2013 Annual Report

H Share Code: 323
A Share Code: 600808

MAANSHAN IRON & STEEL COMPANY LIMITED

Contents

IMPORTANT NOTICE

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

2. All directors of the Company attended the Board meeting.

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

4. Mr. Ding Yi, legal representative of the Company, Mr. Qian Haifan, in charge of the accounting operations, and Mr. Xing Qunli, head of accounting department, make representation in respect of the truthfulness and completeness of the financial statements contained in the annual report.

5. There was no appropriation of fund on a non-operating basis by the controlling shareholder or its related parties found in the Company.

6. There was no violation of stipulated decision-making procedure in relation to provisions of external guarantees.

7. Renminbi, in which the financial statements are presented except when otherwise indicated.

I. Definitions and Warning of Significant Risks

DEFINITIONS

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

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

WARNING OF SIGNIFICANT RISKS:

An analysis of major risks posed to the Company, such as macro policy risks, risks associated with fluctuations in the prices of raw materials and fuels as well as financial risks, was conducted in the report. See “Major risks in future and countermeasures” under “Management Discussion and Analysis” in Section IV: Report of the Directors for details.

II. Company Introduction

(1) COMPANY PROFILE

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

(2) CONTACT PERSONS

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

(3) BASIC INFORMATION

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

(4) INFORMATION DISCLOSURE AND LOCATION FOR INSPECTION

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

(5) BRIEF INFORMATION ON THE SHARES OF THE COMPANY

Brief information on the share of the company

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

(6) COMPANY REPORT REGISTRATION CHANGES DURING THE PERIOD

1. Basic Information

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

2. Index of First Registration Information

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

3. Change of Principal Business after Listed

➢ ISSUE AND LISTING

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

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

➢ PRINCIPAL OPERATING ACTIVITIES AND PRODUCTS

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

II. Company Introduction (continued)

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

Section Steel: Major products include H-shaped steel and common medium-shaped steel. H-shaped steel is mostly used in construction, steel structures, machinery manufacturing and the construction of petroleum drilling platforms and railways. It has been awarded the "Golden Cup Prize of Quality Metal Products" and has been hailed as a "Reliable and Reputable Construction Material Brand Name Product" by the China Construction Materials Enterprise Management Association and selected in the Catalogue of China's Top Brands by the China Promotion Commission for Top Brand Strategy. The Company owns the core technology and patent of the shock and fire resistant H-shaped steel for construction. The H-shaped steel products have been certified under 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").

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

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

(7) OTHER RELEVANT INFORMATIONS

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

III. Summary of Accounting and Financial Data

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

1. Major Accounting Data

Unit: RMB'000

Major accounting data	2013	2012	Increase/ decrease compared to previous year (%)	2011 After restated	2011 Before restated
Revenue	**73,848,883**	74,404,364	–0.75	86,854,060	86,842,202
Net profit/(loss) attributable to equity holders of the parent	**157,220**	–3,863,233	–	82,369	69,578
Net loss excluding non-recurring gains or losses attributable to equity holders of the parent	**–445,730**	–3,949,152	–	–18,183	–30,976
Net cash flows from operating activities	**5,091,359**	5,592,587	–8.96	1,110,022	982,680

	As at the end of 2013	As at the end of 2012	Increase/ decrease compared to the end of the previous year (%)	As at the end of 2011 After adjusted	As at the end of 2011 Before adjusted
Net assets attributable to equity holders of the parent	**23,131,446**	23,126,644	0.02	27,387,202	26,954,411
Total assets	**71,317,212**	76,011,164	–6.18	81,224,642	81,113,029

2. Major Financial Data

Major financial indicators	2013	2012	Increase/ decrease compared to previous year (%)	2011 After restated	2011 Before restated
Basic earnings/(losses) per share (RMB/share)	**0.020**	–0.502	–	0.011	0.009
Diluted earnings/(losses) per share (RMB/share)	**0.020**	–0.502	–	0.011	0.009
Basic earnings per share excluding non-recurring gains or losses (RMB/share)	**–0.058**	–0.513	–	–0.002	–0.004
Return on net assets (weighted average) (%)	**0.68**	–15.30	increased by 15.98 percentage points	0.30	0.26
Return on net assets excluding non-recurring gains or losses (weighted average) (%)	**–1.93**	–15.64	increased by 13.71 percentage points	–0.07	–0.11

Note: 1. 42% equity interests in Masteel Financial was acquired by the Company in 2012 and thereby Masteel Financial became a subsidiary. Certain financial information in 2011 have been restated in accordance with China Accounting Standards for Business Enterprises by the Company.

Note: 2. In January to March 2014, the Ministry of Finance formulated "Accounting Standards for Business Enterprises No. 39 – Fair Value Measurement" and "Accounting Standards for Business Enterprises No. 40 – Joint Venture Arrangement"; it also revised "Accounting Standards for Business Enterprises No. 2 – Long-term Equity Investments", "Accounting Standards for Business Enterprises No. 30 – Presentation of Financial Statements", "Accounting Standards for Business Enterprises No. 9 – Employee Compensation", and "Accounting Standards for Business Enterprises No. 33 – Consolidated Financial Statements". The above 6 accounting standards shall be implemented from 1 July 2014. However, companies listed in the overseas are encouraged for early adoption. As the Company is listed in both domestic and overseas markets, the Company adopted the above 6 accounting standards in the presentation of the 2013 annual financial statements, and took reference to "International Financial Reporting Standard 12 – Disclosure of Interests in Other Entities" and applied the relevant policies. The comparable figures requiring restatement have been retrospectively adjusted accordingly.

III. Summary of Accounting and Financial Data (continued)

(2) ITEMS OF NON-RECURRING GAINS OR LOSSES

Unit: RMB'000

Items of non-recurring gains or losses	2013	2012	2011
Gains from disposal of non-current assets	**433,638**	9,839	–18,754
Government subsidies recognized in current gains and losses	**359,275**	47,578	84,456
Fair value losses of financial assets held for trading	**–78**	–21	–219
Non-operating income and expenses other than the above items	**–5,894**	1,182	–5,012
Amortization of deferred income	**93,436**	90,746	82,109
Other investment income	**17**	137	466
Effects of minority interests	**–206**	–255	–7,699
Effects of income tax	**–277,237**	–63,287	–34,795
Total	**602,951**	85,919	100,552

(3) ITEMS MEASURED UNDER THE FAIR VALUE METHOD

Unit: RMB

Item	Balance at the beginning of the reporting period	Balance at the end of the reporting period	Changes during the reporting period	Effects on the profit for the reporting period
Financial assets held-for-trading	587,120	509,330	–77,790	–77,790
Total	587,120	509,330	–77,790	–77,790

IV. Report of The Board

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

1. Chairman's Statement

Dear Shareholders,

On behalf of the Board, I hereby present to you the operating results of the Group for 2013.

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

In 2013, there emerged a multi-speed development trend on the back of the persistently slow global economic recovery and the adjustment of the global economic landscape. Driven by Asia, Africa and the Middle East, global crude steel output grew 3.5% year-on-year to 1,607 million tonnes, hitting a historic high. China's national economy headed stably toward a positive direction, recording a growth of 7.7% in GDP. However, it was in a period of transitional adjustment and therefore still under downside pressure. For the whole year, steel consumption in major downstream sectors increased steadily but there was a decline in growth when compared with last year, except for the automobile sector. The issue of steel oversupply was still prominent. According to statistics from the Ministry of Industry and Information Technology, the sales margin of the iron and steel enterprises in 2013 was 2.9%, the lowest level among industrial sectors.

IV. Report of The Board (continued)

Faced with a challenging and complex market environment, the Company's strategy is to focus on innovation and transformation to steer its production and operations. The Company regarded reducing losses and enhancing efficiency as the first and foremost priority. It spared no effort to enhance cost reduction and efficiency gain, a new step taken in responding to the crisis and challenges and accelerating transformational development. In 2013, the Company implemented all-rounded measures to cut costs and enhance efficiency, continuously intensified the adjustment of its product mix, actively carried out the restructuring of assets, thereby reversing the lossmaking situation. Progress was achieved in new product R&D: our independent innovation project on high-power locomotive wheels passed the technical assessment of China Railway Corporation and CRH train wheels were ready for test run; 46 specialty steel products were developed for use in three major sectors, namely energy, high-end equipment manufacturing and rail transportation. In 2013, the Company produced 18,120,000 tonnes of pig iron, 18,790,000 tonnes of crude steel and 18,130,000 tonnes of steel products, up by 4.3%, 8.4% and 9.3% year-on-year respectively. Of which, the Company produced 13,450,000 tonnes of pig iron, 14,040,000 tonnes of crude steel and 13,360,000 tonnes of steel products, up by 0.8%, 5.7% and 4.5% year-on-year respectively.

Under the PRC Accounting Standards, the Group's operating revenue for 2013 amounted to RMB73.849 billion, representing a decrease of 0.75% over the previous year; net profit attributable to shareholders of the Company in 2013 amounted to RMB157 million; basic earnings per share amounted to RMB0.02, successfully turning loss into profit. As at the end of the reporting period, the Group's total assets amounted to RMB71.317 billion, representing a year-on-year decrease of 6.18%; and net assets attributable to shareholders of the Company amounted to RMB23.131 billion, representing a slight increase of 0.02% year-on-year. As at the end of the reporting period, the Group's gearing ratio was 63.97%, a decrease of 2.47 percentage points compared to last year.

Taking into full consideration of the industry conditions, company profitability, future development needs and shareholders' interests, the Board recommended not to pay any cash dividend for 2013 and no capital reserve fund will be transferred to share capital. Undistributed profits will be transferred to 2014. This distribution scheme is subject to the consideration at the annual general meeting.

Pursuant to the approval by the shareholders' general meeting, the Company issued short-term financing bonds of RMB1.5 billion on 13 September 2013 at coupon rate of 6% for replenishing working capital.

For a long time, the Company has been committed to promoting comprehensive and cohesive development between its business, society and the environment by persistently adhering to the practice of "a low-carbon economy and green production". In 2013, the Company innovated its environmental protection management model and introduced professional operators for the implementation of entrusted environmental operations. The Company has ensured that facilities efficiently run through standardized management of environmental protection facilities. Currently, the Company has altogether 21 online monitoring facilities, including 12 water facilities and 9 gas facilities, linked with the network of provincial and municipal environmental protection departments, and thus the Company's compliance on emission with national requirements is ensured. In 2013, the Company continued to deepen the comprehensive utilization of its energy and resources as well as energy conservation and emission reduction. During the reporting period, the Company's consumption of new water per tonne of steel was 4.1m^3; the comprehensive utilization rate of solid waste was 99.3%; and the ratio of self-generated power was 75.0%.

Looking forward to 2014, the global economy is still in a stage of intensive adjustment and quite a number of unstable and uncertain factors remain. The recovery of developed economies is mild, while emerging economies and developing countries are generally confronted with issues such as economic growth slowdown and rising inflation pressure. The International Monetary Fund's projection of the global economic growth is 3.7% for 2014. Steel demand remains weak in international markets. The general tone of China's economy will be to make progress while ensuring stability. The continuity and stability of macroeconomic policies will be maintained and reforms will be intensified at full swing. Innovation will be driven and the shift in economic development model, economic fundamental adjustment and industry upgrade will accelerate. However, excess capacity and oversupply in the steel industry are unlikely to change any time soon. Steel companies still find themselves muddling through difficulties.

In 2014, the Group plans to produce 18.46 million tonnes of pig iron, 19.41 million tonnes of crude steel and 19.15 million tonnes of steel products (of which the Company plans to produce 13.80 million tonnes of pig iron, 14.71 million tonnes of crude steel and 14.45 million tonnes of steel products). The Company is to focus on improving profitability in its comprehensive reform and innovation with greater emphasis on the enhancement of economic systems operation and operating efficiency to create a new situation for its transformation:

➢ Arrange production in a scientific and efficient manner and systematically improve production arrangement policies to achieve long-term stable production and promote specialized production. The Company will optimize the allocation of resources, adopt a market-oriented approach with priorities tilting toward product lines and products with high contribution margin. The Company will reinforce the scientific assessment and rigid implementation of production and operation plans with an aim of improving order fulfillment rate. It will further enhance division of work among production lines for higher operating efficiency.

IV. Report of The Board (continued)

➢ Intensify the adjustment of product portfolio and accurately capture the positioning of products to strengthen differentiated competitive edges for more powerful core products. By bringing into full play relative advantages in terms of technology and equipment and relying on branding and marketing strength, the Company will continue to consolidate competitive advantages in products such as cargo train wheels, metro wheels and H-shaped steel for marine engineering, vigorously increase the size of orders of large truck wheels, wheels for export and high-grade H-shaped steel, and actively develop the markets of high-power locomotive wheels, heavy-duty wheels and high-speed CRH train wheels. The Company will create comparative advantages of strategic products. For strategic products such as highstrength automotive sheets, medium and high-grade silicon steel, high-grade industrial wires, high-grade pipeline steel, high-strength machinery steel and high-grade color-coated sheets, the Company will selectively identify market segments to be entered for brand building. As for general products such as rebar, construction wire rods, general industrial wires, medium plates and channel beams, the Company will maintain its competitive edges by adhering to the policy for scale-up and low cost so as to cope with challenges arising from a vicious price competition under a homogeneous environment. New products will be developed in an orderly manner. The Company will firmly establish the concept of customer-oriented input and output in defining the path for new ideas and processes to accelerate the development process.

➢ Establish market-oriented procurement and distribution systems and vigorously enhance the control over purchasing to build a service-oriented marketing structure. The Company will continue to operate with low levels of inventory aiming at capturing the right purchase time, enhancing procurement strategies and reducing procurement costs. The Company's purchasing, production and technical departments will join hands for iron ore mix optimization to achieve cost reduction. With our customers in mind, the Company will establish the Brand Product and Gold Service concept to improve marketing services in collaboration with sales, production and technology, striving to provide customers with system solutions. The Company will strengthen the awareness toward "itinerant trader" with the implementation of sales contract system for key products and vigorous development of strategic users and direct users to focus on major projects. The Company will accelerate the building of regional sales branches and strip processing centers to strengthen the development of regional end-user markets and value-added services. It will set up a spot trade center for enhanced processing placement to achieve added value.

➢ To continuously enhance quality management standards. The Company will improve its quality supervision and inspection mechanisms as well as quality management and assessment mechanisms to expand rewards and penalties for quality control work so as to have strict accountability on positions and individuals. The Company will reinforce the personal accountability system for quality control whereby quality performance indicators become an important basis for the selection and appraisal of senior technical directors and chief engineer. The Company will strengthen the awareness toward quality among employees on intensifying quality control activities and increasing efforts to disclose quality issues to create a featured quality culture.

- Build efficient operating mechanisms for energy production, supply and application. The Company will reinforce energy fundamental management, improve energy evaluation systems and vigorously conducts contracted energy management for better energy saving effects.

- Vigorously promote environmental operations. The Company will implement the concept of environmental management throughout the entire process of production and management and actively foster green purchasing and manufacturing, clean production, energy saving and emission reduction with an aim of building an environmental-friendly enterprise. The Company will strengthen the availability of environmental protection facilities and stable operation online with focus on the control over the emission volume from the source, regulate emission targets and keep environmental risks in control to prevent the occurrence of material environmental events. It will strictly implement the accountability system for environmental management by objectives, improve the environmental management accountability system and incentive mechanisms and increase the environmental performance indicators assessment efforts and the accountability over environmental events.

In the coming year, the Board and senior management of the Company will defy any hardship in our way and work strenuously to lead the employees in a collective 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

26 March 2014
Maanshan City, Anhui Province, the PRC

IV. Report of The Board (continued)

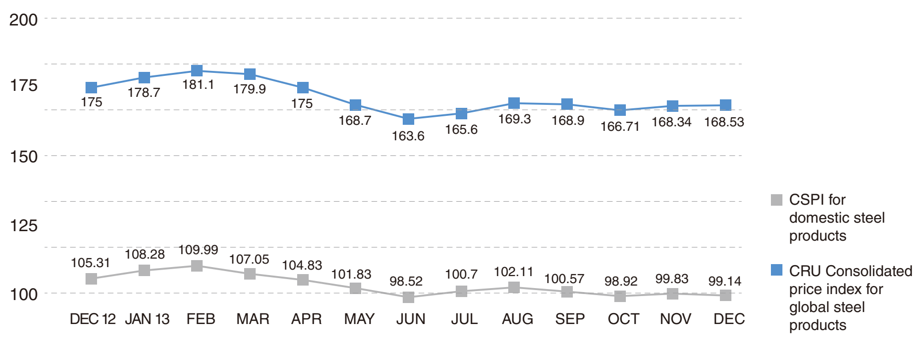
2. Management Discussion and Analysis

(1) Business Environment

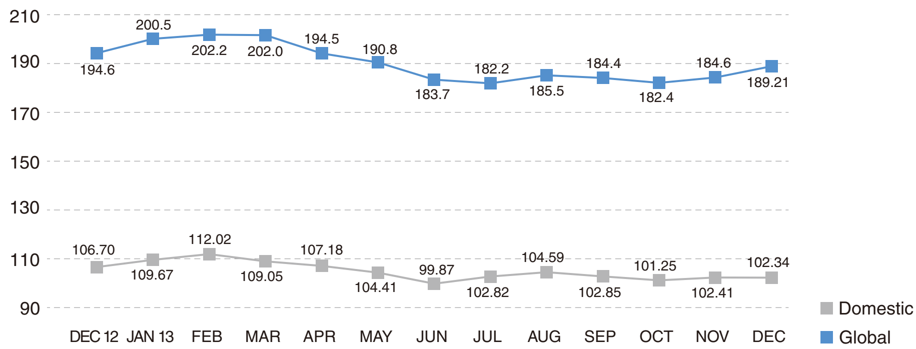
- The steel product market

The price trends of steel products in the international and domestic markets were roughly the same in 2013: after shakily reaching a year high in the first quarter, the prices of steel products fell sharply to a year low at the end of June and then experienced a shock rebound. The average consolidated price index for global steel products was 171.2, down 13.4 year-on-year, representing a decrease of approximately 7.3%. In particular, the average price index for long products was 190.17, down 16.03 year-on-year, representing a decrease of approximately 7.8%. The average price index for steel plates was 162.1, down 11.7 year-on-year, representing a decrease of 6.7%. The biggest difference in consolidated price index for steel products was 17.5, a decrease of 37.3% over the previous year.

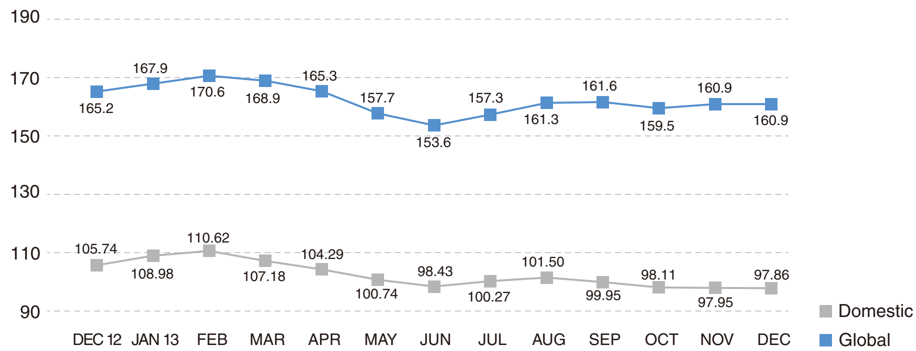
The average consolidated price index for domestic steel products was 102.61, down 2.7 year-on-year, representing a decrease of 2.56%. In particular, the average price index for long products was 104.87, down 10.47 year-on-year, representing a decrease of approximately 9.08%; and the average price index for steel plates was 102.16, down 7.46 year-on-year, representing a decrease of approximately 6.81%. The biggest difference in consolidated price index for steel products was 11.47, a decrease of 41.63% over the previous year.



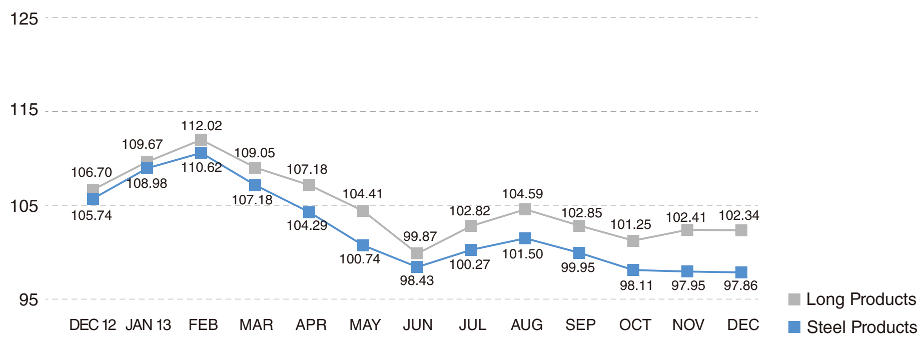
Trend of consolidated price index for global and domestic steel products in 2013



Trend of global and domestic price index for long products in 2013



Trend of price index of steel trend in International and domestic market in 2013



Trend of price of index of long products and steel plates trend in domestic market in 2013

Net exports of steel products in the PRC continued to pick up in 2013. According to customs statistics, exported steel products in aggregate during the year amounted to 62,340,000 tonnes, a year-on-year increase of 11.9%; imported steel products in aggregate during the year amounted to 14,080,000 tonnes, a year-on-year increase of 3.1%. Net exports of steel products were 48,260,000 tonnes, a year-on-year increase of 14.7%.

IV. Report of The Board (continued)

Generally speaking, in 2013, the prices of steel products in the international and domestic markets trended in a similar way, which were both lower than those in the previous year. The price trends of long products and steel plates were roughly the same while the price trend of long products was better than that of steel plates.

- The markets of raw materials and fuels
  In 2013, as steel prices dropped significantly in the first half, the prices of iron ore, coking coal and scrap steel also fell but the rate of decline in iron ore prices was smaller than that of steel. In the second half, steel prices underwent a shock rebound and then iron ore prices also picked up, still demonstrating the "easy-to-rise and hard-to-fall" characteristics. For the whole year, the prices of raw materials and fuels still hovered at high levels. According to statistics from the Ministry of Industry and Information Technology, the average CIF price of imported iron ores in China was 129.03 USD/t, a slight increase of 0.22% year-on-year.

(2) Major work

In 2013, the Company's strategy is to focus on innovation and transformation to steer its production and operations and to enhance cost saving and efficiency gain, striving to turn loss into profit. For the year as a whole, the Company produced 7,471,600 tonnes of steel plates, 2,614,500 tonnes of section steel, 7,851,400 tonnes of wire rods and 172,800 tonnes of train wheels and rims.

During the reporting period, the Company implemented all-rounded measures to cut costs and enhance efficiency and promoted economic running of systems. In terms of purchasing, the Company adopted measures such as avoiding purchases at peak times, alternative optimization and price benchmarking to improve cost effectiveness. In terms of distribution, the Company promoted service-oriented marketing and expanded the proportion of direct sales and the room for efficiency gains by better linking production and distribution. Meanwhile, the Company also vigorously conducted centralized tendering to lower costs and enhance efficiency in purchasing and distribution. Continuous recalibration to unlock potential of manufacturing systems: during the preiron making period, the Company systematically designed coal mix and iron ore mix solutions by better linking production to distribution with focus on blast furnaces and promoted direct distribution of coke to enable stable and balanced production with low levels of raw materials and fuel inventory. During the post-iron making period, the Company adopted an order-driven approach in optimizing division of work among production lines and implementing dynamic balance of resources to ensure production of major lines and varieties.

The Company continued to operate with low levels of inventory, substantially squeezing inventories of its bulk raw materials and fuels, intermediate and finished goods as well as spare parts and materials and thus trimming cash outlays by RMB600 million. The Company promoted centralized management of scrap steel resources and recycled more than 300,000 tonnes of settling materials, further improving the integrated use of solid waste. The Company improved its management model of "economic inputs" and "manageable risks" to strengthen equipment controls and "zero failure" management, as a result of which the Company won the honor as "Outstanding Enterprise in Equipment Management in China". The Company improved economic operations of systems and energy momentum, thereby overfulfilling annual energy saving and emission reduction targets promulgated by provincial and municipal authorities.

The Company consolidated scientific research and development and achieved breakthroughs in a number of key technologies. Our independent innovation project on high-power locomotive train wheelset, a major scientific and technological program of the former Ministry of Railways, passed the identification organized by China Railway Corporation. Our high-speed CRH train wheels completed all certification tests prior to test run and have passed the technical loading assessment. Our cold steel for LNG tanks passed the product identification of China Steel Association and the Company was the first in China capable of supplying them in bulk quantities. Our high-power locomotive train wheels were approved as the National-level Key New Product. Three technological achievements including the development of environmental-friendly hot-dip galvanized steel for home appliances won the Anhui Province's Scientific and Technological Progress Award. For the whole year, the Company developed altogether 1,456,300 tonnes of new products and achieved profits of RMB122 million.

The Company reinforced intellectual property management which led to a number of innovation achievements. The Company promoted the building of intellectual property management and technical standards systems and upgraded the management of technical knowhow. The Company obtained 174 patents, including 64 inventions and 125 utility models.

