10,050,000	-	-	-	-	10,050,000	-	-
Masteel America Inc. (ii)	-	3,298,375	-	-	-	3,298,375	-	-
Ma Steel (Cihu) (iii)	-	48,465,709	-	-	-	48,465,709	-	-
	<u>5,800,625,890</u>	<u>111,764,084</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,912,389,974</u>	<u>60,000,000</u>	<u>-</u>

Notes to Financial Statements (Continued)

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

4. LONG TERM EQUITY INVESTMENTS (CONTINUED)

(ii) Subsidiaries (continued)

- (i) The Company increased investment amounting to RMB60,000,000 in Masteel Rail Transportation in August 2016.
- (ii) The newly established subsidiaries are included in Note VI.1.
- (iii) Ma Steel(Wuhu) transferred 92% of equity shares of Ma Steel(Cihu) to the Company in December 2016. As a result, Ma Steel (Cihu) became the direct holding subsidiary of the Company.

2015

	Opening balance	Movements during the year				Closing balance	Impairment at the end of the year	Cash dividends declared
		Increase	Decrease	Other equity movement	Provision for impairment			
New Build Masteel K. Wah.	44,443,067	-	-	-	-	44,443,067	-	-
Ma Steel (Wuhu)	8,225,885	-	-	-	-	8,225,885	-	-
Ma Steel (Guangzhou)	80,000,000	-	-	-	-	80,000,000	-	-
Ma Steel (HK)	21,146,421	-	-	-	-	21,146,421	-	-
MG Trading	1,573,766	-	-	-	-	1,573,766	-	-
Holly Industrial	21,478,316	-	-	-	-	21,478,316	-	-
Huayang Equipment	900,000	-	-	-	-	900,000	-	111,032,729
Ma Steel (Jinhua)	90,000,000	-	-	-	-	90,000,000	-	-
Ma Steel (Australia)	126,312,415	-	-	-	-	126,312,415	-	-
Ma Steel (Hefei)	1,775,000,000	-	-	-	-	1,775,000,000	-	-
Ma Steel (Hefei) Processing	73,200,000	-	-	-	-	73,200,000	-	-
Ma Steel (Yangzhou)								
Processing	116,462,300	-	-	-	-	116,462,300	-	-
Wuhu Technique	106,500,000	-	-	-	-	106,500,000	-	-
Masteel Scrap	100,000,000	-	-	-	-	100,000,000	-	-
Masteel Shanghai Trading	-	-	-	-	-	-	60,000,000	-
Chongqing Material	175,000,000	-	-	-	-	175,000,000	-	-
Anhui Chang Jiang Iron and Steel	1,234,444,444	-	-	-	-	1,234,444,444	-	-
Masteel Financial	933,172,609	-	-	-	-	933,172,609	-	-
Hefei Materials	140,000,000	-	-	-	-	140,000,000	-	-
MG-VALDUNES	336,695,298	-	-	-	-	336,695,298	-	-
Ma Steel Guangzhou Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma Steel Hangzhou Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma Steel Wuxi Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma Steel Chongqing Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma Steel Nanjing	10,000,000	-	-	-	-	10,000,000	-	-
Ma Steel Wuhan Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma Steel Shanghai Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma-Steel Rail Transportation	-	170,091,000	-	165,930,369	-	336,021,369	-	-
Masteel Oubang Color-coated	-	10,050,000	-	-	-	10,050,000	-	-
	5,454,554,521	180,141,000	-	165,930,369	-	5,800,625,890	60,000,000	111,032,729