The Company enhanced quality management systems and established a regular reporting system for significant quality objection. The position of chief quality officer was set up to further improve product quality. The Company received the Gold Award for three products such as 400MPa grade rebar, of which, H-shaped steel for offshore platforms also received the "Exceptional Quality Award". Total loss on quality per tonne was RMB10.64, down 23.5% year-on-year; and the amount of payment for external quality claims decreased by 45.92% year-on-year.

IV. Report of The Board (continued)

(3) Operating results during the reporting period under PRC Accounting Standards

Operating income decreased by 0.75% over the previous year mainly due to the decline in the selling prices of steel products for the year. Operating costs decreased by 3% over the previous year mainly due to the reduction in materials and process energy consumption and the drop in the purchase prices of raw materials and fuels. Operating profit, total profit and net profit attributable to the parent company increased substantially over the previous year. The turn from loss to profit was mainly due to the Company's successful cost reduction and efficiency enhancement during the reporting period and the disposal of certain non-iron and steel assets.

(4) Group's cash flow analysis during the reporting period under PRC Accounting Standards

In 2013, the Group recorded a net profit of RMB157 million attributable to the equity holders of the parent. Compared with the net increase of RMB5,091 million in cash flow generated from operating activities, the difference was RMB4,934 million mainly due to the decrease in occupied working capital caused by changes in receivables from operating activities, payables from operating activities and inventories. Net cash flow from operating activities decreased by 9% over the previous year mainly due to the decrease in cash received from the sales of goods during the reporting period. Net expenditure on cash flows used in investing activities decreased by 25% over the previous year mainly due to the cash received from the disposal of non-iron and steel assets during the year. Net cash flows used in financing activities increased by 146% over the previous year mainly due to the decrease in cash from borrowings during the year.

(5) Major risks posed to the Company and coping strategies

◆ **Macro policy risks**

Macro policy risks mainly include housing sector regulation, mandatory phase-out of obsolete capacities in the steel industry and environmental protection policy. The Company is situated in the Yangtze River Delta region which is subject to the special air pollutants emission limit under the "12th Five-year" Plan and thus regulation over energy saving and environmental protection in the iron and steel industry will be more stringent.

How to respond: The Company will build further specialization and strength around its core steel business and make steeper cuts in cost and strong gains in efficiency. It will accelerate product mix adjustment by redefining product development priorities in the high-end segment such as automotive steel sheets, home appliances steel plates, highgrade silicon steel, and high-speed CRH train wheels. On cost saving and efficiency gains, the Company will optimize the burden composition, reengineer manufacturing technology, improve equipment management for zero failure and streamline jobs in each manufacturing stage. The Company will also achieve higher cost efficiency by maintaining undisrupted production and delivering products with reliable quality. It will act in accordance with China's latest industrial policy to work on emission reduction.

◆ Risks associated with price volatility on raw materials and fuels

As the price of imported iron ore remains at high position, meanwhile futures transactions and indexed pricing models are introduced on coke, iron ore and coking coal, steel companies will see price volatility on raw materials and fuels, which in turn will lead to uncertainties in the cost of production, swings in the Company's business performance.

How to respond: The Company will make better projections of the movement of steel, raw material and fuel markets and improve price watch in purchases and sales. The Company monitors and fully accounts for the inventories of its raw materials and fuels such as iron ore and coal, intermediate and finished products, equipment, reserve parts and spare components, and the steel inventories of its subsidiaries and affiliates. While maintaining undisrupted production, the Company will strive to minimize inventories. Leveraging futures, iron ore swaps and medium and long-term electronic steel trading markets, the Company will conduct futures trading on iron and steel related raw materials and fuels as well as steel products or medium and long-term electronic steel hedging business to avoid and reduce risks associated with price volatility on raw materials, fuels and steel.

◆ Financial risk

As profit level dropped significantly in iron and steel industry, pressure is mounting over the availability of cash needed for the production and operations by iron and steel enterprises, including the Company. The Company issued total amount of RMB5,500 million corporate bonds and RMB2,800 million medium-term notes in 2011 as well as RMB1,500 million short-term financing notes in 2013. Of which, RMB3,160 million corporate bonds, RMB2,800 million medium-term notes and RMB1,500 million shortterm financing notes are to be expired during the year 2014, which means the Company will be exposed to a greater repayment pressure. Moreover, as it largely relies on bank borrowings, the adjustment of the benchmark lending rates is likely to cause volatility in its interest expenses, thereby undermining its operating results.

How to respond: Enhanced utilization of cash and accelerate the cash flow turnover. The Company will leverage the easy access to financing of Masteel Financial, actively adjust the Company's capital structure, keep cash flows safe and stable and prevent financial risks.

IV. Report of The Board (continued)

3. Analysis of Principal Operation

(1) Analysis of the change in items of the balance sheets, income statement and cash flow statement

Unit: RMB'000

Items	Amount of the current year	Amount of the same period of last year	Change (%)
Revenue	73,848,883	74,404,364	–0.75
Cost of sales	70,393,963	72,840,275	–3.36
Selling expenses	423,074	349,695	20.98
Administrative expenses	1,333,992	1,378,086	–3.20
Financial expenses	1,154,160	1,463,236	–21.12
Net cash flows from operating activities	5,091,359	5,592,587	–8.96
Net cash flows from investing activities	–4,542,699	–6,056,635	–
Net cash flows from financing activities	–5,300,587	–2,152,926	–
Research and development expenditure	785,623	472,726	66.19

Analysis of the above items which change over 30%:

Accounts receivable decreased by 43% year-on-year, which was mainly due to the stepped-up efforts in collecting payment from customers during the year, as a result of which the overall cash flow turnover rate was improved and the sales on credit for the year could thus be timely settled.

Prepayments decreased by 50% year-on-year, which was mainly attributable to the decrease of prepayments for the purchase of raw materials and fuels.

Other receivables increased by 315% year-on-year, which was mainly attributable to the consideration receivables due from Magang (Group) Holding Company Limited ("the Holding") in relation to the assets reorganization during the year.

Loans and advances to customers increased by 126% year-on-year, mainly because of the increase in loans extended by Masteel Financial.

Investment properties rose by 1,364% year-on-year, which was mainly due to the Company's newly-added investment properties in real estate during the year.

Construction materials declined by 96% year-on-year, which was mainly attributed to the decrease in the purchase of construction materials during the year.

Construction in progress increased by 53% year-on-year, which was mainly attributable to the commencement of construction projects of the subsidiary, Anhui Chang Jiang Iron and Steel Co., Ltd. ("Anhui Chang Jiang Iron and Steel") during the year.

Customer Deposit received increased by 146% year-on-year, which was mainly because the Company transferred 10 directly-owned subsidiaries and 8 branches to the Holding in 2013.

Repurchase agreements decreased by 30% year-on-year, which was mainly due to the reduced cash demand from Masteel Financial during the year.

Non-current liabilities due within one year increased by 495% year-on-year, which was mainly attributable to the increase in long-term loans due within one year and bonds payable within one year.

Long-term loans dropped by 39% year-on-year, which was mainly because approximately RMB2 billion of long-term loans was transferred into non-current liabilities due within one year at the end of the year.

Bonds payable decreased by 72% year-on-year, mainly because corporate bonds worth RMB3.16 billion to be expired in 2014 were reclassified as non-current liabilities due within one year at the end of the year.

General reserve increased by 77% year-on-year, which was mainly because of the growth of Masteel Financial's lending and discounted bill businesses during the year.

Exchange fluctuation reserve decreased by 337% year-on-year, which was mainly due to the depreciation of the Australian dollars held by the overseas subsidiary Ma Steel Australia against Renminbi during the year.

Business taxes and surcharges increased by 41% year-on-year, which was mainly due to the increase in turnover tax during the year leading to an increase in accrued surcharges such as urban maintenance and construction tax, educational surcharge, local educational surcharge and water conservancy fund.

Asset impairment loss declined by 57% year-on-year, which was mainly attributable to the accrual of a great sum of impairment provisions against other receivables in 2012.

IV. Report of The Board (continued)

Investment income decreased by 53% year-on-year, which was mainly attributable to the deemed disposal gain of Maanshan Masteel Yuyuan Logistics Co., Ltd. worth RMB480 million in 2012.

Non-operating income rose by 481% year-on-year, which was mainly attributable to the gain from disposal of non-current assets to the Holding and the subsidy received from Maanshan Government for carve-out of the non-core business during the year.

Income tax increased by 111% year-on-year, which was mainly due to the increase in total profit during the year.

Net cash flows used in financing activities increased by 146% over the previous year mainly due to the decrease in cash received from borrowings during the year.

Cash outflows arising from the effect of exchange rate changes on cash and cash equivalents rose by 212% year-on-year, which was mainly due to the depreciation of the Company's foreign currencies against Renminbi.

(2) Revenue

Analysis of driving factors behind the change in revenue

For details, please refer to "Management Discussion and Analysis".

Analysis of product revenue by goods sales

Unit: 10,000 tonnes

Product segment	Unit produced during the period	Unit sold during the period	Inventory the end of the period
Steel plates	737.2	746.4	4.2
Section steels	261.5	261.1	1.7
Wire rods	786.7	780.0	12.5
Train wheels and wheel rims	17.3	18.1	0.8

The commission of the 3 million tons (a production capacity replacement project of Anhui Chang Jiang Iron & Steel) added the Group's output and sales of wire rod products by about 1 million tons year-on-year. Apart from that, there was no major change in the output and sales of other main products.

Major customers

The Group's sales to the top five customers totaled RMB8,554.7 million, representing 11% of the total sales revenue of the Group for the year.

(3) Cost

Analysis of cost

Unit: RMB Million

By industry

By industry	Cost structure	Amount in 2013	% of total cost in 2013	Amount in 2012	% of total cost in 2012	Change in proportion of amount in 2013 against amount in 2012 (%)
Steel	Raw materials	**51,434**	**80.0**	53,065	81.6	–3.1
	Salary	**4,023**	**6.3**	3,945	6.1	2.0
	Depreciation	**3,733**	**5.8**	3,450	5.3	8.2
	Fuels	**3,463**	**5.4**	3,218	4.9	7.6
	Others	**1,645**	**2.5**	1,364	2.1	20.6

Major suppliers

In 2013, the Group's purchase from the top five suppliers totaled RMB26,074.3 million, accounting for 24.5% of the Group's total purchase amount for the year. Other than that, in 2013, none of the Directors, Supervisors, their connected parties and other shareholders (to the knowledge of the Board holding 5% or more of the Company's share) held any beneficial interest in the Group's five largest suppliers or customers.

(4) Expenses

For details, please refer to "Analysis of the items which changes over 30%" of Section IV – (1) 3(i).

IV. Report of The Board (continued)

(5) Research and development (R&D) expenditure

R&D expenditure breakdown

Unit: RMB'000

Expensed R&D expenditure in FY2013	785,623
Capitalized R&D expenditure in FY2013	–
Total R&D expenditure	785,623
Total R&D expenditure as a share of net asset value (%)	3.40
Total R&D expenditure as a share of operating revenue (%)	1.06

Notes

During the period, the total R&D expenditure increased by 66.19%, which was mainly due to the enhancing innovation and acceleration of R&D of new products.

(6) Cash flow

For details, please refer to "Management Discussion and Analysis" of "Report of The Board".

4. Analysis by Operation of Industry, Products or Regional

(1) Principal operation by industry and products

Unit: RMB Million

Principal operation by industry						
Business segment	Revenue	Cost of sales	Gross profit margin (%)	Year-on-year increase/(decrease) of operating income (%)	Year-on-year increase/(decrease) of operating cost (%)	Year-on-year increase/(decrease) of gross profit margin (%)
Iron and steel	63,046	61,148	3.01	1.13	–1.57	Increase by 2.66 percentage point

Principal operation by products						
Business segment	Revenue	Cost of sales	Gross profit margin (%)	Year-on-year increase/(decrease) of operating income (%)	Year-on-year increase/(decrease) of operating cost (%)	Year-on-year increase/(decrease) of gross profit margin (%)
Steel plates	27,495	26,056	5.23	3.07	–2.78	Increase by 5.71 percentage points
Section steels	7,893	7,896	–0.04	–12.43	–15.21	Increase by 3.28 percentage points
Wire rods	23,767	23,453	1.32	1.83	1.97	Decrease by 0.14 percentage points
Train wheels and wheel rims	1,329	1,127	15.20	–25.96	–22.44	Decrease by 3.85 percentage points

During the reporting period, revenue from principal operation was RMB66,303 million, among which revenue from iron and steel operation was RMB63,046 million, accounting for 95% of revenue from principal operation.

IV. Report of The Board (continued)

(2) Analysis of principal operation by region

Unit: RMB Million

Region	Revenue	Year-on-year increase/ (decrease) of revenue (%)
Anhui	15,178	–52.82
Jiangsu	11,951	14.35
Shanghai	7,017	–15.58
Guangdong	2,797	7.33
Zhejiang	2,252	–50.86
Other domestic regions	30,346	124.19
Overseas and Hong Kong	4,308	57.00

5. Analysis of Assets and Liabilities

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

In the reporting period, the Group's financial assets held-for-trading were accounted under the fair value method, using the market prices of stocks as the fair values. For details, please refer to "Securities Investment". In the reporting period, there were no significant changes to the measurement of primary assets.

6. Analysis of core competitiveness

As at 31 December 2013, the Company had 523 valid patents, 3 concessions (3 patents were conceded to external entities) and 513 valid technical secrets. The patented technologies, technical secrets and technical know-how constitute the Company's core technology system. The Company creates its own core technologies in various key products such as wheels (especially high-speed CRH Wheels), high-power locomotive wheels, high-strength automobile plates, efficient and resource-conserving construction steel, H-shaped steel for marine engineering, hot rolled high-grade pipeline steel and efficient electrical steel. Compared with other similar enterprises, the Company has a competitive advantage. In particular, the Company assumes a dominant position in terms of technology in efficient and resource-conserving construction steel, wheels, high-speed CRH and high-power locomotive wheels in China.

7. Investment Analysis

(1) General analysis of external equity investment

Unit: RMB10,000

Investment amount as at the end of the reporting period of the Company	603,412
Increase/decrease of investment amount	67,458
Investment amount as at the end of previous year of the Company	670,870
Increase/decrease in investment amount (%)	–10.1

Investees

Name of investees	Principal business	Percentage of equity interest
Ma Steel (Hefei) Iron & Steel Co., Ltd.	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.; iron and steel technological services and related businesses; dock operation, warehousing, transportation services; and project construction. (If licences are required for the above businesses, production/business will be carried out with a valid license).	71.00%
Magang Jinxi Railway Transport Equipment Co., Ltd.	R&D, manufacturing, maintenance and sale of axles for railway cargo and passenger trains, general axels for urban rail transport, high-speed EMU axles and locomotive axles as well as R&D, manufacturing and sale of bogies.	50.00%
Jiyuan Jinyuan Chemical Co., Ltd.	Development and transfer of related technology in purebenzene, pure toluene and xylene.	36.00%

IV. Report of The Board (continued)

Securities investment

Item no.	Type of securities	Securities code	Abbreviation	Initial investment amount (RMB)	Numbers of shares held	Book value at of the end of the reporting period (RMB)	Proportion of securities investment at the end of the reporting period	Gains/loss in the reporting period (RMB)
1	Stock	601857	PetroChina	584,500	35,000	269,850	52.98	–12,950
2	Stock	601186	China Railway Construction	181,600	20,000	93,800	18.42	–39,400
3	Stock	601390	China Railway Group	158,400	33,000	88,440	17.36	–11,880
4	Stock	601898	China Coal Energy	201,960	12,000	57,240	11.24	–13,560
Total				1,126,460	/	509,330	100	–77,790

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

(2) Entrusted financial management and derivatives investment of non-financial companies

The Company had no entrusted financial management during the year.

The Company had no entrusted loans during the year.

(3) Proceeds raised

During the reporting period, the Company had no proceeds raised or proceeds raised in 2012 used in 2013.

(4) Analysis of the Group's major subsidiaries and investees

- Ma Steel (Hefei) Iron & Steel Co., Ltd. has a registered capital of RMB2,500 million, in which the Company holds a direct stake of 71%. It is mainly engaged in metallurgy and extended processing of ferrous metals and sale of resulting products and by-products; production and sale of coke and coke chemical products and energy, extended processing of iron and steel products, production and sale of metallic products. Net profit for the reporting period amounted to RMB15 million. As at the end of the reporting period, it had total assets amounting to RMB5,517 million and net assets of RMB3,313 million.

- Anhui Chang Jiang Iron and Steel Co., Ltd has a registered capital of RMB1,200 million, in which the Company holds a direct stake of 55%. It is mainly engaged in ferrous metal smelting, the production and sales of screw threaded steel, round steel, section steel, angle steel, deformed steel, wire and rod, sales of iron ore and iron ore fines and scrap steel as well as import and export. As at the end of the reporting period, it recorded net profit of RMB48 million, total assets of RMB7,152 million and net assets of RMB2,408 million.

- Magang Group Finance Co., Ltd. has a registered capital of RMB1 billion 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 inter-lending, collection and payment for transactions between members, approved insurance brokerage, entrustment loans for members, internal transfer and bill settlement, design of settlement and liquidation plans, and taking deposits from members. In the reporting period, it posted a net profit of RMB142 million. At the end of the reporting period, its total asset value was RMB8,057 million and net asset value RMB1,252 million.

- Anhui Masteel K. Wah New Building Materials Co., Ltd. has a registered capital of US$8.389 million, in which the Company holds a direct stake of 70%. It is mainly engaged in the production, sale and transportation of slag comprehensive utilisation products and the provision of related technological consultation services. Net profit for the reporting period was RMB5 million. As at the end of the reporting period, it had total assets amounting to RMB193 million and net assets of RMB134 million.

IV. Report of The Board (continued)

- 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 30%, respectively. It is mainly engaged in the processing and sale of metallic products, processing of automobile spare parts and sale of construction materials and chemical products. Net profit for the reporting period amounted to RMB7 million. As at the end of the reporting period, it had total assets amounting to RMB810 million and net assets of RMB104 million.

- Ma Steel (Guangzhou) Processing and Distribution Co., Ltd. has a registered capital of RMB120 million, in which the Company holds a direct stake of 66.67%. It is mainly engaged in the production, processing and sale of various steel products, as well as provision of storage, transportation and after-sales services. Net profit for the reporting period amounted to RMB13 million. As at the end of the reporting period, it had total assets amounting to RMB1,155 million and net assets of RMB176 million.

- Ma Steel (Jinhua) Processing and Distribution Co., Ltd. has a registered capital of RMB120 million, in which the Company holds a direct stake of 75%. It is mainly engaged in the production, processing and sale of steel plates, wire rods and section steel, as well as provision of storage and after-sales services. Net profit for the reporting period amounted to RMB12 million. As at the end of the reporting period, it had total assets amounting to RMB608 million and net assets of RMB142 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 RMB12 million. As at the end of the reporting period, it had total assets amounting to RMB581 million and net assets of RMB184 million.

- Anhui Masteel Holly Industries Co., Ltd. ("Holly Industrial") has a registered capital of RMB30 million, in which the Company holds a direct stake of 71% and an indirect stake of 29%. It is mainly engaged in the production, sale and agency of steel products and other product packaging materials and provision of onsite packaging services. Net profit for the reporting period amounted to RMB15 million. As at the end of the reporting period, it had total assets amounting to RMB548 million and net assets of RMB168 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 RMB97 million. As at the end of the reporting period, it had total assets amounting to RMB244 million and net assets of RMB225 million.

- Maanshan BOC-Ma Steel Gases Company Limited has a registered capital of RMB468 million, in which the Company holds a direct stake of 50%. It is mainly engaged in the production and sales of gas products in gaseous or liquid form, as well as the preparation of other industrial gas product projects. Net profit during the reporting period was RMB150 million. As at the end of the reporting period, it had total assets amounting to RMB687 million and net assets of RMB627 million.

- Ma Steel (Hefei) Processing and Distribution Co., Ltd has a registered capital of RMB120 million, in which the Company holds direct and indirect stakes of 61% and 28%, respectively. It is mainly engaged in processing and sale of steel plates and production and sale of construction steel framework products, as well as the provision of storage and transportation services. Net profit for the reporting period amounted to RMB14 million. As at the end of the reporting period, it had total assets amounting to RMB770 million and net assets of RMB153 million.

In 2013, Masteel Financial achieved a total profit of RMB189.61 million, an increase of 48.17% over the previous year, mainly due to:

- Increase in the scale of deposit received and credit. Average daily balance of customer deposits of Masteel Financial grew by 86.19% over the previous year, and credit scale recorded a year-on-year growth of 44.52%, leading to an increase in the Company's interest income.

- Strengthening communication and contact with commercial banks, actively seeking the optimal interbank deposit rate, as well as a reasonable allocation of funds, leading comprehensive interbank deposit rate to reach 4.31%, 1.31% higher than the budget, and resulted in an increase in interest income.

- Capital market price hikes, and considerable rise in interbank deposit rate and bills discount prices during the reporting period caused interest income to increase.

IV. Report of The Board (continued)

(5) Projects financed by other than fundraising proceeds

Unit: RMB Million

Project name	Project amount	Project progress
Hot-rolled pickling plate project at No.4 steel & rolling plant	678.90	Pilot production
Total	678.90	/

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

1. Industry Competition and Development Strategy

Further details are stated in "Management Discussion and Analysis" of "Report of the Board".

2. Business Plan

Further details are stated in "Management Discussion and Analysis" of "Report of the Board".

3. Operating Plan

Further details are stated in "Management Discussion and Analysis" of "Report of the Board".

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

The Company's headquarters will earmark RMB3.4 billion in capital investment for 2014, which is below the aggregate depreciation.

In 2014, RMB3.16 billion worth of three-year corporate bonds, RMB1.5 billion worth of short-term bills and RMB2.8 billion medium-term notes will become due in August, September and November, respectively, it is estimated that the Company will have to repay RMB7.5 billion in principal. Setting aside the RMB2.5 billion which was from the consideration of disposal of certain non-iron and steel assets to the Holding, there is still around RMB5.0 billion shortfall to be financed. The Company plans to secure the funds through various financing means, including issuance of RMB2.0 billion short-term bills, the extra cross-border financing of RMB3.0 billion, and other financing means for RMB1.0 billion.

5. Possible Risks

Further details are stated in "Management Discussion and Analysis" of "Report of the Board".

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

1. The Board and the Supervisory Committee's Explanation for the Accounting Firm's "Non-Standard Audit Report"

√ Not applicable

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

√ Not applicable

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

√ Not applicable

(4) THE DIVIDEND DISTRIBUTION OR CAPITAL RESERVES CAPITALISATION

1. Formulation, Implementation and Adjustment of a Cash Dividend Policy

According to the fourth paragraph in Article 184 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. Except that no cash dividend was declared due to the need to counter the impact of the financial crisis in 2008, the Company has been carrying out the distribution of profits in cash for many years on a continuous basis. No cash dividend was declared in 2011 and 2012 as the company's core business and overall business recorded losses respectively in 2011 and 2012.

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 midto- 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.

IV. Report of The Board (continued)

2. The Profit and the Parent Company's Undistributed Profit for the Reporting Period were Positive, but No Cash Dividend Distribution Plan was Proposed. The Company should Disclose in Detail the Reasons therefore and the Plans for the Purpose and Use of the Undistributed Profit

Reason for No Cash Dividend Distribution Plan was Proposed Although the Profit and the Parent Company's Undistributed Profit for the Reporting Period were Positive	The Purpose and Use of the Undistributed Profit
As audited by Ernst & Young Hua Ming, for the year 2013, the Company's profits distributable to shareholders amounted to approximately RMB242 million. In light of the current economic situation and condition of the iron and steel industry, the Company's production and operations are faced with severe challenges with tighter funding. To ensure the Company's normal operations and sustainable development and taking into account the overall long-term interest of the shareholders, the Board did not recommend the payment of the cash dividend for 2013 while no capital reserve fund will be transferred to share capital. The undistributed profit will be carried forward to year 2014.	Company's production and operation

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

Unit: RMB Million

Year of dividend	Bonus shared for each 10 shares (share)	Dividend distributed for each 10 shares (RMB) (tax inclusive)	Transfer of capital reserve to shares for each 10 shares (share)	Total amount of cash dividends (tax inclusive)	Net profits/(loss) attributed to the shareholders of the Company shown in the consolidated statement for the dividend year	Ratio between the dividends and the net profit/(loss) attributed to the shareholders of the Company in the consolidated statement (%)
2013	0	0	0	0	157.2	0
2012	0	0	0	0	–3,863.2	0
2011 (after restated)	0	0	0	0	82.4	0

(5) ACTIVE FULFILLMENT OF SOCIAL RESPONSIBILITY

1. Social Responsibility Work

Further details are stated in "Maanshan Iron & Steel Company Limited Social Responsibility Report 2013". Information source: www.sse.com.cn, www.hkexnews.hk.

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

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

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

IV. Report of The Board (continued)

In the reporting period, the Hefei Co.'s pollution treatment facilities run normally, with run rate of 95%. The discharge of major pollutants was organized in line with required standards. It formulated emergency plan for environmental pollution incidents and recorded the plan with the provincial environment authority. CCTV exposed the environmental pollution incident at Hefei Co. in December 2013, the Hefei City-based environmental watchdog subsequently fined Hefei Co. RMB50,000. Hefei Co. has thus made up the decision to shut down its melting capacity, eliminate obsolete production capacity and transform its business by 1 October 2014. Details regarding the matters can be found on www.sse.com.cn and www.hkexnews.hk.

(6) OTHER MATTERS

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

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

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

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

V. Significant Matters

(1) MAJOR LITIGATION AND ARBITRATION CASES AND MEDIA CONTROVERSIES

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

Summary of the case and type of controversy	Information source
Bankruptcy and restructuring of Maanshan Masteel Yuyuan Logistics Co. Ltd.	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2012-10-13/600808_20121013_3.pdf

(2) OCCUPATION OF FUNDS AND REPAYMENT PROGRESS IN THE REPORTING PERIOD

√ Not applicable

(3) INSOLVENCY OR RESTRUCTURING RELATED MATTERS

Bankruptcy and restructuring of Maanshan Masteel Yuyuan Logistics Co. Ltd. has been disclosed in the announcement, please refer to:

http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2012-10-13/600808_20121013_3.pdf

(4) ASSET TRANSACTIONS AND MERGER OF COMPANIES

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

Brief description and nature of the matter	Information source
Disposal of certain non-iron and steel related assets to Magang (Group) Holding Company Limited	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2013-08-22/600808_20130823_4.pdf http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2013-10-29/600808_20131030_1.pdf
Acquisition (acceptance of the assignment) of an 11% equity interest in Maanshan Iron & Steel (Hong Kong) Limited from Ma Steel International Trade & Economic Corporation	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2013-12-27/600808_20131228_4.pdf

V. Significant Matters (continued)

(5) THE COMPANY'S EQUITY INCENTIVES AND THEIR IMPACT

√ Not applicable

(6) MATERIAL CONNECTED TRANSACTIONS

1. Connected Transactions related to Normal Operations

Normal businesses between the Company and Holding

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

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

The payment made by the Company to Holding in respect of the "Sale and Purchase of Ore Agreement", which was signed in 2012, from 1 January 2013 to 31 December 2013 was as follows (RMB'000):

	Amount paid	Proportion of transaction of the same category (%)
Purchase of iron ore, limestone and dolomite	3,806,656	16

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

All Directors of the Board who are not associated with Holding (including Independent Non-executive Directors) considered that such transactions were carried out between the Company and Holding in their on-going normal course of business on normal commercial terms or terms no less favourable than those offered by independent third parties, which were in the best interests of the Company and its shareholders. During the reporting period, such transactions were conducted pursuant to the terms as set out in the "Sale and Purchase of Ore Agreement" with effect from 2013 to 2015. Total value of the transactions did not exceed the cap amount of such transactions stipulated in the agreement during the reporting period, which was RMB5,658.27 million.

(2) Businesses between Masteel-Financial and Holding

Business nature		**Amount of loan or deposit RMB'000**	**Interest incomes/ expenses RMB'000**
Deposit	Maximum daily deposit	3,386,493	17,180
	Monthly average maximum daily deposit	2,193,684	
Loan	Maximum daily loan	460,000	9,230
	Monthly average maximum daily loan	408,387	
Other income			
Net income from handling fee and commission (RMB'000)			1,319
Income from discount interest (RMB'000)			13,686

The continuing connected transactions arising under the Finance Services Agreement between Masteel Financial and Holding in 2013 were approved by the Board. All Directors of the Board who are not associated with Holding (including Independent Non-executive Directors) considered that such transactions were carried out on normal commercial terms and were in the overall interests of the Company and its shareholders. Such transactions did not exceed the stated cap amounts, i.e. the maximum daily deposit balance plus interest should be no more than RMB500 million, and the interest, handling fees and service charges should be no more than RMB50 million.

V. Significant Matters (continued)

(3) Business transactions between the Group and environmental protection companies:

The transactions took place between 1 January and 31 December 2013 for the Group under the Energy Saving and Environmental Protection Agreement signed in 2012 (in RMB'000):

	Amount	Proportion of transaction of the same category (%)
Purchase of energy saving and environmental protection engineering and other services by the Group from Environmental Protection Company	351,926	5
Purchase of wastes and other services by Environmental Protection Company from the Group	50,930	–
Total	402,856	–

In 2013, the Company entered into the Energy Saving and Environmental Protection Agreement with Environmental Protection Company, with both approved at the extraordinary general meeting. All Directors of the Board who are not associated with Holding (including Independent Non-executive Directors) considered that such transactions were carried out on normal commercial terms and were in the overall interests of the Company and its shareholders. Such transactions did not exceed the stated cap amounts, i.e. RMB470 million.

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

	Amount paid	**Proportion of transaction of the same category (%)**
Steel products and other products purchased by Holding from the Company	149,415	–
Water, electricity, telephone and other services acquired by Holding from the Company	303,042	17
Purchase by the Company for fixed assets and construction services	184,736	2
Purchase by the Company to Holding for other services and products	636,542	79
Total	1,273,735	–

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

Such transactions have been approved by the Board of Directors of the Company, and were proceeded in compliance with the terms of these agreements. The maximum amounts stipulated have not been exceeded, i.e. RMB1,596.4 million.

– As at 31 December 2013, except for receivables and payables generated in ordinary business and the dividend payable to Holding, there was no amount due to or from the Company's connected parties.

V. Significant Matters (continued)

– Material contracts with the controlling shareholder

On 22 August 2013, the Company and the Group signed the CCT Agreement for 2013-2015, which was reviewed and approved at the extraordinary general meeting of shareholders held on 29 October 2013; on 27 December 2013, the Company and the Group signed the Agreement on Provision of Financial Service and the Financial Services Agreement and the Integrated Support Services Agreement, both of which have been reviewed and approved by the board of directors. In addition, as of the end of 2013, the Company or its affiliates had not signed any other major agreements with the controlling shareholder.

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

2. Connected Transactions Arising from the Acquisition or Disposal of Assets

Cases already disclosed in the temporary announcements and without new development or changes

Summary of the case	Information source
Disposal of certain non-iron and steel related assets to Magang (Group) Holding Company Limited	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2013-08-22/600808_20130823_4.pdf http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2013-10-29/600808_20131030_1.pdf
Acquisition (acceptance of the assignment) of an 11% equity interest in Maanshan Iron & Steel (Hong Kong) Limited from Ma Steel International Trade & Economic Corporation	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2013-12-27/600808_20131228_4.pdf

V. Significant Matters (continued)

(7) MATERIAL CONTRACTS AND PERFORMANCE THEREOF

1. Entrustment, Contracting and Leasing

√ Not applicable

2. Guarantees

Unit: US$ Million

External guarantees provided by the Company (excluding guarantees provided for subsidiaries)	
Total guarantee amount during the reporting period (excluding guarantees provided for subsidiaries)	0
Total balance of guarantees at the end of the reporting period (A) (excluding guarantees provided for subsidiaries)	0
Total guarantees provided for subsidiaries by the Company	
Total guarantee amount provided for subsidiaries during the reporting period	–55
Total balance of guarantees provided for subsidiaries at the end of the reporting period (B)	0
Total guarantee amount provided by the Company (including guarantees for subsidiaries)	
Total guarantee amount (A+B)	0
Proportion of total guarantee amount to the Company's assets (%)	0
Including:	
Guarantee amount provided for shareholders, the de facto controller and connected parties (C)	0
Guarantee amount provided directly or indirectly for entities with gearing ratio exceeding 70% (D)	0
Total guarantee amount exceeding 50% of net assets (E)	0
Total amount of the three guarantees mentioned above (C+D+E)	0

During the reporting period, the Company did not provide any guarantee for external companies or subsidiaries.

3. Other material contracts

The Company had no other material contracts during the year.

(8) PERFORMANCE OF UNDERTAKINGS

√ Not applicable

(9) APPOINTMENT AND REMOVAL OF ACCOUNTING FIRM

Whether change of accounting firm:	No
Current Appointment	
Name of accounting firm	Ernst & Young Hua Ming
Remuneration of accounting firm	RMB5,115,000 (of which the annual audit fee and the fee for executing the interim agreed-upon procedures totalled RMB4,785,000; fee for the relevant professional service provided to issue comfort letters for the Company's disposal of non-iron and steel related assets amounted to RMB330,000).
Term of auditing of accounting firm	20
Internal control auditing accounting firm	Ernst & Young Hua Ming

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

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

(11) OTHER SIGNIFICANT EVENTS

The Company had no other significant events during the year.

VI. Movements in Share Capital and Shareholders

(1) SHARE MOVEMENTS

1. Table on Share Movements

Unit: Share

	Prior to the current movements		Increase/(decrease) of current movements (+, -)					After current movements	
	Number of shares	Percentage (%)	Issue of new shares	Bonus shares	Transferred from reserves	Others	Sub-total	Number of shares	Percentage (%)
I. Shares subject to selling restrictions	-	-	-	-	-	-	-	-	-
1. State-owned shares	-	-	-	-	-	-	-	-	-
2. State-owned legal person shares	-	-	-	-	-	-	-	-	-
3. Other domestic shares	-	-	-	-	-	-	-	-	-
including:									
Shares owned by domestic legal persons	-	-	-	-	-	-	-	-	-
Shares owned by domestic natural persons	-	-	-	-	-	-	-	-	-
4. Foreign owned shares	-	-	-	-	-	-	-	-	-
Including:									
Shares owned by foreign legal persons	-	-	-	-	-	-	-	-	-
Shares owned by foreign natural persons	-	-	-	-	-	-	-	-	-
II. Shares not subject to selling restrictions	7,700,681,186	100	-	-	-	-	-	7,700,681,186	100
1. RMB-denominated ordinary shares	5,967,751,186	77.5	-	-	-	-	-	5,967,751,186	77.5
2. Domestic listed foreign shares	-	-	–	-	-	-	-	-	-
3. Foreign listed foreign shares	1,732,930,000	22.5	-	-	-	-	-	1,732,930,000	22.5
4. Others	-	-	-	-	-	-	-	-	-
III. Total number of shares	7,700,681,186	100	-	-	-	-	-	7,700,681,186	100

2. Movements in Shares Subject to Selling Restrictions

During the reporting period, there were no movements in shares subject to selling restrictions.

(2) ISSUANCE AND LISTING OF SECURITIES

1. Issuance of Securities over the Past Three Years as of the End of the Reporting Period

Unit: $100 million
Currency: RMB

Category of Stock and its Derivative Securities	Date of issuance	Issue price (or interest rate)	Issue amount	Date of listing	Date of listing approved for listing and trading	Date of termination of trading
Bonds, bonds with warrants, corporate bonds						
11馬鋼01	25 August 2011	100 (5.63)	31.6	13 September 2011	31.6	25 August 2014
11馬鋼02	25 August 2011	100 (5.74)	23.4	13 September 2011	23.4	25 August 2016

Upon approval of the China Securities Regulatory Commission in Doc. 【2011】 No. 1177, the Company was allowed to issue corporate bonds with a nominal value of not more than RMB5,500 million to the public. On 24 August 2011, the Company and CITIC Securities Co., Ltd. (lead underwriter) made a coupon rate inquiry to institutional investors offline. Based on the subscription results after the inquiry with institutional investors offline and following the unanimous negotiations by the issuer and the sponsor (lead underwriter), the coupon rate for the 3-year corporate bonds for the current issue was finally fixed at 5.63%, while the coupon rate for the 5-year corporate bonds was fixed at 5.74%. These rates would remain unchanged during the duration of the bonds.

2. Movements in total shares and shareholder structure and the Company's assets and liability structure

The total number of issued shares and the share capital structure of the Company had not changed as a result of any bonus issue or share placement during the reporting period.

3. Existing internal employee shares

The Company had no internal employee shares as at the end of the reporting period.

VI. Movements in Share Capital and Shareholders (continued)

(3) SHAREHOLDER AND ACTUAL HOLDERS

The number of shareholders and shareholding structure

Unit: Shares

Total number of shareholders at the end of the reporting period	336,842	Total number of shareholders as at the fifth trading day before publication of the annual report	333,146

Shareholding of the top ten shareholders

Name of shareholder	Type of shareholders	As a Percentage to number of shares held (%)	Total number of shares held	Number of shares held with selling restrictions	Number of pledged or frozen shares
Magang (Group) Holding Company Limited	State-owned shareholder	50.47	3,886,423,927	0	0
HKSCC (Nominees) Limited	Foreign shareholder	22.18	1,707,742,898	0	Unknown
中國建設銀行－鵬華價值優勢股票型證券投資基金	Others	0.58	45,000,000	0	Unknown
張沐城	Others	0.35	27,300,000	0	Unknown
王勇	Others	0.26	20,250,000	0	Unknown
何文華	Others	0.16	11,983,587	0	Unknown
張武	Others	0.13	10,200,000	0	Unknown
肖國文	Others	0.13	10,181,358	0	Unknown
白計平	Others	0.11	8,209,900	0	Unknown
海通－中行－渣行銀行（香港）有限公司	Others	0.10	7,800,000	0	Unknown

Shareholding of top ten shareholders without selling restrictions

Name of shareholder	Number of shares held without selling restrictions	Type and number of shares	
Magang (Group) Holding Company Limited	3,886,423,927	RMB-denominated ordinary shares	3,886,423,927
HKSCC (Nominees) Limited	1,707,742,898	Overseas-listed foreign shares	1,707,742,898
中國建設銀行－鵬華價值優勢股票型證券投資基金	45,000,000	RMB-denominated ordinary shares	45,000,000
張沐城	27,300,000	RMB-denominated ordinary shares	27,300,000
王勇	20,250,000	RMB-denominated ordinary shares	20,250,000
何文華	11,983,587	RMB-denominated ordinary shares	11,983,587
張武	10,200,000	RMB-denominated ordinary shares	10,200,000
肖國文	10,181,358	RMB-denominated ordinary shares	10,181,358
白計平	8,209,900	RMB-denominated ordinary shares	8,209,900
海通－中行－渣打銀行（香港）有限公司	7,800,000	RMB-denominated ordinary shares	7,800,000

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

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

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

HKSCC (Nominees) Limited held 1,707,742,898 H shares (an increase of 747,000 shares during the reporting period) of the Company on behalf of multiple clients. The Company does not know and cannot confirm whether such shares held by HKSCC (Nominees) Limited during the reporting period were pledged, held in lien or placed in custody.

As at 31 December 2013 and 28 February 2014, which is the latest practicable date for the publication of this report, to the best knowledge of the Directors, the Company had sufficient public float as stipulated by the Rules Governing the Listing of Securities on Hong Kong Stock Exchange ("Hong Kong Listing Rules").

VI. Movements in Share Capital and Shareholders (continued)

(4) SUBSTANTIAL SHAREHOLDERS AND ACTUAL HOLDERS

1. Shareholders

Legal Person

Unit: RMB'000

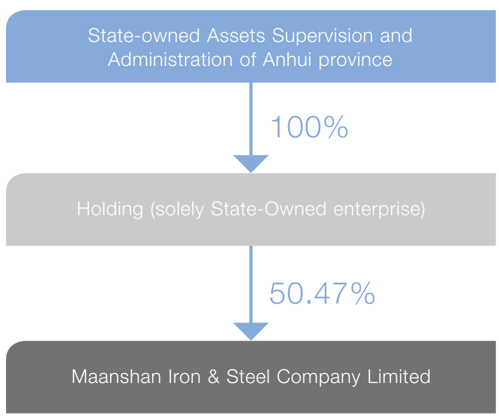
Name	Magang (Group) Holding Company Limited
Head of unit or legal representative	Gao Haijian
Date of Incorporation	1 September 1993
Registered capital	6,298,290
Major business operations	Mining and sorting of mineral products; construction, construction materials, machine manufacturing, maintenance and design; external trading; domestic trading; distribution and storage of materials; property management; consulting service; rental services; agriculture and forestry.

2. Actual holders

(1) Legal Person

Name	State-owned Assets Supervision and Administration of Anhui province

(2) The Proprietorship and Controlling Relationship between the Company and its De Facto Controller



(5) Other shareholders as legal persons with shareholdings of 10% or above

There is no shareholder as a legal person with shareholdings of 10% or above at the end of the reporting period.

VII. Directors, Supervisors, Senior Management, Employees

(1) CHANGES IN SHAREHOLDING HELD BY AND EMOLUMENTS

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

Unit: RMB10,000

Name	Position	Sex	Age	Date of term commencement	Date of term termination	Annual emoluments (before tax)
Ding Yi	Chairman	Male	50	9 August 2013	31 August 2014	–
Qian Haifan	Director	Male	53	31 August 2011	31 August 2014	68.79
Ren Tianbao	Director	Male	50	31 August 2011	31 August 2014	55.17
Su Shihuai	Director	Male	55	5 February 2013	31 August 2014	–
Qin Tongzhou	Independent Director	Male	44	31 August 2011	31 August 2014	10
Yang Yada	Independent Director	Female	58	31 August 2011	31 August 2014	10
Liu Fangduan	Independent Director	Male	50	25 October 2012	31 August 2014	10
Zhang Xiaofeng	Supervisor	Male	52	31 August 2011	31 August 2014	68.79
Fang Jinrong	Supervisor	Male	50	31 August 2011	31 August 2014	–
Yan Taixia	Supervisor	Female	48	29 November 2013	31 August 2014	2.45
Wong Chun Wa	Independent Supervisor	Male	40	31 August 2011	31 August 2014	7.37
Su Yong	Independent Supervisor	Male	59	31 August 2011	31 August 2014	7.37
Gao Haichao	Senior Management	Male	56	17 February 2013	31 August 2014	50.57
Ren Qiang	Senior Management	Male	53	31 August 2011	31 August 2014	55.17
Yan Hua	Senior Management	Male	48	31 August 2011	31 August 2014	55.17
Lu Kecong	Senior Management	Male	50	31 August 2011	31 August 2014	55.17
Su Jiangang	Chairman	Male	59	31 August 2011	9 August 2013	–
Liuxian Li	Supervisor	Male	59	31 August 2011	29 November 2013	20.44

Mr. Ding Yi: served as the deputy general manager of the Company from January 2004. From July 2011, Mr. Ding served as the deputy general manager of Magang (Group) Holding Company Limited and no longer served as the deputy general manager of the Company since then. From 24 June 2013, Mr. Ding served as the general manager of Magang (Group) Holding Company Limited. From 9 August, 2014, Mr. Ding served as the Chairman of the Company.

Mr. Qian Haifan: Mr. Qian was appointed Factory Manager and Deputy Secretary of the Party Committee of No.4 Milling Plant in August 2005 and Deputy General Engineer of the Company in April 2010. Mr. Qian was appointed General Manager of the Company in July 2011 and Director of the Company in August 2011.

VII. Directors, Supervisors, Senior Management, Employees (continued)

Mr. 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.

Mr. Su Shihuai: Mr. Su served as Deputy Chief Engineer of the Company from February 2007 to August 2009. Mr. Su served as Deputy Chief Engineer of the Company and Deputy Director of the Technology Centre from August 2009 till December 2009, and served as Deputy General Manager and Chief Engineer of the Company from December 2009 till July 2011. Mr. Su served as Deputy General Manager and Chief Engineer of Magang (Group) Holding Company Limited from July 2011 to present. Mr. Su was appointed as Director of the Company on 5 Feburary 2013.

Mr. 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.

Ms. 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.

Mr. 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 was appointed Independent Director of the Company on 25 October 2012.

Mr. 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.

Mr. 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.

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

Mr. 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 was appointed Financial Controller, Qualified Accountant and Company Secretary of Sau San Tong Holdings Limited from November 2004 to December 2005, and he became Qualified Accountant of Zhongtian International Limited from February 2006 to October 2006. 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.

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

Mr. Gao Haichao: Mr. Gao served as the Company's production manager from January 2002 to July 2008; manager of the Company's Milling Plant No. 1 from July 2008 to April 2010; 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.

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

VII. Directors, Supervisors, Senior Management, Employees (continued)

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

Mr. 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.

Mr. Su Jiangang: Mr. Su has been General Manager of the Company since January 2008. Mr. Su has been Secretary of the Party Committee of Holding and of the Company since December 2009 and Director of Holding since January 2010. Mr. Su became General Manger of Holding in February 2011. Mr. Su became Chairman of the Company on 14 July 2011, and ceased to be General Manger of the Company. Since 9 August 2013, Mr. Su ceased to be Chairman of the Company.

Mr. Liu Xianli: Mr. Liu has been Secretary of the Party and Deputy Head of the No.1 Steel Making and Rolling General Plant since March 2005. Mr. Liu became General Manager at the Enterprise Management Department since February 2006, and became Supervisor of the Company since 31 August 2008. Mr. Liu ceased to be General Manger at the Enterprise Management Department since August 2013, and ceased to be Supervisor of the Company since 29 November 2013.

Apart from former Chairman Mr. Su Jiangang who held 3,886 A shares, none of the other Directors, Supervisors and Senior Management held any shares of the Company. There was no change of shareholding of the above staff during the reporting period.

Save as disclosed above, as at 31 December 2013, none of the current Directors, Supervisors or Senior Management had any interests or short positions in any of the shares, relevant shares or bonds of the Company or any of its associated corporations (within the meaning of Part XV of the “Securities and Futures Ordinance”) which were required to be reported in accordance with Section 352 of the Securities and Futures Ordinance, or required to notice the Company and the Hong Kong Stock Exchange in accordance with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules.

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

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

1. Positions in Shareholders' Unit

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

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

VII. Directors, Supervisors, Senior Management, Employees (continued)

(3) EMOLUMENTS FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Decision making process of emoluments for Directors, Supervisors and Senior Management	Annual emoluments of Executive Directors and Senior Management of the Company were determined by the Remuneration Committee of the Board in accordance with the amount of emoluments as approved by shareholders general meeting, and based on their respective appraisals. Annual emoluments received by the Company's Non-independent Supervisors were determined by the Supervisory Committee based on their respective appraisals and in accordance with the total annual emoluments for Independent Supervisors as approved by shareholders' general meeting, with a report thereof to be made to the shareholders' general meeting. 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 RMB4,765,000 (tax inclusive). The above-mentioned emoluments received by the Company's Executive Directors, Non-independent Supervisors and Senior Management include the portions of annuities credited to personal accounts, in which such annuities were paid by the corporation during 2013 in accordance with the pension scheme of the Company.

(4) PERSONNEL MOVEMENT OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Movement	Reasons of movement
Ding Yi	Chairman	Appointment	Elected
Yan Taixia	Supervisor	Appointment	Elected
Gao Haichao	Senior Management	Appointment	Appointed by General Manager
Su Jiangang	Chairman	Resignation	Resignation
Liu Xianli	Supervisor	Resignation	Resignation

(5) THE COMPANY'S CORE TECHNOLOGY TEAM OR KEY TECHNICAL STAFF

During the reporting period, ten senior technical officers moved to the Group after acquisition of non-steel main assets from the Company; four senior technical officers were promoted to be middle-level management executives and were still responsible for management on relevant technical issues; a senior technical officer at the equipment department was assigned to Anhui Xinchuang Environmental Protection, a senior electric technical officer resigned. The resignation of the two senior technical officers created difficulties to the management on technical issues, in response, the Company minimized the effect of loss of authoritative technical staff through exploring its existing human resources, fostering technical backbone staff, and improving the capability of solving difficult technical issues.

VII. Directors, Supervisors, Senior Management, Employees (continued)

(6) EMPLOYEES IN THE PARENT COMPANY AND ITS MAJOR SUBSIDIARIES

1. Employees

The number of current employees of the parent company	31,366
The number of current employees of the major subsidiaries	9,854
Total number of current employees	41,220
The number of resigned or retired staff for whom the parent company and its major subsidiaries was responsible for pensions	19,050

Profession constitution

Profession category	Number of staff of profession constitution
Production line	33,862
Sales representative	433
Technician	3,729
Financial staff	265
Administrative Staff	2,931
Total	41,220

Education

Educational level	Number of staff
Postgraduate	398
Graduate	4,174
Junior college	8,081
Vocational secondary or belows	28,567
Total	41,220

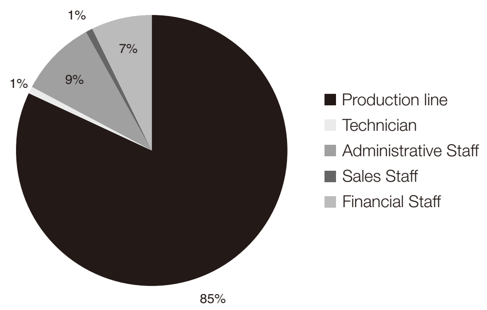
2. Remuneration policy

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

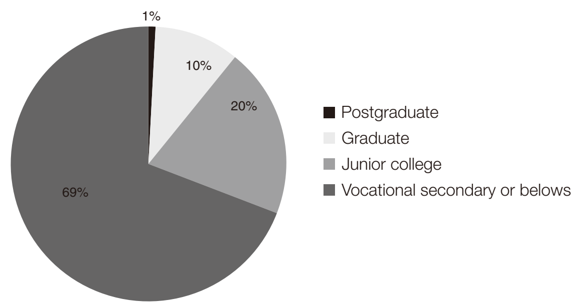
3. Training programmes

The Company takes full advantage of external and internal training resources to provide training opportunities for the growth of all types of employees. In 2013, the Company focused on conducting approximately 251 training sessions of various types, in which a total of 28,926 attendants received training.