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

5. ASSET IMPAIRMENT PROVISIONS

	2016					
	Opening balance	Increase during the year	Decrease during the year			Closing balance
			Reversal	Write-back	Write-off	
Provisions for bad debts	433,543,192	2,686,251	-	-	-	436,229,443
Including: Trade receivables	13,382,203	-	-	-	-	13,382,203
Other receivables	420,160,989	2,686,251	-	-	-	422,847,240
Provisions for inventories (i)	650,924,678	883,565,693	-	(1,361,903,273)	-	172,587,098
Including: Raw materials	333,960,186	410,086,420	-	(684,599,061)	-	59,447,545
Work in progress	86,639,975	136,107,577	-	(221,034,697)	-	1,712,855
Finished products	170,751,556	299,376,796	-	(455,755,954)	-	14,372,398
Spare parts	59,572,961	37,994,900	-	(513,561)	-	97,054,300
Provisions for long term investments	60,000,000	-	-	-	-	60,000,000
Including: subsidiaries	60,000,000	-	-	-	-	60,000,000
Impairment of fixed assets	-	36,291,208	-	-	-	36,291,208
Including: Buildings and plant	-	6,514,174	-	-	-	6,514,174
Machinery and equipment	-	29,777,034	-	-	-	29,777,034
	1,144,467,870	922,543,152	-	(1,361,903,273)	-	705,107,749

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

Notes to Financial Statements (Continued)

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

5. ASSET IMPAIRMENT PROVISIONS (CONTINUED)

	2015					
	Opening balance	Increase during the year	Decrease during the year			Closing balance
			Reversal	Write-back	Write-off	
Provisions for bad debts	398,671,192	35,000,000	(128,000)	–	–	433,543,192
Including: Trade receivables	13,382,203	–	–	–	–	13,382,203
Other receivables	385,288,989	35,000,000	(128,000)	–	–	420,160,989
Provisions for inventories (i)	179,591,702	1,204,974,141	–	(733,641,165)	–	650,924,678
Including: Raw materials	90,011,279	637,936,253	–	(393,987,346)	–	333,960,186
Work in progress	18,362,373	182,310,920	–	(114,033,318)	–	86,639,975
Finished products	11,186,556	384,726,968	–	(225,161,968)	–	170,751,556
Spare parts	60,031,494	–	–	(458,533)	–	59,572,961
Provisions for long term investments	60,000,000	–	–	–	–	60,000,000
Including: subsidiaries	60,000,000	–	–	–	–	60,000,000
	638,262,894	1,239,974,141	(128,000)	(733,641,165)	–	1,144,467,870

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

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

6. REVENUE AND COST OF SALES

	2016		2015	
	Revenue	Cost of sales	Revenue	Cost of sales
Principal operating income	40,943,233,778	36,523,573,581	35,401,618,614	35,743,470,461
Other operating income	583,380,986	571,864,795	2,111,281,835	2,510,208,378
	<u>41,526,614,764</u>	<u>37,095,438,376</u>	<u>37,512,900,449</u>	<u>38,253,678,839</u>

Principal operating income is stated as follows:

	2016	2015
Sale of products	41,485,223,868	37,497,876,273
Rendering of services	<u>41,390,896</u>	<u>15,024,176</u>
	<u>41,526,614,764</u>	<u>37,512,900,449</u>

7 ASSET IMPAIRMENT LOSS

	2016	2015
Provision for bad debts	2,686,251	34,872,000
Including: Trade receivables	—	—
Other receivables	2,686,251	34,872,000
Provision for inventories	883,565,693	1,204,974,141
Provision for fixed assets	<u>36,291,208</u>	<u>—</u>
	<u>922,543,152</u>	<u>1,239,846,141</u>

Notes to Financial Statements (Continued)

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

8. INVESTMENT INCOME

	2016	2015
Long term equity investment income under the equity method	232,820,475	75,219,006
Long term equity investment income under the cost method	5,888,730	111,032,729
Investment income from available-for-sale financial assets during the holding period	40,000	12,994,828
Investment income from disposal of financial assets at fair value through profit or loss	14,685,855	1,569,555
Investment income from disposal of available-for-sale financial assets	—	(48,310)
Others	—	(7,349,908)
	<u>253,435,060</u>	<u>193,417,900</u>

As of the end of the reporting period, there was no significant restriction imposed upon the remittance of the Company's investment income.