4. Statistical Chart of Profession Constitution:



5. Statistical Chart of Educational Level:



VIII. Corporate Governance

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

SITUATIONS OF THE CORPORATE GOVERNANCE

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

During the reporting period, the Company continued to commit itself to the standard operation and improved its corporate governance and enhanced the fundamental system. In accordance with the requirements of the China Securities Regulatory Commission, the board of directors revised the Management Rules for Information Disclosure in a timely manner, and formulated the Working Rules for Information Disclosure on Company Website, as part of the efforts to further standardize the information disclosure.

Corporate Governance Report

In 2013, 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.

1. Directors

Directors and the composition of the Board

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

The Executive Directors and one Non-Executive Director of the Company are veterans in the iron and steel industry. They are experienced in the production, operation and works construction, and are capable of making rational decisions on the matters to be resolved by the Board. Among the three Independent Directors, Mr. Qin Tongzhou is the member of the Chinese Institute of Certified Public Accountants (CICPA), the CFO of China Fire & Security Group Inc. with years of experience in the accounting profession; 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. These Independent Directors are fully competent for evaluating internal control and reviewing financial statements. The composition of the Board fully complied with the requirements of the relevant laws, regulations and regulatory documents in the PRC and overseas. The names of all Directors were published in the Company's correspondence and specifications were made to Independent Directors.

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

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

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

Chairman and General Manager

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

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

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

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

VIII. Corporate Governance (continued)

Non-executive Directors

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

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

Duties and authorities of the Board and the Management

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

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

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

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

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

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

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

- To propose the Company's fundamental management system;

- To formulate the Company's basic constitutions;

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

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

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

- To propose the convening of extraordinary Board meetings.

VIII. Corporate Governance (continued)

Board meeting

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

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

2. Remuneration of the Directors, Supervisors and Senior Management

Directors' remuneration

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

Supervisors' remuneration

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

Senior Management's remuneration

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

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.

VIII. Corporate Governance (continued)

4. Audit Committee

The Audit Committee of the seventh session of the Board of the Company 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 inter nal and exter nal auditors;
- To review the Company's financial information and its disclosure;
- To review the Company's internal control system.

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

Discharge of duties by the Audit Committee during the reporting period

In 2013, the Committee held four meetings, except for Ms. Yang Yada commissioned Independent Director Mr. Qin Tongzhou to attend the meetings and exercise the voting rights on 26 April 2013, the present committee members attended the meetings personally. The meetings were chaired by Chairman of the Committee Mr. Qin Tongzhou. Details of the meetings in 2013 are as follows:

(1) Discussed the unaudited 2012 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 2012 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 2012 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 2012 conducted by the external auditors.

(6) Approved the payment of RMB4.815 million to Ernst & Young Hua Ming in 2012, which included an audit fee of RMB 4.785 million, an annual audit fee of RMB4.2 million (including an internal control audit fee of RMB600,000) and a fee of RMB585,000 for the interim financial report execution of agreed-upon procedures. A non-audit fees of RMB 30,000 included attestation services for the short-term financing bonds issuance of the Company and the expenses of related matters.

(7) Having considered and Agreed that Ernst & Young Hua Ming would be re-appointed as the Company's auditors for 2013.

(8) Reviewed and Approved the related party transactions for 2012 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 2012, reviewed the relevant information and was of the opinion that: (1) as at 31 December 2012, all the procedures for the approval of the Company's external guarantees were legal and compliant; (2) as at 31 December 2012, none of the Company's external guarantees was provided for the controlling shareholder or other connected parties in which the Company holds less than 50% equity interest, unincorporated entities or individuals; and (3) as at 31 December 2012, the total amount of the Company's aggregate and current external guarantees was less than 50% of the net assets in the Company's 2012 consolidated financial statements.

(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 2012.

VIII. Corporate Governance (continued)

(11) Reviewed the Company's unaudited first quarterly financial statement of 2013 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 2013 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 2013 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 2013, 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.

5. Remuneration Committee of the Board

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

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

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

In 2013, the Renumeration Committee of the seventh session of the Board held one meeting. The meeting was conducted on 25 March 2013. All members attended the meeting in person.

The details of the meeting are as follows:

- In accordance with the "Remuneration Assessment Method (Trial) for Directors and Senior Management of the Company" and based on major financial indicators such as the Company's net profit, shareholders' equity and income from principal operations as well as completion of operation targets, together with a reference to respective scopes of work and major duties for the relevant Directors and Senior Management, the Remuneration Committee conducted appraisals on the 2013 operating performance of the Company's relevant Directors and Senior Management, and the appraisal results were submitted to the Board meeting held on 26 March 2013 for consideration.

- Reviewed the Report on the "Discharge of Duties by the Remuneration Committee For 2012".

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.

VIII. Corporate Governance (continued)

6. Nomination Committee

The Nomination Committee of the seventh session of the Board of the Company comprises Independent Directors Ms. Yang Yada, Mr. Qin Tongzhou, Mr. Wu Tat Man Damon Albert and Chairman Mr. Ding Yi, with Ms. Yang Yada as Chairman of the Committee. The major duties of the Committee are:

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

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

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

- To examine the independence of Independent Directors;

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

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

In 2013, the Nomination Committee held two meetings. All members attended the meetings in person. The meetings were chaired by Ms. Yang Yada.

Date of Meeting	Agenda
25 March 2013	Reviewed the Nomination Committee's Report on Discharge of Duties for 2012
24 June 2013	Nominated Mr. Ding Yi as a candidate for the director of the Board of the Company

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

7. Auditors' Remuneration

During the year, Ernst & Young Hua Ming LLP was appointed as the auditors of the Group and had audited the attached financial reports and internal control audit report prepared under the PRC Accounting Standards. The remuneration for Ernst & Young Hua Ming LLP amounted to RMB5,115,000. Of this fee, the annual audit fee (exclusive of taxes) amounted to RMB4,200,000 (including an internal control audit fee of RMB600,000) and the fee for agreed-upon procedures for 2013 interim report ("agreed-upon procedures fee") of RMB585,000 (exclusive of taxes); fee for the professional service provided to issue relevant comfort letters for the Company's disposal of non-iron and steel related assets amounted to RMB330,000 (exclusive of taxes). The aforementioned audit fee and agreed-upon procedures fee and other professional service 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 2013, Ernst & Young Hua Ming has provided auditing services to the Group for 20 consecutive years. Ms. Zhong Li and Mr. Wang Yinfeng were the certified public accountants who have signed the Company's 2013 auditors' report. Ms. Zhong Li has provided auditing services to the Company for four consecutive years, while Mr. Wang Yinfeng 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 and such services were not included in the scope of audit. In 2013 the fee amounted to HK$35,000.

8. 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.

VIII. Corporate Governance (continued)

During the reporting period, the Company stated clearly in the 2012 annual general meeting notice and 2013 first, second and third extraordinary general meeting notices that A shareholders holding the Company's A shares as at the market closing in the afternoon of the respective register dates and registered in the register of members maintained by the Shanghai branch of CSDCC, and H shareholders holding the Company's H-shares on the same date and registered in the register of members maintained by the Hong Kong Registrars Limited were eligible for attending the respective shareholders' general meetings after completing the registration procedures for attending the meetings.

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

Voting by poll

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

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

9. Ad hoc Events for Corporate Governance

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

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, the auditors, made a statement in the Auditors' Report on their responsibilities for reporting on the Company's accounts.

As Ernst & Young Hua Ming has developed a thorough understanding of the Company throughout the years, and their work has been conscientious and detail-oriented, the Audit Committee under the Board recommended reappointing the firm as the auditors for the Company for year 2013. The Board did not have any contrary opinion and the relevant resolutions were considered and approved at the 2012 annual general meeting held on 14 June 2013.

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

VIII. Corporate Governance (continued)

(2) SHAREHOLDERS' GENERAL MEETING

Session of meeting	Date of meeting	Name of Agenda	Resolutions	Specified website for publishing resolutions	Publishing date of resolution
2013 first general meeting	5 February 2013	Voted Mr. Su Shihuai as Director of the Board of the Company	Approved	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2013-02-05/600808_20130206_1.pdf	6 February 2013
2012 annual general meeting	14 June 2013	1. Considered and approved the work report of the Board to the year 2012 2. Considered and approved the work report of the supervisory committee for the year 2012 3. Considered and approved the audited financial statements for the year 2012 4. Considered and approved the profit distribution plan for the year 2012 5. Considered and approved the appointment of Ernst & Young Hua Ming as the Company's auditors of the year 2013, and the authorization to the Board to determine the remuneration of the auditors based on that in 2012	All approved	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2013-06-14/600808_20130615_1.pdf	15 June 2013
2013 second general meeting	9 August 2013	Voted Mr. Ding Yi as Director of the Board of the Company	Approved	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2013-08-09/600808_20130810_1.pdf	10 August 2013
2013 third general meeting	29 October 2013	1. The Company and Maanshan Iron and Steel (Group) Holdings Limited entered into the equity and asset disposal agreement 2. The Company and Maanshan Iron and Steel (Group) Holdings Limited entered into the continuing connected transation agreement	All approved	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2013-10-29/600808_20131030_1.pdf	30 October 2013

(3) PERFORMANCE OF DUTIES BY DIRECTORS

1. Attendance of Directors in the Board Meetings and General Meetings

Name of Director	Independent Director	Attendance in the Board Meetings: Required attendance during the year	Attendance in person	Attendance by way of correspondence	Attendance by proxy	Absence	Two consecutive personal absence	Attendance in the General Meetings Attendance
Ding Yi	No	4	4	0	0	0	No	1
Qian Haifan	No	13	9	1	3	0	Yes	3
Ren Tianbao	No	13	12	1	0	0	No	3
Su Shihuai	No	12	9	1	2	0	No	2
Qin Tongzhou	Yes	13	10	3	0	0	No	3
Yang Yada	Yes	13	7	3	3	0	No	3
Liu Fangduan	Yes	13	11	2	0	0	No	4

Director Mr. Qian Haifan was unable to attend the board meeting on 14 June and 24 June personally due to work reasons. Mr. Qian has commissioned Chairman of the time Mr. Su Jiangang prior to the meetings to attend and exercise the voting rights.

Board meetings held in the year	13
Including: Physical meetings	10
Meetings by way of correspondence	1
Physical meetings combined with correspondence	2

2. Dissenting Opinions to Related Matters of the Company Submitted by Independent Directors

During the reporting period, the Independent Directors of the Company did not make any dissenting opinions to the resolutions of the Board of the Company during the year and matters other than the resolutions of the Board.

VIII. Corporate Governance (continued)

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

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

Work report of the board of supervisors

I. Resolutions of the meetings of the board of supervisors in 2013

The Company held six meetings of the board of supervisors in 2013. With timely and full understanding of the operating and financial status, the board of supervisors reviewed a series of major issues. Major resolutions of the meetings: 1, reviewed and approved the 2012 financial report, the annual report and its abstract; 2, reviewed and approved the 2012 work report of the board of supervisors; 3, reviewed and approved the work report of supervisors; 4, reviewed and approved the proposal for the provisions for inventory impairment, the provisions for bad debts, the changes in the provisions for assets impairment of the long-term equity investment, and the write-offs of fixed assets; 5, reviewed and approved the related party transactions for 2012; 6, reviewed and approved the appraisal report on internal control for 2012; 7, reviewed and approved the social responsibility report for 2012; 8, reviewed and approved the proposal for the changes in the provisions for inventory impairment for 1Q13; 9, reviewed and approved the 1Q13 report and its main body; 10, reviewed and approved the proposal for the changes in the provisions for inventory impairment for 2Q13; 11, reviewed and approved the unaudited 1H13 financial report, 1H13 report and its abstract; 12, reviewed and approved the proposal for transfer of non-steel main assets to Magang (Group) Holding; 13, reviewed and approved the proposal for the continuous related party transactions with Magang (Group) Holding; 14, reviewed and approved the proposal for the changes in provisions for inventory impairment for 3Q13; 15, reviewed and approved the 3Q13 report and its main body; 16, reviewed and approved the Agreement on Provision of Financial Services for 2014; 17, reviewed and approved the Agreement on Provision of Comprehensive Supporting Services for 2014.

II. Independent opinions of the board of supervisors on the Company's operating performance in 2013

1. *The operating performance pursuant to law*

Pursuant to relevant regulations of the Corporate Law and the Articles of Association, the board of supervisors earnestly fulfilled the duty of supervision in 2013. It concluded that the board of directors earnestly carried out the the resolutions of the general meeting of shareholders, in compliance with the Corporate Law and the Articles of Association, the operation was normative, the decision-making procedures were legal and effective; the board of directors and management earnestly fulfilled their duty and carried out the resolutions of the board of directors, they had no activities that violated the laws, regulations and the Articles of Association or compromised the interests of the Company, they also had no activities that compromised the interests of shareholders; the Company's profit distribution complied with the laws, regulations and the Articles of Association.

2. *Inspection results of the financial performance*

The board of supervisors inspected the supervision system for finance and the financial performance in the reporting period, and concluded that the accountants strictly complied with the laws and regulations, such as the Accounting Law and the Accounting Standards for Enterprises, and they had not violated any regulations or disciplines. Ernst & Yong C.P.A. (special general partnership) issued the 2013 Audit Report with standard unqualified opinion, the report truly and objectively reflected the Company's financial status and operating results.

3. *Inspection results for the use of raised funds*

The Company strictly complied with the Corporate Law and the Securities Law on the use and management of raised funds in the reporting period. It did not violate the interests of shareholders, the use complied with the requirements of the China Securities Regulatory Commission and other securities watchdogs.

VIII. Corporate Governance (continued)

4. *Acquisitions and sales of assets*

During the reporting period, the Company sold non-steel main assets to Magang (Group) Holding. The two parties signed the Agreement on Purchase of Equity and Assets on 22 August 2013. The Company earned approximately RMB3.9 billion cash in consideration from the sales of assets, which improved the liquidity of assets, saved the financial expenses, integrated the resources (human resource, material resource and financial resource, among others), and raised the comprehensive strength of the steel main business. In addition, the selling price was about RMB900 million higher than book value, which cashed in the value added of the assets.

In addition, there was no major acquisition, asset sale, asset swap, or asset pledge. There were no activities disobeying the resolutions of the general meeting of shareholders, compromised the interests of shareholders or caused the loss of assets.

5. *Related party transactions*

The related party transactions in 2013 were carried out in strict compliance with the Articles of Association and the agreed terms. The transactions were fair and reasonable, there were no activities that compromised the interests of the Company and the shareholders.

6. *Self-evaluation report on internal control*

In accordance with the rules for the system of internal control of enterprise, the board of supervisors inspected the internal control built and implemented by the board of directors. According to the assessment on the deficiency of internal control in the financial report, the board of supervisors concluded that the Company maintained effective internal control in the financial report on all major aspects, in compliance with the rules for the system of internal control of enterprise, among others, and there was no significant or material deficiencies of the internal control in financial report in the reporting period. According to the assessment on the deficiency of internal control in non-financial report, there was no significant deficiencies of internal control in non-financial report in the reporting period, but one material deficiency of internal control in non-financial report, i.e., due to the lack of appraisal and control on environmental risk, Magang (Hefei) experienced environmental pollution. The direct economic impact totaled around RMB120 million, the Company accordingly took remedial measures and has decided to close down the melting capacity, eliminate obsolete production capacity and transform the business of Magang (Hefei) by 1 October 2014.

There was no factor that, from the base date of the appraisal report on internal control to the publishing date of the report, would affect the effective conclusion of the internal control.

7. *Creation and implementation of the rules for management of information insiders*

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

8. *Opinion of the board of supervisors on the 2013 annual report*

The 2013 annual report was compiled and reviewed in compliance with the laws, regulations and Articles of Association. Its content and format met the requirements of the China Securities Regulatory Commission and the securities exchanges, the information inside can truly reflect the operating and financial performance, no participant in compiling and reviewing the annual report had any activities that violated the rules for confidentiality.

IX. Internal Control

(1) DISCLAIMER OF INTERNAL CONTROL AND ESTABLISHMENT AND IMPROVEMENT OF THE INTERNAL CONTROL SYSTEM

The Board of the Company declares responsible for the establishment, improvement, and the effectiveness of the internal control system.

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

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

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

On 26 March 2014 the "Self-evaluation Report on Internal Control of the Company for year 2013" was considered and approved at the thirty-seventh meeting of the seventh session of the Board, and it was confirmed thereat that the internal control of the Company was effective in 2013.

According to the assessment on deficiency of internal control in non-financial report, there was no significant deficiency of internal control in non-financial report during the reporting period, but one material deficiency of internal control in non-financial report, i.e., due to the lack of appraisal and control on environmental risk, Magang (Hefei) experienced environmental pollution. The direct economic impact totaled around RMB120 million, the Company took remedial measures accordingly and has decided to close down the melting capacity, eliminate obsolete production capacity and transform the business of Magang (Hefei) by 1 October 2014.

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

Please refer to appendix for the self-assessment report of internal control.

(2) RELEVANT INFORMATION ON INTERNAL CONTROL AUDIT REPORT

Ernst & Young Hua Ming issued an auditor's report containing an unqualified opinion on the Company's internal control over financial reporting as at 31 December 2013.

Websites: www.sse.com.cn, www.hkexnews.hk

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

The Company established the Administrative Measures for Information Disclosure in 2002, and made amendment to the same in 2005, 2007, 2008, 2010, 2012 and 2013 in order to ensure the Measures comply with the requirement of regulatory authorities. The Measures included the relevant clauses of the Inquiry System for Material Mistakes Made in Information Disclosure of Annual Reports. During the reporting period, the Company implemented the abovementioned system effectively.

X. Financial Statements

Note: The Note 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.

Report of the Auditors

EY 安永

Ernst & Young Hua Ming (2014) Shen Zi No. 60438514_A01

To the shareholders of Maanshan Iron & Steel Company Limited:

We have audited the accompanying financial statements of Maanshan Iron & Steel Company Limited, which comprise the consolidated and company balance sheets as at 31 December 2013, and the consolidated and company income statements, statements of changes in equity and statements of cash flows for the year then ended, and the Notes to the financial statements.

1. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

2. AUDITORS' RESPONSIBILITY

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

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

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

Report of the Auditors (Continued)

3. OPINION

In our opinion, the financial statements present fairly, in all material respects, the consolidated and company's financial position of Maanshan Iron & Steel Company Limited as at 31 December 2013 and their financial performance and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

Ernst & Young Hua Ming LLP

Beijing, the People's Republic of China

Zhong Li
Chinese Certified Public Accountant

Wang Yinfeng
Chinese Certified Public Accountant

26 March 2014

Consolidated Balance Sheet

31 December 2013
Renminbi Yuan

ASSETS	Note V	**2013**	2012 (Restated)
CURRENT ASSETS:			
Cash and bank balances	1	**5,106,718,069**	9,782,424,115
Financial assets measured at fair value through profit or loss	2	**509,330**	587,120
Bills receivable	3	**8,629,108,926**	8,060,760,260
Trade receivables	4	**800,946,475**	1,411,927,109
Dividends receivable	5	**44,787,460**	46,800,000
Interest receivable		**3,540,453**	4,846,087
Prepayments	6	**1,022,394,879**	2,037,721,944
Other receivables	7	**1,948,145,123**	469,008,747
Inventories	8	**10,049,721,134**	11,250,937,262
Loans and advances to customers	9	**486,511,748**	215,562,806
Total current assets		**28,092,383,597**	33,280,575,450
NON-CURRENT ASSETS:			
Available-for-sale financial assets	10	**126,772,160**	142,612,160
Long term equity investments	11,12	**950,065,445**	1,067,699,249
Investment properties	13	**64,412,476**	4,400,618
Fixed assets	14	**30,668,420,630**	32,478,798,396
Construction materials		**29,788,206**	673,731,960
Construction in progress	15	**8,729,815,208**	5,697,669,676
Intangible assets	16	**1,900,179,245**	1,963,421,181
Deferred tax assets	17	**755,374,754**	702,255,349
Total non-current assets		**43,224,828,124**	42,730,588,589
TOTAL ASSETS		**71,317,211,721**	76,011,164,039

Consolidated Balance Sheet (Continued)

31 December 2013
Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	Note V	2013	2012 (Restated)
CURRENT LIABILITIES:			
Customer deposits	19	**1,390,609,858**	565,167,982
Repurchase agreements	20	**344,732,675**	494,753,998
Short term loans	21	**8,553,509,860**	9,777,449,423
Bills payable	22	**5,542,646,513**	5,096,302,242
Accounts payable	23	**6,524,149,751**	7,029,326,670
Deposits received	24	**5,125,265,201**	6,122,954,555
Payroll and benefits payable	25	**208,890,914**	228,107,066
Taxes payable	26	**(270,441,931)**	(331,007,320)
Interest payable		**165,365,086**	205,268,222
Dividends payable	27	**80,642,412**	80,492,522
Other payables	28	**962,699,474**	1,058,965,107
Non-current liabilities due within one year	29	**7,951,717,780**	1,335,542,400
Accrued liabilities	30	**4,140,000**	–
Total current liabilities		**36,583,927,593**	31,663,322,867
NON-CURRENT LIABILITIES:			
Long term loans	31	**6,059,444,300**	9,914,180,000
Bonds payable	32	**2,328,266,077**	8,261,992,704
Deferred income	33	**609,637,532**	618,997,012
Deferred tax liabilities	17	**36,900,781**	40,614,884
Total non-current liabilities		**9,034,248,690**	18,835,784,600
Total liabilities		**45,618,176,283**	50,499,107,467
SHAREHOLDERS' EQUITY:			
Share capital	34	**7,700,681,186**	7,700,681,186
Capital reserve	35	**8,329,067,663**	8,329,067,663
Special reserve		**13,055,678**	14,768,610
Surplus reserve	36	**3,789,735,764**	3,750,928,170
General reserve		**98,706,649**	55,650,161
Retained profits	37	**3,272,406,740**	3,245,037,973
Exchange fluctuation reserve		**(72,208,059)**	30,510,424
Equity attributable to owners of the parent		**23,131,445,621**	23,126,644,187
Minority interests		**2,567,589,817**	2,385,412,385
Total shareholders' equity		**25,699,035,438**	25,512,056,572
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**71,317,211,721**	76,011,164,039

The financial statements are signed by the following persons

Company Representative:	Chief Accountant:	Head of Accounting:
Ding Yi	**Qian Haifan**	**Xing Qunli**
26 March 2014	26 March 2014	26 March 2014

Consolidated Income Statement

Year ended 31 December 2013
Renminbi Yuan

	Note V	2013	2012
Revenue	38	**73,848,883,383**	74,404,364,038
Less: Cost of sales	38	**70,393,962,617**	72,840,274,575
Business taxes and surcharges	39	**226,431,646**	160,138,327
Selling expenses	40	**423,074,212**	349,695,028
Administrative expenses	41	**1,333,991,968**	1,378,085,886
Financial expenses	42	**1,154,159,806**	1,463,236,344
Assets impairment losses	43	**1,164,499,129**	2,722,485,738
Loss on fair value changes		**77,790**	20,860
Add: Investment income	44	**289,004,676**	613,911,017
including: share of profits of associates and jointly-controlled entities		**177,184,255**	111,905,442
Operating loss		**(558,309,109)**	(3,895,661,703)
Add: Non-operating income	45	**888,138,225**	152,842,514
including: income from disposal of non-current assets		**433,638,305**	9,838,599
Less: Non-operating expenses	46	**7,683,672**	3,498,367
Profit/(loss) before tax	47	**322,145,444**	(3,746,317,556)
Less: Income tax	48	**114,210,366**	54,205,870
Net profit/(loss)		**207,935,078**	(3,800,523,426)
Including: Net profit attributable to the acquiree prior to business combination under common control		**–**	11,496,935
Less: Minority interests		**50,714,880**	62,709,119
Net profit/(loss) attributable to the equity holders of the parent		**157,220,198**	(3,863,232,545)

Consolidated Income Statement (Continued)

Year ended 31 December 2013
Renminbi Yuan

	Note V	**2013**	2012
EARNINGS/(LOSS) PER SHARE:			
Basic	49	**2.04 cents**	(50.17) cents
Diluted		**2.04 cents**	(50.17) cents
Other comprehensive income			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(104,711,105)**	14,026,744
The net amount of other comprehensive income after deducting tax effect	50	**(104,711,105)**	14,026,744
Total comprehensive income		**103,223,973**	(3,786,496,682)
Including:			
Total comprehensive income attributable to owners of the parent		**54,501,715**	(3,849,205,801)
Total comprehensive income attributable to minority shareholders		**48,722,258**	62,709,119

Consolidated Statement of Changes In Equity

Year ended 31 December 2013
Renminbi Yuan

	Attributable to owners of parent									
	Share capital (Note V 34)	Capital reserve (Note V 35)	Special reserves	Surplus reserves (Note V 36)	General reserve	Retained profits (Note V 37)	Exchange fluctuation reserve	Sub-total	Minority interests	Total shareholders' equity
1. At 1 January 2013	7,700,681,186	8,329,067,663	14,768,610	3,750,928,170	55,650,161	3,245,037,973	30,510,424	23,126,644,187	2,385,412,385	25,512,056,572
2. Increase/(decrease) during the year										
1) Net profit	-	-	-	-	-	157,220,198	-	157,220,198	50,714,880	207,935,078
2) Other comprehensive income	-	-	-	-	-	-	(102,718,483)	(102,718,483)	(1,992,622)	(104,711,105)
Total comprehensive income	-	-	-	-	-	157,220,198	(102,718,483)	54,501,715	48,722,258	103,223,973
3) Capital contribution and withdrawal by shareholders										
(i) Capital contribution by minority shareholders	-	-	-	-	-	-	-	-	281,000,000	281,000,000
4) Profits appropriation										
(i) Transfer to surplus reserve	-	-	-	104,726,623	-	(104,726,623)	-	-	-	-
(ii) Transfer to general reserve	-	-	-	-	26,399,571	(26,399,571)	-	-	-	-
(iii) Distribution to shareholders	-	-	-	-	-	-	-	-	(11,655,176)	(11,655,176)
(iv) Others	-	-	-	-	16,656,917	-	-	16,656,917	1,055,082	17,711,999
5) Special reserve										
(i) Additions	-	-	74,080,251	-	-	-	-	74,080,251	10,943,433	85,023,684
(ii) Used	-	-	(75,793,183)	-	-	-	-	(75,793,183)	(12,344,922)	(88,138,105)
6) Disposal of subsidiaries	-	-	-	(65,919,029)	-	1,274,763	-	(64,644,266)	(135,543,243)	(200,187,509)
3. At 31 December 2013	7,700,681,186	8,329,067,663	13,055,678	3,789,735,764	98,706,649	3,272,406,740	(72,208,059)	23,131,445,621	2,567,589,817	25,699,035,438

Consolidated Statement of Changes In Equity (Continued)

Year ended 31 December 2012
Renminbi Yuan

	Attributable to owners of parent									
	Share capital (Note V 34)	Capital reserve (Note V 35)	Special reserves	Surplus reserves (Note V 36)	General reserve	Retained profits (Note V 37)	Exchange fluctuation reserve	Sub-total	Minority interests	Total shareholders' equity
1. At 31 December 2011	7,700,681,186	8,338,358,399	–	3,442,866,348	–	7,456,020,890	16,483,680	26,954,410,503	1,978,339,214	28,932,749,717
Business combination under common control	–	420,000,000	–	1,271,040	127,104	11,392,935	–	432,791,079	91,257,072	524,048,151
2. At 1 January 2012 (Restated)	7,700,681,186	8,758,358,399	–	3,444,137,388	127,104	7,467,413,825	16,483,680	27,387,201,582	2,069,596,286	29,456,797,868
3. Increase/(decrease) during the year										
1) Net profit/(loss)	–	–	–	–	–	(3,863,232,545)	–	(3,863,232,545)	62,709,119	(3,800,523,426)
2) Other comprehensive income	–	–	–	–	–	–	14,026,744	14,026,744	–	14,026,744
Total comprehensive income	–	–	–	–	–	(3,863,232,545)	14,026,744	(3,849,205,801)	62,709,119	(3,786,496,682)
3) Capital contribution and withdrawal by shareholders										
(i) Capital contribution by minority shareholders	–	–	–	–	–	–	–	–	396,000,000	396,000,000
(ii) Others	–	–	–	3,170,532	–	–	–	3,170,532	(116,318,272)	(113,147,740)
4) Profits appropriation										
(i) Transfer to surplus reserve	–	–	–	303,620,250	–	(303,620,250)	–	–	–	–
(ii) Transfer to general reserve	–	–	–	–	55,523,057	(55,523,057)	–	–	–	–
(iii) Distribution to shareholders	–	–	–	–	–	–	–	–	(26,574,748)	(26,574,748)
(iv) Business combination involving entities under common control	–	(429,290,736)	–	–	–	–	–	(429,290,736)	–	(429,290,736)
5) Special reserve										
(i) Additions	–	–	85,616,047	–	–	–	–	85,616,047	–	85,616,047
(ii) Used	–	–	(70,847,437)	–	–	–	–	(70,847,437)	–	(70,847,437)
4. At 31 December 2012	7,700,681,186	8,329,067,663	14,768,610	3,750,928,170	55,650,161	3,245,037,973	30,510,424	23,126,644,187	2,385,412,385	25,512,056,572

Consolidated Cash Flow Statement

Year ended 31 December 2013
Renminbi Yuan

	Note V	2013	2012
1. Cash flows from operating activities:			
Cash received from sale of goods or rendering of services		**89,212,385,934**	94,106,132,710
Refunds of taxes		**45,247,610**	22,597,431
Net (decrease)/increase in repurchase agreements		**(150,021,323)**	426,573,339
Net increase/(decrease) in customer deposits		**825,441,876**	(132,777,000)
Cash received for interest charges, fees and commissions		**199,205,804**	67,787,162
Cash received relating to other operating activities	51	**35,243,995**	172,537,666
Sub-total of cash inflows		**90,167,503,896**	94,662,851,308
Cash paid for goods and services		**(77,832,649,475)**	(80,715,929,570)
Net decrease/(increase) of balances with central bank		**78,883,349**	(891,488,602)
Net increase in loans and advances to customers		**(278,234,150)**	(204,912,353)
Cash paid to and on behalf of employees		**(4,608,107,096)**	(4,545,616,367)
Cash paid for all taxes		**(2,020,820,138)**	(2,216,171,232)
Cash paid for interest charges, fees and commissions		**(31,208,668)**	(12,792,084)
Cash paid relating to other operating activities	51	**(384,009,163)**	(483,353,982)
Sub-total of cash outflows		**(85,076,145,341)**	(89,070,264,190)
Net cash flows from operating activities	52(1)	**5,091,358,555**	5,592,587,118
2. Cash flows from investing activities:			
Cash received from retrieval of investments		**67,556,005**	14,215,534
Cash received from investment income		**439,715,038**	185,825,918
Net cash received from disposal of fixed assets, intangible assets and other long term assets		**301,819,164**	22,745,493
Net cash received from disposal of subsidiaries	52(2)	**391,716,548**	–
Cash received relating to other investing activities	51	**84,076,474**	157,104,000
Sub-total of cash inflows		**1,284,883,229**	379,890,945
Cash paid for acquisitions of fixed assets, intangible assets and other long term assets		**(5,520,646,569)**	(4,946,800,801)
Cash paid for acquisitions of investments		**(88,480,000)**	(113,500,000)
Cash paid for purchasing a subsidiary		**–**	(429,290,736)
Cash paid for deemed disposal of subsidiaries	52	**–**	(107,636,270)
Cash paid due to increase in pledged deposits, net		**(218,455,270)**	(839,298,551)
Sub-total of cash outflows		**(5,827,581,839)**	(6,436,526,358)
Net cash flows from investing activities		**(4,542,698,610)**	(6,056,635,413)

Consolidated Cash Flow Statement (Continued)

Year ended 31 December 2013
Renminbi Yuan

	Note V	**2013**	2012
3. Cash flows from financing activities:			
Cash received from borrowings		**17,698,491,235**	37,968,551,261
Cash received from capital contribution		**281,000,000**	396,000,000
Including: capital contribution by minority shareholders		**281,000,000**	396,000,000
Sub-total of cash inflows		**17,979,491,235**	38,364,551,261
Cash repayments of borrowings		**(21,986,537,135)**	(38,908,876,560)
Cash paid for distribution of dividend or profits and for interest expenses		**(1,293,541,070)**	(1,608,600,460)
Including: dividend paid to minority shareholders by subsidiaries		**(11,655,176)**	(26,574,748)
Sub-total of cash outflows		**(23,280,078,205)**	(40,517,477,020)
Net cash flows from financing activities		**(5,300,586,970)**	(2,152,925,759)
4. Effect of foreign exchange rate changes on cash		**(63,350,942)**	56,748,917
5. Net decrease in cash and cash equivalents		**(4,815,277,967)**	(2,560,225,137)
Add: Balance of cash and cash equivalents at beginning of year		**6,629,796,092**	9,190,021,229
6. Balance of cash and cash equivalents at end of year	53	**1,814,518,125**	6,629,796,092

Balance Sheet

31 December 2013
Renminbi Yuan

ASSETS	Note XI	2013	2012 (Restated)
CURRENT ASSETS:			
Cash and bank balances		**4,232,355,957**	6,359,785,755
Financial assets measured at fair value through profit or loss		**509,330**	587,120
Bills receivable		**4,924,057,882**	5,001,092,227
Trade receivables	1	**1,292,033,185**	1,785,315,692
Dividends receivable		**44,787,460**	66,475,194
Interest receivable		**–**	5,159,705
Prepayments		**837,535,356**	1,044,242,745
Other receivables	2	**1,766,161,692**	279,377,529
Inventories	3	**7,151,763,970**	8,172,351,955
Total current assets		**20,249,204,832**	22,714,387,922
NON-CURRENT ASSETS:			
Available-for-sale financial assets		**126,772,160**	126,772,160
Long term equity investments	4	**5,907,348,550**	6,581,925,449
Investment properties		**79,758,318**	17,188,937
Fixed assets		**24,560,421,961**	27,725,274,143
Construction materials		**–**	350,239,732
Construction in progress		**6,477,395,016**	4,115,011,626
Intangible assets		**1,033,117,375**	1,148,988,370
Deferred tax assets		**723,967,462**	679,495,010
Total non-current assets		**38,908,780,842**	40,744,895,427
TOTAL ASSETS		**59,157,985,674**	63,459,283,349

Balance Sheet (Continued)

31 December 2013
Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	**2013**	2012 (Restated)
CURRENT LIABILITIES		
Short term loans	**2,009,536,713**	4,970,468,532
Bills payable	**2,380,386,149**	1,552,887,366
Accounts payable	**8,843,343,090**	7,982,070,150
Deposits received	**4,325,598,569**	4,595,208,580
Payroll and benefits payable	**136,411,098**	119,617,400
Taxes payable	**(179,415,288)**	(217,257,558)
Interest payable	**160,616,364**	207,613,733
Dividends payable	**6,296,662**	6,146,772
Other payables	**623,463,137**	809,058,988
Non-current liabilities due within one year	**7,951,717,780**	1,335,542,400
Accrued liabilities	**4,140,000**	–
Total current liabilities	**26,262,094,274**	21,361,356,363
NON-CURRENT LIABILITIES		
Long term loans	**8,289,928,800**	11,817,407,500
Bonds payable	**2,328,266,077**	8,261,992,704
Deferred income	**583,338,640**	592,659,282
Total non-current liabilities	**11,201,533,517**	20,672,059,486
Total liabilities	**37,463,627,791**	42,033,415,849
SHAREHOLDERS' EQUITY		
Share capital	**7,700,681,186**	7,700,681,186
Capital reserve	**8,338,358,399**	8,338,358,399
Special reserve	**–**	–
Surplus reserve	**2,991,017,140**	2,964,168,101
Retained profits	**2,664,301,158**	2,422,659,814
Total shareholders' equity	**21,694,357,883**	21,425,867,500
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**59,157,985,674**	63,459,283,349

Income Statement

Year ended 31 December 2013
Renminbi Yuan

	Note XI	2013	2012
Revenue	6	**56,385,722,558**	57,733,842,196
Less: Cost of sales	6	**54,498,417,736**	57,471,075,172
Business taxes and surcharges		**161,497,080**	99,240,696
Selling expenses		**228,294,265**	249,792,077
Administrative expenses		**888,482,627**	869,032,366
Financial expenses		**982,149,711**	1,539,317,048
Asset impairment losses	7	**1,161,281,311**	2,077,664,511
Gain on fair value changes		**77,790**	20,860
Add: Investment income	8	**950,135,547**	299,279,236
Including: share of profits associates and jointly-controlled entities		**177,224,960**	119,172,376
Operating loss		**(584,342,415)**	(4,273,021,298)
Add: Non-operating income		**813,515,855**	106,573,714
Including: income from disposal of non-current assets		**432,576,296**	12,272,652
Less: Non-operating expenses		**5,118,831**	1,559,216
Profit/(Loss) before tax		**224,054,609**	(4,168,006,800)
Add: Income tax expense		**(44,435,774)**	(82,238,642)
Net profit/(loss)		**268,490,383**	(4,085,768,158)
Other comprehensive income		**–**	–
Total comprehensive income/(loss)		**268,490,383**	(4,085,768,158)

Statement of Changes In Equity

Year ended 31 December 2013
Renminbi Yuan

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

Statement of Changes In Equity (Continued)

Year ended 31 December 2012
Renminbi Yuan

	Share capital	Capital reserve	Special reserve	Surplus reserve	Retained profits	Total shareholders' equity
1. At 1 January 2012	7,700,681,186	8,338,358,399	–	2,964,168,101	6,508,427,972	25,511,635,658
2. Increase/(decrease) during the year						
1) Net loss	–	–	–	–	(4,085,768,158)	(4,085,768,158)
2) Other comprehensive income	–	–	–	–	–	–
Total comprehensive income	–	–	–	–	(4,085,768,158)	(4,085,768,158)
3) Capital contribution and withdrawal						
(i) Capital contribution by shareholders	–	–	–	–	–	–
(ii) Others	–	–	–	–	–	–
4) Profits appropriation						
(i) Transfer to surplus reserves	–	–	–	–	–	–
(ii) Distribution to shareholders	–	–	–	–	–	–
(iii) Others	–	–	–	–	–	–
5) Special reserve						
(i) Additions	–	–	53,183,561	–	–	53,183,561
(ii) Used	–	–	(53,183,561)	–	–	(53,183,561)
3. At 31 December 2012	7,700,681,186	8,338,358,399	–	2,964,168,101	2,422,659,814	21,425,867,500

Cash Flow Statement

Year ended 31 December 2013
Renminbi Yuan

	Note XI	2013	2012
1. Cash flows from operating activities:			
Cash received from sale of goods or rendering of services		**65,854,397,821**	69,477,894,149
Cash received relating to other operating activities		**16,033,786**	135,751,904
Sub-total of cash inflows		**65,870,431,607**	69,613,646,053
Cash paid for goods and services		**(53,840,660,880)**	(58,483,542,214)
Cash paid to and on behalf of employees		**(3,815,722,465)**	(3,649,309,362)
Cash paid for all taxes		**(1,408,828,740)**	(809,255,348)
Cash paid relating to other operating activities		**(1,023,371,375)**	(916,880,110)
Sub-total of cash outflows		**(60,088,583,460)**	(63,858,987,034)
Net cash flows from operating activities	9	**5,781,848,147**	5,754,659,019
2. Cash flows from investing activities:			
Cash received from investment income		**1,005,195,136**	383,912,878
Net cash received from disposal of fixed assets, intangible assets and other long term assets		**666,336,476**	40,488,603
Net cash received from disposal of subsidiaries and other entities		**1,403,696,862**	–
Cash received relating to other investing activities		**82,749,000**	157,264,000
Sub-total of cash inflows		**3,157,977,474**	581,665,481
Cash paid for acquisitions of fixed assets, intangible assets and other long term assets		**(3,502,358,675)**	(2,375,212,909)
Cash paid for acquisitions of investments		**(651,000,000)**	(1,628,290,736)
Cash received/(paid) due to decrease/(increase) of pledged deposits		**799,842,247**	(800,000,000)
Sub-total of cash outflows		**(3,353,516,428)**	(4,803,503,645)
Net cash flows used in investing activities		**(195,538,954)**	(4,221,838,164)

Cash Flow Statement (Continued)

Year ended 31 December 2013
Renminbi Yuan

	Note XI	**2013**	2012
3. Cash flows from financing activities:			
Cash received from borrowings		**17,023,240,146**	26,840,964,892
Sub-total of cash inflows		**17,023,240,146**	26,840,964,892
Cash paid for repayments of borrowings		**(22,799,684,915)**	(25,956,603,581)
Cash paid for distribution of dividend or profits and for interest expenses		**(1,128,139,871)**	(1,420,217,175)
Sub-total of cash outflows		**(23,927,824,786)**	(27,376,820,756)
Net cash flows used in financing activities		**(6,904,584,640)**	(535,855,864)
4. Effect of foreign exchange rate changes on cash		**(9,312,104)**	(205,970,951)
5. Net increase/(decrease) in cash and cash equivalents		**(1,327,587,551)**	790,994,040
Add: Balance of cash and cash equivalents at beginning of year		**5,559,785,755**	4,768,791,715
6. Balance of cash and cash equivalents at end of year		**4,232,198,204**	5,559,785,755

Notes to Financial Statements

31 December 2013
Renminbi Yuan

I. GENERAL INFORMATION OF THE GROUP

Maanshan Iron & Steel Company Limited (the “Company”), a joint stock limited company incorporated after the reorganization of a state-owned enterprise known as Maanshan Iron and Steel Company (the “Original Magang”, now named as Magang (Group) Holding Company Limited), was incorporated in Maanshan City, Anhui Province, the People’s Republic of China (the “PRC”) on 1 September 1993. The registration number of the Company’s business license is Qi Gu Wan Zong Zi No. 340000400002545. The headquarters of the Company are located at No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC. The Company’s A shares and H shares were issued and listed on the Shanghai Stock Exchange and Hong Kong Stock Exchange, respectively. 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 original registered capital of the Company was RMB6,455,300,000, and the number of shares was 6,455,300,000, which included state-owned shares with selling restrictions of 3,830,560,000 shares, domestic legal person shares of 87,810,000 shares, domestic natural person shares of 10,000 shares, ordinary A shares of 803,990,000 shares and ordinary H shares of 1,732,930,000 shares. The nominal value of each share is RMB1.

From the years 2007 to 2009, among the total number of warrants of 1,265,000,000 attached to the Company’s bonds with warrants, 1,245,381,186 were exercised by certain holders in exchange for the Company’s ordinary A shares. After the exercise of the warrants, the Company’s registered capital increased to RMB7,700,681,186.

As at 31 December 2013, the Company had issued 7,700,680,000 shares in total, including ordinary A shares of 5,967,750,000 shares and ordinary H shares of 1,732,930,000 shares. The nominal value of each share is RMB1. Further details are included in Note V.34 to the financial statements.

The Company’s principal activities include: metallurgy and extended processing of ferrous metals; production and sale of coke, coke chemical products, thermostatic materials and power supply; dock operation, storage, transportation, trading and other iron and steel related business; extended processing of iron and steel products, production and sale of metallic products; steel framework, equipment production and related services; maintenance of vehicles, recycling and processing of discarded vehicles (limited to the internally discarded vehicles); provision of construction and related services; decoration services (activities within qualification certificates); and rendering of technological services and consultancy services.

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

The financial statements were approved by the board of directors on 26 March 2014. According to the Articles of Association of the Company, the financial statements will be submitted to shareholders for approval at a shareholders’ meeting.

II. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. BASIS OF PREPARATION

The financial statements are prepared in accordance with the "China Accounting Standards for Business Enterprises – General Principles" and 38 specific accounting standards issued by the Ministry of Finance (the "MOF") in February 2006, application guidance, interpretations and other related regulations issued later (collectively known as the "CAS").

As at 31 December 2013, the net current liabilities of the Group were RMB8,491,543,996. The directors of the Company have considered the availability of funding sources, including but not limited to an unused bank credit quota of RMB28.7 billion. After assessment, the Company's board of directors believes that the Group has sufficient resources to continue as a going concern for no less than 12 months after the approval of the financial statements. Therefore, the Company's board of directors continues to prepare the Group's financial statements as at 31 December 2013 on the basis of continuous operations.

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 impairment is provided in accordance with related regulations when indications of impairment of assets are noted.

2. STATEMENT OF ADOPTION OF 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 2013, and the results of their operations and their cash flows for the year then ended.

3. EARLY ADOPTION OF SEVERAL REVISED/NEW ACCOUNTING STANDARDS

During January to March 2014, the MOF formulated CAS No.39 – Fair Value Measurement and CAS No.40 – Joint Arrangements, revised and issued the CAS No.2 – Long Term Investment, CAS No.30 – Presentation of Financial Statements, CAS No.9 – Employee Benefits and CAS No.33 – Consolidated Financial Statements. The above six CASs will be effective starting from 1 July 2014, but the MOF encourages the early adoption for overseas listed companies. As listed both domestically and overseas, the Company has prepared the 2013 financial statements in accordance with the above six CASs, taken reference to "International Financial Reporting Standard 12-Disclosure of Interests in Other Entities" and applied the relevant policies and accounted under the respective transitional requirements.

For the financial statements, the Company has disclosed the comparative data in a retrospective way to reflect the effects of the above revised/new CASs.

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

3. EARLY ADOPTION OF SEVERAL REVISED/NEW ACCOUNTING STANDARDS *(CONTINUED)*

The adoption of CAS No.30 – Presentation of Financial Statements (the 2014 revision) has affected the Group's disclosure of the cost of sales. In accordance with the requirement of the standard, the Group discloses the classification of cost by nature in Note V.47 and the corresponding comparative data of 2012.

The adoption of CAS No.2 – Long Term Investment (the 2014 revision) has affected the Group's disclosure of the long term investment. According to above standard requirements, the Group discloses the long term investment in Note V.10, Note V.11 and Note V.12 and the corresponding comparative data as at 31 December 2012.

4. ACCOUNTING PERIOD

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

5. 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 for recording purposes in accordance with their own operating environments, which are translated to Renminbi when preparing financial statements.

6. BUSINESS COMBINATION

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

Business combination involving entities under common control

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

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

6. BUSINESS COMBINATION *(CONTINUED)*

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

The assets and liabilities obtained are measured at the carrying amounts as recorded by the combined entity at the combination date. The difference between the carrying amount of the net assets obtained and the carrying amount of consideration paid for the combination (or the total face value of shares issued) is adjusted to share premium, which is included in capital reserve. If the balance of 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 consideration paid for a business combination (or the fair value of equity securities issued) and the fair value of the acquiree's equity held before the acquisition date over the acquirer's interest in the fair value of the acquiree's identifiable net assets is recorded as goodwill, which is measured at cost less any accumulated impairment losses subsequently. If the acquirer's interest in the net fair value of the acquiree's identifiable net assets exceeds the sum of the fair value of consideration paid for a business combination (or the fair value of equity securities issued) and the fair value of the acquiree's equity held before the acquisition date, the acquirer shall reassess the measurement of the fair value of the acquiree's identifiable assets, liabilities or contingent liabilities, as well as the fair value of consideration paid for a business combination (or the fair value of equity securities issued) and the fair value of the acquiree's equity held before the acquisition date, and recognise immediately in the income statement any excess remaining after reassessment.

Notes to Financial Statements (Continued)

31 December 2013
Renminbi Yuan

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

7. 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 2013. A subsidiary is a company or entity that is controlled by the Company (including separable parts of the enterprise and the invested entity, as well as the structural body controlled by the Company).

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

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

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

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

If the relevant facts and circumstances change, which lead to the change of one or more control factors, the Group reassesses whether the subsidiary is control by the investor.

Any change in the minority interests without losing control is recognized as an equity transaction.

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

8. CASH AND CASH EQUIVALENTS

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

9. 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 balance sheet date. The resulting exchange differences are recognized in the income statement, except those arising from the principals and interests on foreign currency borrowings specifically for the purpose of acquisition, construction or production of qualifying assets. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated into functional currencies using the foreign exchange rates at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rates at the date the fair value is determined, and the exchange differences are recognized in other comprehensive income.

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 balance sheet date; 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 income statement are translated at the average rates of exchange during the period. Exchange fluctuations arising from the translation mentioned above are recognized as other comprehensive income, and are presented separately in the shareholders' equity in the balance sheet. When the overseas business is disposed of, the exchange fluctuation reserve of the overseas business will be transferred to the income statement in the same period. In the case of a partial disposal, only the proportionate share of the related exchange fluctuation reserve is transferred to the income statement.

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 cash flow statement.

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

10. FINANCIAL INSTRUMENTS

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

Recognition and derecognition of financial instruments

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

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

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

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

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

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

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

10. FINANCIAL INSTRUMENTS *(CONTINUED)*

Classification and measurement of financial assets

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

The subsequent measurement of financial assets depends on its classification:

Financial assets at fair value through profit or loss

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

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

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

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

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

(4) Hybrid instruments which contain embedded derivatives that should split, but cannot be measured separately when acquired or on the subsequent balance sheet date.

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

10. FINANCIAL INSTRUMENTS *(CONTINUED)*

Classification and measurement of financial assets *(Continued)*

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

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

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

Held-to-maturity investments

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

Loans and receivables

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

Available-for-sale financial assets

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

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

10. FINANCIAL INSTRUMENTS *(CONTINUED)*

Classification and measurement of financial assets *(Continued)*

Available-for-sale financial assets (Continued)

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

The subsequent measurement of financial liabilities depending on their classification:

Financial liabilities at fair value through profit or loss

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

Other financial liabilities

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

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 became the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are initially recognized at fair value, but they do not belong to financial liabilities that are designated as at fair value through profit or loss. They are subsequently measured at the higher of (i) the amount of the best estimate of the expenditure required to settle the present obligation at the balance sheet date, and (ii) the amount initially recognized less, where appropriate, cumulative amortization.

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

10. FINANCIAL INSTRUMENTS *(CONTINUED)*

Bonds with warrants

The Group evaluates the terms of bonds with warrants to determine whether they contain both liability and equity components. The bonds with warrants issued contain both liability and equity components. On initial recognition, the bonds are bifurcated into the liability and equity components and are accounted for separately. In the bifurcation, the liability component shall be initially recognized and is measured at fair value. The carrying amount of the equity component is then determined by deducting the fair value of the liability component from the fair value of the bonds with warrants as a whole. Transaction costs are apportioned between the liability and equity components of the bonds with warrants based on the allocation of proceeds to the liability and equity components when the instruments are first recognized. The portion of the transaction costs relating to the liability components is recognized as part of the liability and amortized in subsequent years until it is being discharged, converted or redeemed. The portion relating to the equity component is recognized as part of the equity and is not remeasured in subsequent years.