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

9. CASH FLOWS FROM OPERATING ACTIVITIES

	2016	2015
Net profit/(loss)	1,362,541,845	(4,172,556,122)
Add: Provision for bad debts	2,686,251	34,872,000
Provision for inventories	883,565,693	1,204,974,141
Early retirement benefits	175,125,396	—
Provision for fixed assets	36,291,208	—
Depreciation of fixed assets	2,696,455,382	2,599,172,168
Amortisation of investment properties	1,693,010	2,063,607
Amortisation of intangible assets	29,481,675	29,571,894
Amortisation of deferred income	(111,574,252)	(70,927,623)
Loss/(profit) on disposal of non-current assets	47,495,781	(34,997,590)
Financial expenses	772,680,818	745,916,241
Investment income	(253,435,060)	(193,417,900)
(Profit)/loss on fair value changes	(3,789,546)	538,440
Decrease in deferred tax assets	52,407,898	269,300,783
(Increase)/decrease in inventories	(3,906,214,888)	531,296,455
(Increase)/decrease in receivables		
from operating activities	(6,674,529,166)	532,520,506
Increase in payables from operating activities	4,459,060,309	131,394,210
Net cash flows from operating activities	<u>(430,057,646)</u>	<u>1,609,721,210</u>
Endorsements of bank acceptance bills received		
from sales of goods or rendering of services	<u>7,208,064,925</u>	<u>1,359,176,259</u>

Supplementary Information

31 December 2016
Renminbi Yuan

1. BREAKDOWN OF NON-RECURRING GAINS OR LOSSES

The calculation of non-recurring gains or losses is in accordance with “Regulation for the preparation of information disclosure by listed securities companies No.1 – Non-recurring Gains or Losses (2008 revised)” (No.43 [2008]) issued by the CSRC.

2016

Items of non-recurring gains or losses

Gain on disposal of non-current assets	7,187,676
Loss on disposal of non-current assets	(58,376,872)
Subsidy income	74,522,778
Amortisation of deferred income	116,979,983
Other net non-operating loss, exclude items above	(19,729,079)
Employee termination compensation	(347,468,731)
Reversal of provision for trade receivables assessed for impairment individually	927,877
Gain on fair value changes of financial assets at fair value through profit or loss	4,051,190
Investment income from available-for-sale financial assets during holding period	40,000
Investment income from disposal of available-for-sale financial assets	11,635,767
Investment income from disposal of financial assets at fair value through profit or loss	46,900,221
	(163,329,190)
Less: Income tax effect of non-recurring gains or losses	11,164,092
Non-recurring gains or losses attributable to minority shareholders	6,551,217
Net effect of non-recurring gains or losses	(181,044,499)

Net profit attributable to owners of the parent excluding non-recurring gains or losses

Net profit attributable to owners of the parent	1,228,892,407
Less: net effect of non-recurring gains or losses	(181,044,499)
Net profit attributable to owners of the parent excluding non-recurring gains or losses	1,409,936,906

2. RETURN ON NET ASSETS AND EARNINGS PER SHARE

2016	Return on weighted average net assets (%)	Earnings per share (RMB)	
		Basic	Diluted
Net profit attributable to owners of the Company	6.43	0.160	0.160
Net profit attributable to owners of the Company excluding non-recurring gains or losses	<u>7.38</u>	<u>0.183</u>	<u>0.183</u>
2015	Return on weighted average net assets (%)	Earnings per share (RMB)	
		Basic	Diluted
Net loss attributable to owners of the Company	(23.01)	(0.624)	(0.624)
Net loss attributable to owners of the Company excluding non-recurring gains or losses	<u>(24.57)</u>	<u>(0.666)</u>	<u>(0.666)</u>

Return on net assets and earnings per share are calculated based on the formula stipulated in the “Regulation for the preparation of information disclosure for listed securities companies (2010) No.9 – Calculation and disclosure of return on net assets and earnings per share” (2010 revised) issued by the CSRC.

XI. Documents Available for Inspection

1. Financial statements signed and sealed by the Company's legal representative, chief accountant and head of Accounting Department.
2. Original copy of the audit report, sealed by Ernst & Young Hua Ming LLP and signed by Ms. An Xiuyan and Ms. Wu Xiaofang, certified public accountants in the PRC.
3. Original copies of all documents and announcements of the Company disclosed in Shanghai Securities News and on the website of the SSE during the reporting period.
4. Annual report announced on the website of the Hong Kong Stock Exchange.
5. The Articles of Association of the Company.

Chairman: Ding Yi

Submission date approved by the Board of Directors: 29 March 2017



馬 鞍 山 鋼 鐵 股 份 有 限 公 司
Maanshan Iron & Steel Company Limited