If the issued bonds with warrants only contain a liability component and an embedded derivative, that is, the conversion option of convertible bonds exhibits characteristics of an embedded derivative, the embedded derivative is separated from the bonds with warrants and accounted for as a financial instrument. It should be measured at fair value. Any excess of proceeds over the amount initially recognized as a derivative component is recognized as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognized. The portion of the transaction costs relating to the liability component is recognized initially as part of the liability. The portion relating to the derivative component is recognized immediately in the income statement.

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

10. FINANCIAL INSTRUMENTS *(CONTINUED)*

Impairment of financial assets

The Group assesses the carrying amount of a financial asset at each balance sheet date 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.

Financial assets carried at amortized cost

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

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

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

Available-for-sale financial assets

When there is objective evidence that the financial asset is impaired, the cumulative loss that had been recognized directly in other comprehensive income due to a decline in the fair value shall be removed and recognized in the income statement. The amount of the cumulative loss that is removed shall be the remaining balance of the acquisition cost deducted by any principal repayment, amortization, current fair value, and any impairment loss on that financial asset previously recognized in the income statement.

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

10. FINANCIAL INSTRUMENTS *(CONTINUED)*

Impairment of financial assets *(Continued)*

Available-for-sale financial assets (Continued)

The objective evidence that an available-for-sale equity investment is impaired includes a dramatic or non-temporal decrease in fair value. Professional judgment is involved as to whether the decrease is "dramatic" or "non-temporal". "Dramatic" is measured by the extent of fair value under the cost, "Non-temporal" is measured by the length of duration when fair value was under the cost. Impairment losses for an investment in an equity investment classified as available for sale shall not be reversed through the income statement. Increases in fair value after impairment are recognized directly in other comprehensive income.

If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss shall be reversed, with the amount of the reversal recognized in the income statement.

Financial assets carried at cost

If there is objective evidence that an impairment loss on a financial asset has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset, and recognized in the income statement. Impairment losses on these assets are not reversed.

With respect to long term equity investments measured using the cost method in accordance with CAS 2 "Long-term Equity Investments", for which the investments are not quoted in an active market and their fair values cannot be reliably measured, their impairment is assessed under the abovementioned principles.

Transfer of financial assets

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

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

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

11. 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 income statement.

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

(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 1.9% (2012: 1%) of the balance as at the period end.

12. INVENTORIES

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

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

Contract costs shall comprise direct materials, direct labor, utilization expenses of equipment, other direct costs and an appropriate proportion of variable construction overheads. Contract costs records the portion that the aggregate amount of costs incurred and aggregate recognized gross profits (or recognized losses) to date exceeds the amount of progress billings and the balance is represented as unsettled projects in the financial statements. Provision of impairment for construction contract is assessed at the year end. When it is probable that total contract costs exceed total contract revenue, the expected loss is recognized in the income statement.

Inventories are accounted for using the perpetual inventory system.

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

Notes to Financial Statements (Continued)

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

12. INVENTORIES *(CONTINUED)*

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

13. LONG TERM EQUITY INVESTMENTS

Long term equity investments consist of investments in subsidiaries, jointly-controlled entities and associates.

Long term investments shall be recognized at initial investment cost upon acquisition. For the long term investments that acquired through business combination involving entities under common control, the initial investment cost shall be the share in the carrying amount of the acquiree's equity. For business combination involving entities not under common control, the initial investment cost should be the cost of acquisition (for those who complete business combination involving entities not under common control by means of numerous transactions, the initial investment cost is the sum of the carrying amount of the acquiree's equity investments held before the acquisition date and the new investment cost on the acquisition date), which is the sum of the fair value of assets paid, liabilities incurred or assumed and equity securities issued. For a long term investment not acquired through business combination: for the transaction paid by cash, the initial cost of investment shall be the actual payment of the consideration and related direct costs, taxes and other necessary expenses; for the transaction paid by issuance of equity securities, the initial cost of investment shall be the fair value of the issuance of equity securities; for the shareholders' contribution, the initial cost of investment shall refer to the consideration in the investment contract or agreement unless the consideration in the investment contract or agreement is not at fair value.

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 right to decide on the financial and operating policies of a company and to obtain profit from the operating activities of the company.

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

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

13. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

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 contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers). Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

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

When long term equity investments are disposed of, the difference between the carrying amount and the actual proceeds received should be charged to the income statement. For long term equity investments under the equity method, the amount recognized in the equity previously shall be transferred to the income statement upon its disposal.

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

13. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

For the impairment assessment and measurement of provision for impairment of long term investments in subsidiaries, jointly-controlled entities and associates, further details are stated in Note II.25.

14. INVESTMENT PROPERTIES

Investment properties are interests in land and buildings (including land use rights and properties lent out under operating leases) held to earn rentals or for capital appreciation or both.

Investment properties are initially recorded at cost. Subsequent expenditure incurred related to investment properties is capitalized when, and only when it is probable that their future economic benefits will flow in, and such expenditure can be measured reliably; or otherwise, is charged to the income statement.

The Group accounts for investment properties using the cost method in subsequent measurement. Depreciation is calculated on the straight-line basis over their estimated useful lives, which is the period over which future economic benefits will flow into the Group. The useful lives of the Group's investment properties are 10 to 20 years, with an expected net residual value rate of 3%.

For investment properties accounted for using the cost method, please refer to Note II.25 for the details of their impairment assessment and measurement.

15. FIXED ASSETS

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

Fixed assets 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 provided on fixed assets using the straight-line method, except for fix assets generated by consuming safety production reserves. The estimated useful lives, estimated residual values, and the annual depreciation rates of each category of fixed assets are as follows:

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

15. FIXED ASSETS *(CONTINUED)*

	Estimated useful life	Estimated residual value	Annual depreciation rate
Buildings and structures	10 – 20 years	3%	4.9 – 9.7%
Machine equipment	10 – 13 years	3%	7.5 – 9.7%
Office equipment	10 years	3%	9.7%
Transportation vehicles and equipment	5 years	3%	19.4%

Components of fixed assets which have different useful lives and generate different kinds of benefits to the enterprise have different depreciation rates.

The Group reviews the estimated useful lives, estimated residual values, and depreciation method, and adjusts them if appropriate, at least at each balance sheet date.

Further details of the impairment assessment and measurement of provision for impairment of fixed assets are stated in Note II.25.

16. CONSTRUCTION IN PROGRESS

Construction in progress is recognized based on the actual construction expenditures incurred. It consists of all types of expenditure necessarily to be incurred, capitalized borrowing costs on related borrowed funds before the asset is ready for its intended use, and other related expenditure during the period of construction.

Construction in progress is transferred to fixed assets when the asset is ready for its intended use.

Further details of the impairment assessment and measurement of provision for impairment of the construction in progress are stated in Note II.25.

17. BORROWING COSTS

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

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

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

17. BORROWING COSTS *(CONTINUED)*

The capitalization of borrowing costs commences when:

(1) Expenditures for the assets are being incurred;

(2) Borrowing costs are incurred; or

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

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

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

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

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

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

18. INTANGIBLE ASSETS

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

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

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

18. INTANGIBLE ASSETS *(CONTINUED)*

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

	Useful life
Land use rights	50 years
Mining rights	25 years
Back-up roll technology	10 years
Concession contract	25 years

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

The useful life of concession assets is defined in the concession arrangement signed between the Group and the granting authority.

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

For the intangible assets with indefinite useful lives, whether it has indication of impairment, an impairment assessment should be performed at least every year. For these intangible assets, they should not be amortized and their useful lives are reviewed at least at each financial year end. If there is indication that the useful lives are finite, the Group should follow the accounting treatment of intangible assets with finite lives as mentioned above.

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

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

18. INTANGIBLE ASSETS *(CONTINUED)*

Details of the impairment assessment and measurement of provision for impairment of intangible assets are stated in Note II.25.

19. PROVISIONS

Except for contingent considerations or contingent liabilities assumed under a business combination, a provision is recognized if:

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

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

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

Provisions are initially measured at the best estimate of the expenditure required to settle the present obligation, after considering of risks, uncertainties, present value, etc. Provisions shall be reviewed at each balance sheet date 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 recognized and the initially recognized amount after deducting the accumulated amortization in accordance with the policy for revenue recognition principal.

20. REPURCHASE AGREEMENTS

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

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

21. REVENUE

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

Revenue from the sale of goods

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

Revenue from the rendering of services

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

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

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

21. REVENUE *(CONTINUED)*

Interest income

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

Lease income

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

22. GOVERNMENT GRANTS

Government grants are recognized at their fair value 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 assetrelated government grants if the conditions are constructing or forming long-term assets. Otherwise, the government grants should be income-related.

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

23. INCOME TAX

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

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

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

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

23. INCOME TAX *(CONTINUED)*

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

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

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

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

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

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

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

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

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

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

24. LEASES

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

As lessee in operating leases

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

As lessor in operating leases

Rentals receivable under operating leases are credited to the income statement over the lease terms on the straight-line basis.

25. IMPAIRMENT OF ASSETS

The Group determines the impairment of assets according to the following method, except for inventories, deferred tax assets, financial assets, and long term equity investments measured at cost method which do not have a quoted market price in an active market and their fair value cannot be reliably measured.

The Group assesses whether an indication of impairment exists as at the balance sheet date, and performed impairment test on estimation of the asset's recoverable amount if such indications exist. For all goodwill acquired in business combinations and intangible assets with indefinite lives, an annual impairment test is performed no matter whether there is any indication of impairment.

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

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

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

25. IMPAIRMENT OF ASSETS *(CONTINUED)*

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

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

Impairment losses cannot be reversed in subsequent accounting periods.

26. EMPLOYEE BENEFITS

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 compensation, benefits after resignation, 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.

Benefits after resignation (Defined contribution plans)

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

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

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

26. EMPLOYEE BENEFITS *(CONTINUED)*

Termination benefits

Employee compensation liabilities, arising from the termination benefits that the Group provides to employees, shall be recognized at an earlier date of the following two time-points, with a corresponding charge to profit or loss for the current period:

When enterprise is unable to unilaterally withdraw the termination benefits due to terminating the labor relationship or the layoff proposal, or when enterprise confirms the relevant restructuring costs or expenses involving paying the termination benefits.

27. PROFIT DISTRIBUTION

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

28. SAFETY PRODUCTION RESERVE

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

29. GENERAL RESERVE

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

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

30. FAIR VALUE MEASUREMENT

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

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

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

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

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

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

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

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

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

31. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

Judgments

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

Operating lease – as lessor

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

Classification between investment properties and owner-occupied properties

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

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

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

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

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

Estimation uncertainty

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

Impairment of non-financial assets (other than goodwill)

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

Deferred tax assets

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

Estimation of useful lives of fixed assets

The Group's management determines the estimated useful lives 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.

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

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

Estimation uncertainty *(Continued)*

Impairment 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 on each balance sheet date.

Estimation of inventories under net realizable value

Management reviews the condition of inventories (including spare parts) of the Group and their net realizable values and makes provision accordingly. The Group carries out an inventory review at each balance sheet date and makes provision accordingly.

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

Notes to Financial Statements (Continued)

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III. TAX

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

Value-added tax	The output VAT rate of domestic sales is 17%. VAT payable is the net difference between output VAT and deductible input VAT. According to national tax regulations, the Company adopted the “Exempt, Offset, Refund” arrangements for VAT in export sales with the refund rates of 9% to 17%. A subsidiary of the Company adopted the “Levy first, refund afterwards” arrangements for VAT in its own export sales. Since 1 October 2012, VAT reform has been launched in Anhui Province, and a subsidiary of the Company was subject to value-added tax at a rate of 6% for its engineering design and service fee revenue rather than business tax.
Business tax	Payable based on 3% to 5% of the taxable income.
City construction and maintenance tax	Payable based on 7% of the net VAT and business tax to be paid.
Income tax	The Company and certain of its subsidiaries were subject to corporate income tax (“CIT”) at a rate of 25% on their assessable profits.
Land value increment tax	Levied based on added value of the transference of the land use right and real estate, with an extra progressive tax rate of 30% to 60%.
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.

III. TAX *(CONTINUED)*

2. TAX BENEFITS AND APPROVAL DOCUMENTS

Certain subsidiaries of the Company were foreign investment enterprises which shall be subject to corporate income tax at rates ranging from 22% to 25% and enjoy the "Two years exempted and subsequent three years with a 50% reduction" tax holiday policy. Certain subsidiaries of the Company were high technology enterprises which shall be subject to corporate income tax at the rate of 15%. Taxes for other subsidiaries located elsewhere and Hong Kong have been calculated at the rates of tax prevailing in the jurisdictions, ranging from 16.5% to 30%, in which the subsidiaries operate, based on existing legislation, interpretations and practices in respect thereof.

This year, the corporate income tax rate and preferential policies were kept unchanged from a year earlier.

3. OTHERS

The State Administration of Taxation ("SAT") issued a tax circular "Enterprise Income Tax Issues relating to Nine Companies Listed Overseas" ("Circular No. 664") in June 2007 which requested the relevant local tax authorities to rectify, immediately, the expired concessionary tax policy for the nine listed companies authorized by the State Council to issue shares in Hong Kong in 1993 which, at the time of writing, was still being applied. The notice stated that the difference in corporate income tax arising from the expired preferential rate and the applicable rate should be settled according to the provisions of the "Law on the Administration of Tax Collection".

The Company is one of the nine listed companies mentioned above and applied the preferential CIT rate of 15% in prior years. Having understood the above, the Company thoroughly communicated with the relevant tax authority and was informed by the relevant tax authority that the Company should have applied the CIT tax rate of 33% for 2007. The Company has not been requested to pay the CIT differences in respect of any prior years.

In response to the notice issued by the relevant tax authority and communication with the relevant tax authority, the directors of the Company consider that it is uncertain whether the relevant tax authorities will retrospectively claim additional CIT from the Company and that it is not possible to reliably estimate the eventual outcome of this matter. Consequently, no provision has been made in these financial statements in respect of the CIT differences arising from prior years.

Notes to Financial Statements (Continued)

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IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION

1. SUBSIDIARIES (INCLUDING SUBSIDIARIES INDIRECTLY HELD BY SUBSIDIARIES)

The details of subsidiaries are as follows:

Name of investee	Business type	Place of incorporation or registration	Legal represent-ative	Business nature	Registered capital	Principal activities	Organisation code	Paid-in capital as at period end	Other items constituting net investment	Percentage of equity (%)	Percentage of voting right (%)	Con-solida-tion Y/N	Minority interests	Amount in minority interests available for reducing share of loss of minority interests	Note
Subsidiaries acquired by establishment or investment															
Anhui Masteel K.Wah New Building Materials Co., Ltd. ("Anhui MasteelK. Wah")	Sino–foreign joint venture	Anhui, PRC	Pu Daoqin	Manu–facturing	USD 8,389,000	Production, sale and transportation of slag products and provision of related consultation services	743065876	USD 5,872,300	-	70	70	Y	40,092,160	-	
Ma Steel (Wuhu) Processing and Distribution Co., Ltd. ("Ma Steel (Wuhu)")	Sino–HK joint venture	Anhui, PRC	Dai Huaqiang	Manu–facturing	RMB 35,000,000	Processing and sale of metallic products; processing of motor vehicle spare parts and sale of construction materials and chemical products (except dangerous products)	746769078	RMB 35,000,000	-	100	100	Y	-	-	
Ma Steel (Cihu)Processing and Distribution Co., Ltd. ("Ma Steel (Cihu)")	Limited liability	Anhui, PRC	Dai Huaqiang	Manu–facturing	RMB 30,000,000	Production, processing and sale of steel plates, steel wires and steel sections; and provision of storage and after-sale services	764791762	RMB 27,600,000	-	92	92	Y	3,954,516	915,313	
Ma Steel (Guangzhou) Processing and Distribution Co., Ltd. ("Ma Steel (Guangzhou)")	Sino–foreign joint venture	Guangdong, PRC	Dai Huaqiang	Manu–facturing	RMB 120,000,000	Production, processing and sale of steel plates, steel wires and steel sections and provision of storage, transportation and after-sale services	751955545	RMB 80,000,000	-	66.7	66.7	Y	58,606,522	1,911,118	
Maanshan Iron & Steel (HK) Limited ("Ma Steel (HK)")	Holding subsidiary	Hong Kong, PRC	N/A	Manu–facturing	HKD 4,800,000	Trading of steel and iron ores, and provision of steel trading agency services and transportation services	N/A	HKD 4,800,000	-	80	100	Y	48,792,965	-	

IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION *(CONTINUED)*

1. SUBSIDIARIES (INCLUDING SUBSIDIARIES INDIRECTLY HELD BY SUBSIDIARIES) *(CONTINUED)*

The details of subsidiaries are as follows: *(Continued)*

Name of investee	Business type	Place of incorporation or registration	Legal representative	Business nature	Registered capital	Principal activities	Organisation code	Paid-in capital as at period end	Other items constituting net investment	Percentage of equity (%)	Percentage of voting right (%)	Consolidation Y/N	Minority interests	Amount in minority interests available for reducing share of loss of minority interests	Note
Subsidiaries acquired by establishment or investment *(continued)*															
Anhui Masteel Holly Industrial Co., Ltd. ("Holly Industrial")	Taiwan, HK, Macau and PRC joint venture	Anhui, PRC	Qiu Xiaogen	Manufacturing	RMB 30,000,000	Production and sale of packing materials for steel and other products; provision of on-site packing service; research, development, production and sale of vehicle spare parts, electronic engineering products, and macromolecular compound materials; processing and sale of metallic products	754878645	RMB 30,000,000	-	100	100	Y	-	-	
Maanshan Masteel Huayang Equipment Inspection & Engineering Co., Ltd. ("Huayang Equipment")	Limited liability	Anhui, PRC	Wu Haitong	Manufacturing	RMB 1,000,000	Provision of equipment inspection technique consultancy services, equipment services and equipment inspection work	771108968	RMB 900,000	-	90	90	Y	1,014,036	-	
Ma Steel (Jinhua) Processing and DistributionCo., Ltd. ("Ma Steel (Jinhua)")	Sino-foreign joint venture	Zhejiang, PRC	Dai Huaqiang	Manufacturing	RMB 120,000,000	Production, processing and sale of steel plates, steel wires and steel sections and provision of storage, transportation and after-sale services	773136073	RMB 90,000,000	-	75	75	Y	35,595,184	-	
MG Trading and Development GmbH ("MG Trading")	Wholly-owned subsidiary	Germany	N/A	Trading	EUR 153,388	Trading of equipment, iron and steel products and provision of technology services	N/A	EUR 153,388	-	100	100	Y	-	-	
Maanshan Iron and Steel (Australia) Proprietary Limited ("Ma Steel (Australia)")	Limited liability	Australia	N/A	Mine production and sale	AUD 21,737,900	Production and sale of iron ores through an unincorporated joint venture	N/A	AUD 21,737,900	-	100	100	Y	-	-	

IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION *(CONTINUED)*

1. SUBSIDIARIES (INCLUDING SUBSIDIARIES INDIRECTLY HELD BY SUBSIDIARIES) *(CONTINUED)*

The details of subsidiaries are as follows: *(Continued)*

Name of investee	Business type	Place of incorporation or registration	Legal representative	Business nature	Registered capital	Principal activities	Organisation code	Paid-in capital as at period end	Other items constituting net investment	Percentage of equity (%)	Percentage of voting right (%)	Consolidation Y/N	Minority interests	Amount in minority interests available for reducing share of loss of minority interests	Note
Subsidiaries acquired by establishment or investment *(continued)*															
Ma Steel (Hefei) Iron & Steel Co., Ltd. ("Ma Steel (Hefei)")	Limited liability	Anhui, PRC	Qin Changrong	Manufacturing	RMB 2,500,000,000	Smelting and processing of ferrous metals and sale of the products and by-products; production and sale of coke, coke chemical products and power supply; processing of iron and steel products and production and sale of metallic products; iron and steel technological services and related businesses; dock operation, storage, transportation, construction services; leasing properties, and provision of construction services, materials and electronic equipment	788567175	RMB 1,775,000,000	–	71	71	Y	960,649,292	–	(ii)
Ma Steel (Hefei) Processing and Distribution Co., Ltd. ("Ma Steel (Hefei) Processing")	Limited liability	Anhui, PRC	Dai Huaqiang	Manufacturing	RMB 120,000,000	Processing and sale of hot rolled and cold rolled steel thin plates for vehicles, home appliances and engineering industries, and construction steel framework products; provision of storage and transportation services	793567946	RMB 106,800,000	–	89	89	Y	16,874,802	2,424,148	
Ma Steel (Wuhu) Material Technique Co. Ltd. ("Wuhu Technique")	Limited liability	Anhui, PRC	Dai Huaqiang	Manufacturing	RMB 150,000,000	Provision of storage and transportation services of automobile related metal components, trading and processing of steel products, provision of related consultancy services	670909619	RMB 106,500,000	–	71	71	Y	44,509,617	3,151,715	
Maanshan Masteel Scrap Steel Co., Ltd. ("Masteel Scrap Steel")	Limited liability	Anhui, PRC	Yang Zhen	Manufacturing	RMB 100,000,000	Recollection, processing and sale of scrap metals	57440238-3	RMB 100,000,000	–	100	100	Y	–	–	(i)
Maanshan (Shanghai) Industrial Trading Co., Ltd. ("Shanghai Trading")	Limited liability	Shanghai, PRC	Dai Huaqiang	Trading	RMB 60,000,000	Trading of metal materials, construction materials, tools and iron ores; storage service and trading information consultation	57273921-4	RMB 60,000,000	–	100	100	Y	–	–	

Notes to Financial Statements (Continued)

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IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION *(CONTINUED)*

1. SUBSIDIARIES (INCLUDING SUBSIDIARIES INDIRECTLY HELD BY SUBSIDIARIES) *(CONTINUED)*

The details of subsidiaries are as follows: *(Continued)*

Name of investee	Business type	Place of incorporation or registration	Legal representative	Business nature	Registered capital	Principal activities	Organisation code	Paid-in capital as at period end	Other items constituting net investment	Percentage of equity (%)	Percentage of voting right (%)	Consolidation Y/N	Minority interests	Amount in minority interests available for reducing share of loss of minority interests	Note
Subsidiaries acquired by establishment or investment *(continued)*															
Maanshan (Chongqing) Material Technology Co., Ltd. ("Chongqing Material")	Limited liability	Chongqing, PRC	Dai Huaqiang	Manufacturing	RMB 250,000,000	Simple processing and delivery of steel products, and related services, storage and sale of metal products	57797482-X	RMB 175,000,000	-	70	70	Y	75,631,647	-	
Maanshan Iron & Steel (Hefei) Industrial Water Supply Co., Ltd. ("(Hefei) Water Supply")	Limited liability	Anhui, PRC	Qin Changrong	Manufacturing	RMB 50,000,000	Industrial water production and sale	57706497-3	RMB 50,000,000	-	100	100	Y	-	-	
Maanshan Iron & Steel (Hefei) Industrial Water Supply Co., Ltd. ("(Hefei) Water Supply")	Limited liability	Anhui, PRC	Qin Changrong	Manufacturing	RMB 50,000,000	Industrial water production and sale	57706497-3	RMB 50,000,000	-	100	100	Y	-	-	
Ma Steel (Hefei) Steel Plates Co., Ltd. ("Hefei Steel Plates")	One person limited liability	Anhui, PRC	Qin Changrong	Manufacturing	RMB 1,200,000,000	Smelting and processing of ferrous metals and sale of the products, by-products and semi-products; processing of iron and steel products and production and sale of metallic products; storage of iron and steel products and metallic products	59428146-X	RMB 1,200,000,000	-	100	100	Y	-	-	
Ma Steel (Hefei) Materials Technology Co., Ltd. ("Hefei Materials")	One person Limited liability	Anhui, PRC	Zhang Jian	Manufacturing	RMB 100,000,000	Materials of automobile, home appliances, mechanical or related industry research; Laser welding plate, stamping parts and products research and development, production and sale; steel and product processing, storage and services	5149916-3	RMB 70,000,000	-	70	70	Y	29,960,455	39,959	
Maanshan Masteel Yuyuan Logistics Co., Ltd. ("Masteel Yuyuan Logistics")	One person Limited liability	Anhui, PRC	Yan Hua	Trading	RMB 270,000,000	Sale of steel, processing of metallic products, storage service, agency of freight shipping and project tender	58723125-3	RMB 270,000,000	-	100	100	N	-	-	(iv)
Maanshan Iron & Steel Zhonglian Maritime Co., Ltd. ("Zhonglian Maritime")	Limited liability	Anhui, PRC	Yang Junguo	Service industry	RMB 253,000,000	Domestic coastal, middle and lower reaches of the Yangtze River and Pearl River Delta	58152067-9	RMB 157,064,000	-	62	62	N	-	-	(iv)
Hefei Dianfu River Port Co., Ltd. ("Dianfu River")	Limited liability	Anhui, PRC	Fang Xiaoyun	Service industry	RMB 60,000,000	Cargo handling, warehousing services: land and sea cargo transport transhipment, Provision of comprehensive services to foreign ships	5145082-9	RMB 18,000,000	-	50	50	N	-	-	(iv)

IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION *(CONTINUED)*

1. SUBSIDIARIES (INCLUDING SUBSIDIARIES INDIRECTLY HELD BY SUBSIDIARIES) *(CONTINUED)*

The details of subsidiaries are as follows: *(Continued)*

Name of investee	Business type	Place of incorporation or registration	Legal represent-ative	Business nature	Registered capital	Principal activities	Organisation code	Paid-in capital as at period end	Other items constituting net investment	Percentage of equity (%)	Percentage of voting right (%)	Con-solida-tion Y/N	Minority interests	Amount in minority interests available for reducing share of loss of minority interests	Note
Subsidiaries acquired by establishment or investment *(continued)*															
Anhui Chang Jiang Iron and Steel Trading Co., Ltd., Heifei ("Chang Jiang Iron and Steel, Hefei")	One person Limited liability	Anhui, PRC	Li Jianshe	Trading	RMB 30,000,000	Sale of pig iron, steel billet and steel products	08033492-3	RMB 30,000,000	–	100	100	Y	–	–	(iii)
Anhui Chang Jiang Iron and Steel Trading Co., Ltd., Nanjing ("Chang Jiang Iron and Steel, Nanjing")	Limited liability	Jiangsu, PRC	Li Jianshe	Trading	RMB 30,000,000	Sale of pig iron, steel billet and steel products	08026922-8	RMB 30,000,000	–	100	100	Y	–	–	(iii)
Anhui Chang Jiang Iron and Steel Metal Co., Ltd. ("Chang Jiang Iron and Steel Metal")	Limited liability	Jiangsu, PRC	Li Jianshe	Trading	RMB 30,000,000	Sale of pig iron, steel billet and steel products	08033163-4	RMB 30,000,000	–	100	100	Y	–	–	(iii)
Subsidiaries acquired not under common control															
Ma Steel (Yangzhou) Processing and Distribution Co., Ltd. ("Masteel (Yangzhou) Processing")	Limited liability	Jiangsu, PRC	Dai Huaqiang	Manu-facturing	USD 20,000,000	Production, processing and sale of steel plates, steel wires and steel sections; provision of after-sale and storage services (except dangerous chemical products)	75732471X	USD 14,200,000	–	71	71	Y	55,740,322	–	
Anhui Chang Jiang Iron and Steel Co., Ltd. ("Anhui Chang Jiang Iron and Steel")	Limited liability	Anhui, PRC	Li Jianshe	Manu-facturing	RMB 1,200,000,000	Production and sale of iron and steel products, trading of iron ore and scrap steel, import and export business	71993429-3	RMB 660,000,000	–	55	55	Y	1,083,489,479	–	
Subsidiaries acquired under common control															
Masteel Group Financial Co., Ltd. ("Masteel Financial")	Limited liability	Anhui, PRC	Su Jiangang	Financial services	RMB 1,000,000,000	Rendering of financing related consultation services, guarantee and bank acceptance bill discounting services, and entrusted loan services to member entities; providing borrowings to member entities and absorbing deposits from entities	583045103	RMB 910,000,000	–	91	91	Y	112,678,820	–	

Notes to Financial Statements (Continued)

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IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION *(CONTINUED)*

1. SUBSIDIARIES (INCLUDING SUBSIDIARIES INDIRECTLY HELD BY SUBSIDIARIES) *(CONTINUED)*

(i) Masteel Scrap Steel was renamed Maanshan Masteel Resource Regeneration Company Limited in 2012.

(ii) As at 10 December 2013, the registered capital of Ma Steel (Hefei) was increased by RMB0.8 billion, including capital injection of RMB0.568 billion paid in by the Company, and capital injection of RMB0.232 billion paid in by Hefei Industrial Investment Holding Co., Ltd. Upon the completion of the capital injection, the registered capital of Ma Steel (Hefei) reached RMB2.5 billion, with the Company's shareholding unchanged.

(iii) The above subsidiaries were established by Anhui Chang Jiang Iron and Steel Co., Ltd. during the current year.

(iv) Since the issuance of a verdict by the court on 12 October 2012 that accepts the restructuring application of Masteel Yuyuan Logistics, the Company had lost the right to decide the financial and operating policies of Masteel Yuyuan Logistics and its subsidiaries (Zhonglian Maritime and Dianfu River). Therefore, Masteel Yuyuan Logistics and its subsidiaries were no longer included in the scope of consolidation.

2. CHANGE IN THE SCOPE OF CONSOLIDATION

Except for the newly established subsidiaries during the current year and the statement in Note IV.3, the scope of financial statement consolidation is consistent with that in the previous year.

3. ENTITIES NEWLY INCLUDED IN THE CONSOLIDATION SCOPE AND ENTITIES NO LONGER INCLUDED IN THE CURRENT YEAR

In the current year, the subsidiaries newly included in the consolidation scope are as follows:

	Net assets at 31 December 2013	**Net profit from the date of incorporation to year end**
Chang Jiang Iron and Steel, Nanjing	30,733,836	733,836
Chang Jiang Iron and Steel, Hefei	31,496,228	1,496,228
Chang Jiang Iron and Steel, Metal	30,840,908	840,908

IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION *(CONTINUED)*

3. ENTITIES NEWLY INCLUDED IN THE CONSOLIDATION SCOPE AND ENTITIES NO LONGER INCLUDED IN THE CURRENT YEAR *(CONTINUED)*

In the current year, the subsidiaries no longer included in the consolidation scope are as follows:

	Net assets at 31 December 2013	Net profit/(loss) from the date of incorporation to year end
Ma Steel International Trade and Economic Corporation (i) ("Masteel International Trade Corp.")	115,244,493	68,446,310
Anhui Masteel Engineering Technology Company Limited (i) ("Masteel Engineering Technology")	172,188,085	13,657,867
MG Control Technique Company Limited (i) ("MG Control Technique")	63,232,010	11,037,730
Ma Steel United Electric Steel Roller Co. Ltd. (i) ("Ma Steel Roller")	155,792,398	(9,545,342)
Maanshan Used Vehicle Trading Centre Co. Ltd. (i) ("Used Vehicle Trading")	3,513,591	519,185
Maanshan Masteel Electric Repair Co., Ltd. (i) ("Masteel Electric Repair")	13,374,834	1,222,998
Maanshan Masteel Steel Structure Technology Co., Ltd. (i) ("Masteel Steel Structure")	530,566,978	(165,758)
Maanshan Masteel Surface engineering Technology Co., Ltd. (i) ("Masteel Surface Engineering")	273,483,106	119,748
Maanshan Masteel Equipment Installation Engineering Co., Ltd. (i) ("Masteel Equipment Installation")	109,769,466	3,735,945
Ma Steel Powder Metallurgy Co., Ltd. (i) ("Masteel Powder Metallurgy")	101,158,062	491,783
Shanghai Maanshan Iron & Steel Electrical and Mechanical Technology Co., Ltd. (ii) ("Shanghai Electrical and Mechanical Technology")	2,851,670	(1,841,244)
Anhui Jiangnan Iron and Steel Material Quality Monitoring and TestingCo., Ltd. (ii) ("Jiangnan Iron and Steel")	1,145,394	55,413
Anhui Masteel Stereoscopic Auto-parking Equipment Company Limited (iii) ("Masteel Auto-parking")	9,947,735	(382,759)

IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION *(CONTINUED)*

3. ENTITIES NEWLY INCLUDED IN THE CONSOLIDATION SCOPE AND ENTITIES NO LONGER INCLUDED IN THE CURRENT YEAR *(CONTINUED)*

(i) As at 22 August 2013, the Company and the Holding signed "The Agreement of the Disposal of Equity and Assets" (the "Disposal Agreement") to transfer the equity of ten subsidiaries and two affiliates and the assets of some branch companies, which are not related to the principal iron and steel operations, to Magang (Group) Holding Company Limited. The transfer was finished on 31 October 2013, and the subsidiaries transferred were no longer included in the scope of consolidation since 31 October 2013. The details are stated in Note IV.4 to the financial statements.

(ii) Jiangnan Iron and Steel is a wholly-owned subsidiary of Masteel International Trade Corp. and Shanghai Electrical and Mechanical Technology is a wholly owned subsidiary of Masteel Engineering Technology. As stated in Note (i), Masteel International Trade Corp. and Masteel Engineering Technology were no longer included in the scope of consolidation since 31 October 2013. Therefore, Jiangnan Iron and Steel and Shanghai Electrical and Mechanical Technology were no longer included in the scope of consolidation since 31 October 2013.

(iii) Masteel Auto-parking was an indirectly held subsidiary of the Company, in which Holly Industrial and Maanshan Iron & Steel (HK) Limited ("Ma Steel (HK)") owned interests of 75% and 25%, respectively. On 9 April 2013, Holly Industrial transferred all its shares in Masteel Auto-parking to a third party ("the transferee"), and the transfer date was 9 April 2013. After the completion of the disposal, Ma Steel (HK)'s interests in Masteel Auto-parking remained at 25%. The details are stated in Note IV.4 to the financial statements.

IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION *(CONTINUED)*

4. REDUCTION OF SUBSIDIARIES DUE TO LOSS OF CONTROL OR SALE OF EQUITY

Name of investee	Business type	Place of registration	Business nature	Percentage of equity (%)	Percentage of voting right (%)	Reason of not being affiliate
Masteel International Trade Corp	Public	Anhui, PRC	Trading	100	100	(i)
Masteel Engineering Technology	Limited liability	Anhui, PRC	Service industry	66.82	66.82	(i)
MG Control Technique	Limited liability	Anhui, PRC	Manufacturing	97.93	97.93	(i)
Ma Steel Roller	Limited liability	Anhui, PRC	Manufacturing	51	51	(i)
Used Vehicle Trading	Limited liability	Anhui, PRC	Trading	100	100	(i)
Jiangnan Iron and Steel	Limited liability	Anhui, PRC	Manufacturing	100	100	(i)
Masteel Electric Repair	Limited liability	Anhui, PRC	Manufacturing	100	100	(i)
Masteel Steel Structure	Limited liability	Anhui, PRC	Manufacturing	100	100	(i)
Masteel Surface engineering	Limited liability	Anhui, PRC	Manufacturing	100	100	(i)
Masteel Equipment Installation	Limited liability	Anhui, PRC	Manufacturing	100	100	(i)
Masteel Powder Metallurgy	Limited liability	Anhui, PRC	Manufacturing	51	51	(i)
Shanghai Electrical and Mechanical Technology	One person Limited liability	Shanghai, PRC	Manufacturing	100	100	(i)
Masteel Auto-parking	Limited liability	Anhui, PRC	Manufacturing	100	100	(ii)

IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION *(CONTINUED)*

4. REDUCTION OF SUBSIDIARIES DUE TO LOSS OF CONTROL OR SALE OF EQUITY *(CONTINUED)*

(i) As at 22 August 2013, the Company and the Holding signed the “Disposal Agreement” to transfer the equity of ten subsidiaries (not in the core iron and steel manufacturing business) and, two associates (including Maanshan Harbour Group Co., Ltd. (“Maanshan Harbour”) and Anhui Zhengpu Harbor Co., Ltd. (“Zhengpu Harbor”)) and certain assets not in the core iron and steel business to the Holding. The final consideration for the transaction is RMB3,926,492,545 which is determined based on the appraisal report issued by Beijing Pan-China Assets Appraisal Co., Ltd. The consideration of the transfer is RMB1,370,699,032 for the equity transfer of these ten subsidiaries, RMB332,897,507 for the equity transfer of these two associates, and RMB2,222,896,006 for the assets of some other non-core iron and steel assets. The transfer was completed on 31 October 2013. Therefore, the above subsidiaries mentioned above were no longer included in the scope of consolidation since 31 October 2013.

Jiangnan Iron and Steel is a wholly-owned subsidiary of Masteel International Trade Corp. and Shanghai Electrical and Mechanical Technology is a wholly-owned subsidiary of Masteel Engineering Technology. Masteel International Trade Corp. and Masteel Engineering Technology were no longer included in the scope of consolidation since 31 October 2013. Therefore, Jiangnan Iron and Steel and Shanghai Electrical and Mechanical Technology were no longer included in the scope of consolidation since 31 October 2013.

IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION *(CONTINUED)*

4. REDUCTION OF SUBSIDIARIES DUE TO LOSS OF CONTROL OR SALE OF EQUITY *(CONTINUED)*

(i) *(Continued)*

The relevant information about the ten subsidiaries not relating to the principal iron and steel operations, Jiangnan Iron and Steel, and Shanghai Electrical and Mechanical Technology is as follows:

	31 October 2013 Book value	**31 December 2012 Book value**
Current assets	4,240,674,247	3,985,779,908
Non-current assets	541,549,203	550,883,750
Current liabilities	(3,221,703,363)	(3,093,685,073)
Non-current liabilities	(18,200,000)	(18,200,000)
	1,542,320,087	1,424,778,585
Minority interests	184,279,961	142,891,183
Disposal of equity	1,358,040,126	
Gain from the disposal	12,658,906	
Consideration for the disposal	1,370,699,032	

	From 1 January 2013 to 31 October 2013
Revenue	7,139,120,118
Cost of sales	6,948,031,365
Net profit	87,734,635

IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION *(CONTINUED)*

4. REDUCTION OF SUBSIDIARIES DUE TO LOSS OF CONTROL OR SALE OF EQUITY *(CONTINUED)*

(ii) Masteel Auto-parking was an indirectly held subsidiary of the Company, in which Holly Industrial and Ma Steel (HK) held interests of 75% and 25%, respectively. On 9 April 2013, Holly Industrial transferred all its shares in Masteel Auto-parking to a third party with the price of RMB14,460,000. After the completion of the transfer, Masteel (HK)'s interest in Masteel Auto-parking remained at 25%. According to the revised Articles of Association of Masteel Auto-parking, the board of directors is comprised of three directors, out of which one shall be appointed by Ma Steel (HK), and the other two shall be appointed by the acquiree, as a result of the acquiree gaining control over Masteel Auto-parking. Therefore, Masteel Auto-parking has been changed into an associate of the Group since 9 April 2013.

The relevant information about Masteel Auto-parking is as follows:

	9 April 2013 Book value	**31 December 2012 Book value**
Current assets	20,886,737	23,359,403
Non-current assets	13,308,787	13,483,391
Current liabilities	(14,247,789)	(16,512,299)
Non-current liabilities	(10,000,000)	(10,000,000)
	9,947,735	10,330,495
Residual equity	4,595,467	
Net assets of disposal	7,460,801	
Gain from the disposal	8,434,132	
Consideration for the disposal	13,786,400	

	From 1 January 2013 to 9 April 2013
Revenue	2,260,179
Cost of sales	2,175,857
Net loss	382,759

A gain of RMB2,108,533 was resulted from the re-measurement of the remaining equity over Masteel Auto-Parking at the date of the Company lost the control over it.

IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION *(CONTINUED)*

5. EXCHANGE RATES USED TO TRANSLATE THE FINANCIAL STATEMENTS OF FOREIGN OPERATIONS

	Average rates		Closing rates	
	2013	2012	**2013**	2012
EUR	**8.3683**	8.2401	**8.4189**	8.3176
HKD	**0.7985**	0.8108	**0.7862**	0.8108
AUD	**5.9832**	6.4728	**5.4301**	6.5363
USD	**6.1912**	6.2932	**6.0969**	6.2855

The exchange rate comes from the RMB middle rate announced by the State Administration of Foreign Exchange.

6. SIGNIFICANT MINORITY INTERESTS

Subsidiaries including significant minority interests are as follows:

	2013	2012
The proportion of equity held by minority shareholders:		
Ma Steel (Hefei)	**29%**	29%
Anhui Chang Jiang Iron and Steel	**45%**	45%
Masteel Financial	**9%**	9%
Profit attributable to minority shareholders:		
Ma Steel (Hefei)	**4,362,797**	17,391,290
Anhui Chang Jiang Iron and Steel	**21,379,954**	22,037,626
Masteel Financial	**12,792,721**	8,629,026
Dividends paid to minority shareholders:		
Ma Steel (Hefei)	**–**	–
Anhui Chang Jiang Iron and Steel	**–**	–
Masteel Financial	**–**	–

IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION *(CONTINUED)*

6. SIGNIFICANT MINORITY INTERESTS *(CONTINUED)*

Cumulative balance of minority interests at the balance sheet date:

	2013	2012
Ma Steel (Hefei)	**960,649,292**	724,286,495
Anhui Chang Jiang Iron and Steel	**1,083,489,479**	1,066,631,160
Masteel Financial	**112,678,820**	99,886,099

The main financial information of the above subsidiaries is as follows. The amounts listed below are the amounts without combination offset.

	Ma Steel (Hefei)	**Anhui Chang Jiang Iron and Steel**	**Masteel Financial**
2013			
Revenue	**5,292,909,809**	**9,339,735,411**	**427,803,758**
Total expenses	**5,277,865,682**	**9,292,224,401**	**285,662,412**
Net profit	**15,044,127**	**47,511,010**	**142,141,346**
Total comprehensive income	**15,044,127**	**47,511,010**	**142,141,346**
Current assets	**2,105,330,885**	**2,469,397,688**	**2,140,226,147**
Non-current assets	**3,412,070,345**	**4,682,621,543**	**5,916,728,494**
Current liabilities	**(2,189,972,983)**	**(4,651,690,281)**	**(6,804,742,753)**
Non-current liabilities	**(14,844,480)**	**(92,574,550)**	**(225,000)**
Net cash flows from operating activities	**2,100,518**	**455,899,763**	**(2,717,391,403)**
Net cash flows from investing activities	**(711,940,209)**	**(533,524,921)**	**(532,712)**
Net cash flows from financing activities	**1,305,506,470**	**87,581,770**	**–**
Effect of foreign exchange rate changes on cash	**3,168,211**	**–**	**(978,786)**
Increase/(Decrease) in cash and cash equivalents	**598,834,990**	**9,956,612**	**(2,718,902,901)**

IV. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION *(CONTINUED)*

6. SIGNIFICANT MINORITY INTERESTS *(CONTINUED)*

	Ma Steel (Hefei)	Anhui Chang Jiang Iron and Steel	Masteel Financial
2012			
Revenue	5,709,298,074	8,233,433,458	241,124,710
Total expenses	5,649,328,110	8,184,460,955	145,246,639
Net profit	59,969,964	48,972,503	95,878,071
Total comprehensive income	59,969,964	48,972,503	95,878,071
Current assets	2,230,946,739	2,238,027,618	4,938,502,167
Non-current assets	1,790,532,289	3,708,426,277	4,121,019,539
Current liabilities	(1,510,609,720)	(3,477,873,775)	(7,949,526,164)
Non-current liabilities	(13,329,668)	(98,288,654)	(150,000)
Net cash flows from operating activities	(363,700,432)	1,133,890,135	(3,727,271,354)
Net cash flows from investing activities	(747,715,707)	(1,271,873,290)	(400,342)
Net cash flows from financing activities	1,090,833,581	209,638,906	–
Effect of foreign exchange rate changes on cash	–	–	(80,827)
Increase/(Decrease) in cash and cash equivalents	(20,582,558)	71,655,751	(3,727,752,523)

Notes to Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. CASH AND BANK BALANCES

	2013			2012		
	Original currency	**Exchange rate**	**RMB equivalent**	Original currency	Exchange rate	RMB equivalent
Cash on hand						
– RMB	**267,684**	**1**	**267,684**	191,349	1	191,349
Balances with financial institutions						
– RMB	**1,476,344,711**	**1**	**1,476,344,711**	4,506,914,313	1	4,506,914,313
– HKD	**2,494,831**	**0.7862**	**1,961,436**	423,113	0.8108	343,060
– USD	**58,028,519**	**6.0969**	**353,794,078**	244,726,397	6.2855	1,538,227,770
– EUR	**3,560,168**	**8.4189**	**29,972,698**	10,311,193	8.3176	85,764,375
– JPY	**1,101,401**	**0.0578**	**63,661**	103,329	0.0730	7,543
– AUD	**18,237,447**	**5.4301**	**99,031,161**	77,210,642	6.5363	504,671,922
			1,961,167,745			6,635,928,983
Others						
– RMB	**2,220,222,410**	**1**	**2,220,222,410**	2,142,360,204	1	2,142,360,204
Mandatory reserves with central bank						
– RMB	**925,060,230**	**1**	**925,060,230**	1,003,943,579	1	1,003,943,579
			5,106,718,069			9,782,424,115

As at 31 December 2013, the Group's cash and bank balances amounting to RMB3,292,199,944 have been pledged to banks as security (31 December 2012: RMB3,152,628,023), including other monetary assets amounting to RMB2,220,222,410 (31 December 2012: RMB2,142,360,204) pledged as security for trade facilities and performance bonds, and time deposits of USD1,000,000, equivalent to RMB6,132,360, as well as time deposits amounting to RMB 140,784,944, which add up to RMB 146,917,304 (31 December 2012: USD1,000,000, equivalent to RMB6,324,240) have been pledged to banks to issue letters of credit, and mandatory reserves with central banks of RMB925,060,230 (31 December 2012: RMB1,003,943,579).

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

1. CASH AND BANK BALANCES *(CONTINUED)*

As at 31 December 2013, the Group had cash and bank balances amounting to RMB215,403,536 that have been deposited outside the PRC (31 December 2012: RMB624,291,473).

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

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

	2013	2012
Equity instruments held for trading	**509,330**	587,120

The above equity instruments were all listed on the Shanghai or Shenzhen Stock Exchange. There was no material restriction on realization of these investments as at the balance sheet date.

3. BILLS RECEIVABLE

	2013	2012
Bank acceptance bills	**8,623,990,738**	8,054,237,399
Commercial acceptance bills	**5,118,188**	6,522,861
	8,629,108,926	8,060,760,260

As at 31 December 2013, all hosting bills of the Company in Ma'anshan Branch of Industrial and Commercial Bank of China were pledged as security to obtain short-term loans amounting to RMB10,000,000 and long-term loans amounting to RMB990,000,000 (31 December 2012: none), which are disclosed in Note V.21 and Note V.31. According to the loan contract, the Company needs to ensure that no less than RMB1,120,000,000 bills receivable be hosted in Ma'anshan Branch of Industrial and Commercial Bank of China, as at 31 December 2013, the balance of which was RMB 3,890,000,000. Besides, certain of the Group's bank acceptance bills amounting to RMB163,734,443 were pledged as security to banks to issue bank acceptance bills to suppliers (31 December 2012: RMB152,972,397), which are disclosed in Note V.22.

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

3. BILLS RECEIVABLE *(CONTINUED)*

As at 31 December 2013 and 31 December 2012, there were no trade receivables transferred from bills receivable because of the drawers' inability to pay, and the top five largest endorsed undue bills receivable were as follows:

2013

Issue entity	**Issue date**	**Maturity date**	**Amount**
Company 1	2013-10-14	2014-01-08	**70,000,000**
Company 2	2013-12-09	2014-03-03	**50,000,000**
Company 3	2013-12-24	2014-01-19	**35,000,000**
Company 4	2013-10-17	2014-01-17	**31,996,500**
Company 5	2013-12-04	2014-06-03	**30,000,000**
			216,996,500

2012

Issue entity	Issue date	Maturity date	Amount
Company 1	2012-08-21	2013-02-21	77,477,764
Company 2	2012-11-06	2013-02-09	50,000,000
Company 3	2012-11-06	2013-02-09	50,000,000
Company 4	2012-11-06	2013-02-09	50,000,000
Company 5	2012-11-06	2013-02-09	50,000,000
			277,477,764

As at 31 December 2013, certain of the Group's bills receivable amounting to RMB81,720,000 were discounted to obtain short-term loans (31 December 2012: RMB67,890,000).

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 ageing of trade receivables is analyzed below:

	2013	2012
Within one year	**776,614,818**	1,322,714,407
One to two years	**28,600,288**	66,792,389
Two to three years	**1,184,316**	7,233,443
Over three years	**8,756,853**	30,263,476
	815,156,275	1,427,003,715
Less: Provisions for bad debts	**14,209,800**	15,076,606
	800,946,475	1,411,927,109

The balances of trade receivables are analysed as follows:

	2013				2012			
	Book value		**Provision for bad debts**		Book value		Provision for bad debts	
	Balance	**Ratio (%)**	**Amount**	**Ratio (%)**	Balance	Ratio (%)	Amount	Ratio (%)
Individually significant and assessed for impairment individually	**761,681,928**	**93**	**(6,927,040)**	**1**	1,308,181,141	92	(6,927,040)	1
Other insignificant but assessed for impairment individually	**53,474,347**	**7**	**(7,282,760)**	**14**	118,822,574	8	(8,149,566)	7
	815,156,275	**100**	**(14,209,800)**		1,427,003,715	100	(15,076,606)	

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

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

4. TRADE RECEIVABLES *(CONTINUED)*

An analysis of the amount of provision for bad debts being written off in the current year:

Reason	2013	2012
Bankrupt or liquidated debtors	**547,527**	455,560

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

	Relation with the Group	Balance	Ageing	Ratio (%)
Company 1	**Independent third party**	**51,715,171**	**Within one year**	**6**
Company 2	**Independent third party**	**39,430,051**	**Within one year**	**5**
Company 3	**Independent third party**	**37,125,254**	**Within one year**	**5**
Company 4	**Independent third party**	**32,938,920**	**Within one year**	**4**
Company 5	**Independent third party**	**30,928,596**	**Within one year**	**4**
		192,137,992		**24**

As at 31 December 2012, the top five largest customers were as follows:

	Relationship with the Group	Balance	Ageing	Ratio (%)
Company 1	Independent third party	117,802,696	Within one year	8
Company 2	Independent third party	90,587,673	Within one year	6
Company 3	Independent third party	85,974,880	Within one year	6
Company 4	Independent third party	51,792,584	Within one year	4
Company 5	Independent third party	43,515,751	Within one year	3
		389,673,584		27

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

4. TRADE RECEIVABLES *(CONTINUED)*

The following balances of trade receivables are denominated in foreign currencies:

	2013			2012		
	Original currency	**Exchange rate**	**RMB equivalent**	Original currency	Exchange rate	RMB equivalent
USD	**27,334,580**	**6.0969**	**166,656,201**	21,369,915	6.2855	134,320,599
EUR	**1,202,950**	**8.4189**	**10,127,516**	545,508	8.3176	4,537,314
HKD	**–**	**–**	**–**	34,785,722	0.8108	28,204,263
AUD	**1,266,480**	**5.4301**	**6,877,113**	3,004,417	6.5363	19,637,771
			183,660,830			186,699,947

As at 31 December 2013 and 31 December 2012, there were no trade receivables being derecognized due to the transfer of financial assets.

Trade receivables due from either shareholders who held 5% or above of the Company's equity interests or other related parties as at 31 December 2013 and 31 December 2012 are stated in Note VI.6 to the financial statements.

Notes to Financial Statements (Continued)

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

5. DIVIDENDS RECEIVABLE

2013

	Opening balance	Addition	Reduction	Closing balance	Reason of not yet collected	Whether impaired
Within one year						
Ma'anshan BOC-Ma Steel Gases Company Limited ("BOC-Ma Steel")	-	78,000,000	78,000,000	-		
Masteel Engineering Technology (i)	-	11,791,640	-	11,791,640	Not paid	No
Shanghai Luojing Mineral Dock Co., Ltd.	-	12,583,740	12,583,740	-		
China the 17th Metallurgy Construction Co.,Ltd.	-	1,537,843	1,537,843	-		
More than one year						
Masteel Engineering Technology (i)	-	5,895,820	-	5,895,820	Not paid	No
Jiyuan JinMa Coke	46,800,000	-	19,700,000	27,100,000	Not paid	No
	46,800,000	109,809,043	111,821,583	44,787,460		

(i) The Company lost control of Masteel Engineering Technology as a result of transferring the equity of several non-steel business subsidiaries to the Group. The dividends receivable aged more than one year with a balance of RMB5,895,820 were the cash dividends that Masteel Engineering Technology declared in 2011 but not yet distributed.

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

5. DIVIDENDS RECEIVABLE *(CONTINUED)*

2012

	Opening balance	Addition	Reduction	Closing balance	Reason of not yet collected	Whether impaired
Within one year						
BOC-Ma Steel	–	90,000,000	90,000,000	–		
Henan Longyu Energy	11,102,452	–	11,102,452	–		
Other	–	23,506,311	23,506,311	–		
More than one year						
Jiyuan JinMa Coke	88,800,000	19,080,000	61,080,000	46,800,000	Not paid	No
	99,902,452	132,586,311	185,688,763	46,800,000		

6. PREPAYMENTS

An aged analysis of the prepayments is as follows:

	2013		2012	
	Balance	**Ratio (%)**	Balance	Ratio (%)
Within one year	**1,000,361,657**	**98**	1,680,045,765	83
One to two years	**12,157,694**	**1**	306,432,163	15
Two to three years	**1,265,699**	**–**	42,159,100	2
Over three years	**8,609,829**	**1**	9,084,916	–
	1,022,394,879	**100**	2,037,721,944	100

Prepayments aged over one year were mainly unsettled prepayments for construction projects and equipment purchase. The final inspection of certain of the Group's construction projects was not yet completed which resulted in the corresponding prepayments not being settled.

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

6. PREPAYMENTS *(CONTINUED)*

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

	Relationship with the Group	**Balance**	**Payment date**	**Reason for non-settlement**
Company 1	**Independent third party**	**247,593,178**	**2013**	**(i)**
Company 2	**Independent third party**	**211,895,000**	**2013**	**(i)**
Company 3	**Independent third party**	**208,858,274**	**2013**	**(i)**
Company 4	**Independent third party**	**131,671,594**	**2013**	**(i)**
Company 5	**Independent third party**	**73,972,498**	**2013**	**(i)**
		873,990,544		

As at 31 December 2012, the top five largest prepayments were as follows:

	Relationship with the Group	Balance	Payment date	Reason for non-settlement
Company 1	Independent third party	333,763,307	2012	(i)
Company 2	Independent third party	183,761,146	2012	(i)
Company 3	Independent third party	176,734,606	2012	(i)
Company 4	Independent third party	168,879,041	2012	(i)
Company 5	Independent third party	155,507,000	2012	(i)
		1,018,645,100		

(i) As at the balance sheet date, the non-settlement of the Group's top five largest prepayments was mainly attributable to the delay in the supply of raw materials.

The following balances are denominated in foreign currencies:

	2013			2012		
	Original currency	**Exchange rate**	**RMB equivalent**	Original currency	Exchange rate	RMB equivalent
JPY	**113,366,230**	**0.0578**	**6,552,568**	240,139,644	0.0730	17,530,194
EUR	**6,552,761**	**8.4189**	**55,167,040**	5,892,096	8.3176	49,008,098
USD	**9,055,883**	**6.0969**	**55,212,813**	150,700	6.2855	947,225
			116,932,421			67,485,517

Prepayments due from either shareholders who held 5% or above of the Company's equity interests or other related parties as at 31 December 2013 and 31 December 2012 are stated in Note VI.6 to the financial statements.

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

7. OTHER RECEIVABLES

An aged analysis of other receivables is as follows:

	2013	2012
Within one year	**1,669,432,037**	883,993,632
One to two years	**729,907,083**	131,021,845
Two to three years	**38,183,949**	711,697
Over three years	**6,459,483**	6,890,630
	2,443,982,552	1,022,617,804
Less: Provisions for bad debts	**495,837,429**	553,609,057
	1,948,145,123	469,008,747

During the year, the Group has written off provision for bad debt RMB124,182. The other receivables for which the bad debt provision was accrued in whole or in a great proportion in prior years but was reversed in current year are as follows. The reversal was due to subsequent collection of the amounts in full or in most of the amounts.

	Reason for reversal	**Basis of provision for bad debts**	**Cumulated provision of bad debts before reversal**	**The reversed amount**
Company 1	Received	Unreceived for a long time	49,970,750	29,668,168
Other	Received	Unreceived for a long time	503,638,307	29,351,361
			553,609,057	59,019,529

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)*

7. OTHER RECEIVABLES *(CONTINUED)*

Other receivables balance is analyzed as follows:

	2013				2012			
	Book value		**Provision for bad debts**		Book value		Provision for bad debts	
	Balance	**Ratio (%)**	**Amount**	**Ratio (%)**	Balance	Ratio (%)	Amount	Ratio (%)
Individually significant and assessed for impairment individually	**2,414,505,218**	**99**	**(490,250,853)**	**20**	979,541,235	96	(548,592,667)	56
Other insignificant but assessed for impairment individually	**29,477,334**	**1**	**(5,586,576)**	**19**	43,076,569	4	(5,016,390)	12
	2,443,982,552	**100**	**(495,837,429)**		1,022,617,804	100	(553,609,057)	

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

	Relationship with the Group	**Balance**	**Payment date**	**Ratio in other receivables (%)**
Company 1	The Holding	**1,569,539,285**	Within one year	**64**
Company 2	Independent third party	**132,186,434**	One to two years	**5**
Company 3	Independent third party	**127,685,368**	One to two years	**5**
Company 4	Independent third party	**93,073,811**	Within one year	**4**
Company 5	Independent third party	**92,302,582**	One to two years	**4**
		2,014,787,480		**82**

As at 31 December 2013, the balance of the Company's other receivables amounting to RMB1,553,219,745 was mainly the consideration of disposing of the non-steel business due from the Group. Please refer to Note VI.6 for detailed information.

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

7. OTHER RECEIVABLES *(CONTINUED)*

As at 31 December 2012, the top five largest other receivables were as follows:

	Relationship with the Group	Balance	Payment date	Ratio in other receivables (%)
Company 1	Independent third party	153,324,000	Within one year	15
Company 2	Independent third party	141,286,434	Within one year	14
Company 3	Independent third party	127,685,368	Within one year	12
Company 4	Independent third party	76,821,224	Within one year	8
Company 5	Independent third party	72,802,497	One to two years	7
		571,919,523		56

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

	Subsidy project	**Balance**	**Payment date**	**Expected receiving time, amount and basis**
Other receivable due from Taibai Township Government	Return policy from 2004 to 2009	**29,637,911**	More than three years	(i)

As at 31 December 2012, the government subsidy funds receivable were as follows:

	Subsidy project	Balance	Payment date	Expected receiving time, amount and basis
Other receivable due from Taibai Township Government	Return policy from 2004 to 2009	29,637,911	Three years	(i)

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

7. OTHER RECEIVABLES *(CONTINUED)*

(i) The balance is the policy incentives owned by a subsidiary named Chang Jiang Iron and Steel in 2009 from the county government of Taibai Town, Dangtu in Anhui Province because of its timely and fully tax payments between 2004 and 2009. This government subsidy was recorded as non-operating income in 2009, and is expected to be received in 2014.

The balances of other receivables as at 31 December 2013 and 31 December 2012 did not contain any amount derecognized due to transfer of financial assets.

The balances of other receivables due from either shareholders who held 5% or above of the Company's equity interests or other related parties as at 31 December 2013 and 31 December 2012 are stated in Note VI.6 to the financial statements.

8. INVENTORIES

	2013			2012		
	Balance	**Provision for impairment**	**Carrying amount**	Balance	Provision for impairment	Carrying amount
Raw materials	**5,705,360,415**	**(522,727,311)**	**5,182,633,104**	6,069,329,562	(221,378,174)	5,847,951,388
Spare parts	**1,634,079,930**	**(63,220,701)**	**1,570,859,229**	1,804,057,674	(60,651,928)	1,743,405,746
Finished goods	**2,250,722,070**	**(25,170,409)**	**2,225,551,661**	1,581,472,127	(18,434,509)	1,563,037,618
Work in progress	**1,084,278,582**	**(13,601,442)**	**1,070,677,140**	2,140,176,911	(49,634,401)	2,090,542,510
Construction contracts	**-**	**-**	**-**	6,000,000	–	6,000,000
	10,674,440,997	**(624,719,863)**	**10,049,721,134**	11,601,036,274	(350,099,012)	11,250,937,262

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

At the balance sheet date, inventories were measured at the lower of costs and net realizable values, and provision for impairment was made for items whose costs were higher than their net realizable values. Net realizable value is the estimated selling price under the normal business terms deducted by the estimated costs to completion, the estimated selling expenses and related taxes. In 2013, the Group's subsidiary, Holly Industrial, reversed RMB588,948 of impairment provision against inventories (2012: nil).

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

9. LOANS AND ADVANCES TO CUSTOMERS

	2013	2012
Loans	**460,000,000**	165,000,000
Discounted bills	**35,974,359**	52,740,209
	495,974,359	217,740,209
Less:Bad debt provision for loans and advances	**9,462,611**	2,177,403
	486,511,748	215,562,806

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 of loans and advances are the Group and its subsidiaries. After risk evaluation, bad debt provision for loans and advances to customers was accrued at 1.9% of its closing balance (2012:1%). As at 31 December 2013, there was no non-performing loan in the Group's loans and advances to customers. Loans and advances to customers due from either shareholders who held 5% or above of the Company's equity interests or other related parties as at 31 December 2013 and 31 December 2012 are stated in Note VI.6 to the financial statements.

10. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2013	2012
Available-for-sale equity instruments	**126,772,160**	142,612,160

	2013		2012	
	Available-for-sale equity instruments	**Total**	Available-for-sale equity instruments	Total
Cost of equity instruments	**126,772,160**	**126,772,160**	142,612,160	142,612,160
Provision for impairment	**–**	**–**	–	–
	126,772,160	**126,772,160**	142,612,160	142,612,160

As at 31 December 2013, the Group's available-for-sale financial assets are equity investments in non-listed companies in China. These assets are recorded at cost less impairment value at each balance sheet date, and their fair values would not be disclosed. The fair values of these assets could not be reliably measured since there were no market prices in the active market. Besides, the Group has no intention to dispose of the investments.

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

11. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES

2013

	Business type	Place of incorporation and registration	Legal representative	Business nature	Registered capital	Organisation code
Jointly-controlled entities						
Ma' anshan BOC-Ma Steel Gases Company Limited ("BOC-Ma Steel")	Sino-foreign joint venture	Anhui, PRC	Yan Hua	Manufacturing	RMB468,000,000	771128774
Masteel-CMI International Training Centre Co., Ltd. ("MASTEEL-CMI")	Sino-foreign joint venture	Anhui, PRC	Hu Xiayu	Service industry	RMB1,000,000	67890875X
Associates						
Jiyuan Shi JinMa Coke Co., Ltd. ("Jiyuan JinMa Coke")	Limited liability	Henan, PRC	Rao Zhaohui	Manufacturing	RMB222,220,000	750738573
Shenglong Chemical Co., Ltd. ("Shenglong Chemical")	Limited liability	Shandong, PRC	Yin Tao	Manufacturing	RMB568,800,000	751773434
Shanghai Iron and Steel Electronic Deal Center Co., Ltd. ("Shanghai Iron and Steel Electronic")	Limited liability	Shanghai, PRC	Dong Mingsheng	Manufacturing	RMB20,000,000	761625515
Anhui Xinchuang Economize Resource Co., Ltd. ("Xinchuang Economize Resource")	Limited liability	Anhui, PRC	Zhao Zhiqun	Service industry	RMB100,000,000	581537534
Maanshan Jinxi Rail Transit Equipment Co., Ltd. ("Ma Steel Jinxi Rail")	Limited liability	Anhui, PRC	Li Xiaoyu	Manufacturing	RMB300,000,000	59144909
Jiyuan Jinyuan Chemical Co., Ltd. ("Jiyuan Jinyuan Chemical")	Limited liability	Anhui, PRC	Rao Zhaohui	Manufacturing	RMB100,000,000	5722563
Anhui Masteel Stereoscopic Auto-parking Equipments Company Limited ("Masteel Auto-parking") (i)	Limited liability	Anhui, PRC	Zhou Zhuang	Manufacturing	RMB20,699,299	75854512-7

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

11. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES *(CONTINUED)*

(i) Masteel Auto-parking was an indirectly held subsidiary of the Company. On 9 April 2013, Holly Industrial transferred all its shares in Masteel Auto-parking to a third party, which accounted for 75%. According to Masteel Auto-parking's new Articles of Association, its board of directors contains three directors, one of which was appointed by Ma Steel (HK), and the other two were appointed by the transferee ("the transferee"), as a result the transferee had gained control over Masteel Auto-parking. Therefore, Masteel Auto-parking was changed into an associate of the Group since 9 April 2013. Please refer to Note IV.4 for more information.

2012

	Business Type	Place of incorporation and registration	Legal representative	Business nature	Registered capital	Organisation code
Jointly-controlled entities						
Ma' anshan BOC-Ma Steel Gases Company Limited ("BOC-Ma Steel")	Sino-foreign joint venture	Anhui, PRC	Ding Yi	Manufacturing	RMB468,000,000	771128774
Masteel-CMI International Training Centre Co., Ltd. ("MASTEEL-CMI")	Sino-foreign joint venture	Anhui, PRC	Jiang Yuxiang	Service industry	RMB1,000,000	67890875X
Ma' anshan Sino-Japan Resource Regeneration Engineering Technique Co., Ltd. ("Sino-Japan Resource Regeneration") (i)	Sino-foreign joint venture	Anhui, PRC	Fang Zhengfang	Manufacturing	RMB12,000,000	553276621
Associates						
Jiyuan Shi JinMa Coke Co., Ltd. ("Jiyuan JinMa Coke")	Limited liability	Henan, PRC	Rao Zhaohui	Manufacturing	RMB222,220,000	750738573
Shenglong Chemical Co., Ltd. ("Shenglong Chemical")	Limited liability	Shandong, PRC	Yin Tao	Manufacturing	RMB568,800,000	751773434
Shanghai Iron and Steel Electronic Deal Center Co., Ltd. ("Shanghai Iron and Steel Electronic")	Limited liability	Shanghai, PRC	Dong Mingsheng	Manufacturing	RMB20,000,000	761625515
Maanshan Harbour Group Co., Ltd. ("Maanshan Harbour") (ii)	Limited liability	Anhui, PRC	Hui Zhigang	Transportation	RMB250,000,000	150502057

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

11. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES *(CONTINUED)*

2012

	Business Type	Place of incorporation and registration	Legal representative	Business nature	Registered capital	Organisation code
Associates *(Continued)*						
Anhui All-monitor Automobile Transmission System Co., Ltd. ("All-monitor Transmission System") (iii)	Taiwan, HK, Macau and PRC joint venture	Anhui, PRC	Qiu Xiaogen	Manufacturing	RMB50,000,000	786503901
Anhui Zhengpu Harbour Co., Ltd. ("Zhengpu Harbor") (ii)	Limited liability	Anhui, PRC	Li Jiajun	Transportation	RMB200,000,000	564958863
Anhui Xinchuang Economize Resource Co., Ltd. ("Xinchuang Economize Resource") (i)	Limited liability	Anhui, PRC	Ding Yi	Servicing	RMB100,000,000	581537534
Maanshan Jinxi Rail Transit Equipment Co., Ltd. ("Ma Steel Jinxi Rail")	Limited liability	Anhui, PRC	Li Xiaoyu	Manufacturing	RMB300,000,000	59144909
Jiyuan Jinyuan Chemical Co., Ltd. ("Jiyuan Jinyuan Chemical")	Limited liability	Anhui, PRC	Rao Zhaohui	Manufacturing	RMB100,000,000	5722563

(i) According to the selling agreement signed between the Company and the Holding, the Company transferred the ownership of Masteel Engineering to the Holding, and the transfer was completed on 31 October 2013. Refer to Note IV.3 for details. Since 31 October 2013, the Company had not included Masteel Engineering into the scope, and then lost a 49% equity interest in Zhongri Resource Regeneration and a 15% equity interest in Xinchuang Energy Saving, which were indirectly held through Masteel Engineering. On 31 December 2013, the Group owns a 20% equity interest in Xinchuang Economize Resource.

(ii) According to the selling agreement signed between the Company and the Holding, the Company transferred the ownership of Maanshan Port Company and Zhengpu Harbor to the Holding, and the transfer was completed on 31 October 2013. Refer to Note IV.4 for details. Since 31 October 2013, the Company had not hold the equity of those companies, as well as their rights and interests.

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

11. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES *(CONTINUED)*

The relevant financial information of the non-steel business associates is listed below:

	31 December 2013 **Book value**
Total assets	**1,253,598,359**
Total liabilities	**631,357,748**
	622,240,611
Disposal of the total equity	**265,341,502**
Disposal income	**67,556,005**
Disposal consideration	**332,897,507**

(iii) All-monitor Automobile completed the dissolution of liquidation and cancelled its commercial registration in the year 2012.

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

11. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES *(CONTINUED)*

BOC-Ma Steel, one of the Group's important jointly-controlled entities, was used the equity method of accounting.

The financial information of BOC-Ma Steel is as follows, which has already been adjusted to apply the new accounting policies and the values have been adjusted to the carrying amount of the financial statements.

	2013	2012
Cash and cash equivalents	**178,492,216**	123,340,300
Other current assets	**69,780,542**	72,569,609
Total current assets	**248,272,758**	195,909,909
Total non-current assets	**438,865,413**	489,886,763
Financial liabilities, excluding account payable and other payables	**–**	–
Other current liabilities	**60,600,587**	52,995,655
Total current liabilities	**60,600,587**	52,995,655
Non-current liabilities, excluding trade payables, other payables and accrued liabilities	**–**	–
Total non-current liabilities	**–**	–
Net assets	**626,537,584**	632,801,017
Net assets, excluding goodwill	**626,537,584**	632,801,017
Adjusted to the Group's interest in the joint ventures:		
Proportion of the Group's shareholding	**50%**	50%
The Group's share of net assets of the joint ventures, excluding goodwill	**313,268,792**	315,052,064
Goodwill arising on acquisition (net of accumulated impairment)	**–**	–
The carrying value of the investment	**313,268,792**	315,052,064
Income	**569,451,971**	568,534,729
Interest Income	**2,786,492**	2,016,014
Depreciation and amortization	**54,786,507**	54,518,315
Interest expense	**–**	–
Income tax expense	**47,672,295**	47,422,951
Net profit	**149,736,563**	153,056,414
Total comprehensive income	**149,736,563**	153,056,414
Net profit from discontinued operations	**–**	–
Other comprehensive income	**–**	–
Dividends received	**–**	–

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

11. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES *(CONTINUED)*

The financial information of the joint ventures individually unimportant to the Group is as follows:

	2013	2012
The Group's share of net profit/(loss)	**(770,568)**	(1,643,648)
The Group's share of net income from discontinued operations	**–**	–
The Group's share of other comprehensive income	**–**	–
The Group's share in the total comprehensive income	**(770,568)**	(1,643,648)
The carrying value of the Group's investments in joint ventures	**551,944**	1,060,985

Jiyuan JinMa Coke, Shenglong Chemical and Jinxi Traffic are the Group's significant associates and use the equity method of accounting.

Notes to Financial Statements (Continued)

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

11. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES *(CONTINUED)*

The financial information of significant associates is as follows, which has already been adjusted to apply the new accounting policies and the values have been adjusted to the carrying amount of the financial statements:

	Jiyuan JinMa Coke	Shenglong Chemical	Jinxi Traffic
2013			
Cash and cash equivalents	63,060,168	173,324,277	90,408,725
Other current assets	800,030,723	777,070,485	32,942,431
Total current assets	863,090,891	950,394,762	123,351,156
Total non-current assets	786,954,452	1,554,912,725	148,593,724
Financial liabilities, excluding account payable and other payables	874,756,310	443,672,262	254,307
Other current liabilities	253,604,939	1,235,732,349	18,159,916
Total current liabilities	1,128,361,249	1,679,404,611	18,414,223
Non-current liabilities, excluding trade payables, other payables and accrued liabilities	–	160,000,000	–
Total non-current liabilities	–	160,000,000	–
Net assets	521,684,094	665,902,876	253,530,657
Net assets, excluding goodwill	521,684,094	665,902,876	253,530,657
Adjusted to the Group's interest in the associates:			
Proportion of the Group's shareholding	36%	32%	50%
The Group's share of net assets of the associates, excluding goodwill	187,806,274	213,088,920	126,765,329
Goodwill arising on acquisition (net of accumulated impairment)	–	–	–
The carrying value of the investment	187,806,274	213,088,920	126,765,329
Income	3,343,441,048	2,971,662,732	75,346,610
Net profit from discontinued operations	–	–	
Other comprehensive income	–	–	
Total comprehensive income	83,497,206	69,754,862	24,815,575
Dividends received	–	–	–

Notes to Financial Statements (Continued)

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

11. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES *(CONTINUED)*

	Jiyuan JinMa Coke	Shenglong Chemical	Jinxi Traffic
2012			
Total current assets	899,403,198	994,723,340	130,444,172
Total current assets	908,027,508	1,521,846,918	48,650,614
Total current liabilities	1,061,157,696	1,709,583,940	10,379,702
Non-current liabilities, excluding trade payables, other payables	170,000,000	212,000,000	–
Non-current liabilities	170,000,000	212,000,000	–
Net assets	576,273,010	594,986,318	168,715,084
Net assets, excluding goodwill	576,273,010	594,986,318	168,715,084
Adjusted to the Group's interest in the associates:			
Proportion of the Group's shareholding	36%	32%	50%
The Group's share of net assets of the associates, excluding goodwill	162,150,444	181,852,159	84,357,542
Goodwill arising on acquisition (net of accumulated impairment)	–	–	–
The carrying value of the investment	162,150,444	181,852,159	84,357,542
Income	3,666,686,243	2,766,478,847	1,249,777
Net profit from discontinued operations	–	–	–
Other comprehensive income	–	–	–
Total comprehensive income	56,357,935	(5,865,584)	18,715,083
Dividends received	–	–	–

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

11. INVESTMENTS IN JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES *(CONTINUED)*

The financial information of the associates individually unimportant to the Group is as follows:

	2013	2012
The Group's share of net profit	**13,357,717**	12,405,039
The Group's share of net income from discontinued operations	**–**	–
The Group's share of other comprehensive income	**–**	–
The Group's share in the total comprehensive income	**–**	–
The carrying value of the Group's investments in associates	**108,584,186**	323,226,055

12. LONG TERM EQUITY INVESTMENTS

2013

	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	Closing balance	Percentage of equity (%)	Percentage of voting right (%)	Provision for impairment	Impairment loss during the year	Cash dividend received during the year
Equity method:										
Jointly-controlled entities										
BOC-Ma Steel	234,000,000	315,052,064	76,216,728	78,000,000	313,268,792	50	50	-	-	78,000,000
MASTEEL-CMI	500,000	551,193	751	-	551,944	50	50	-	-	-
Sino-Japan Resource Regeneration (i)	-	509,792	208,681	718,473	-	-	-	-	-	-
Associates										
Jiyuan JinMa Coke	80,000,000	162,150,444	44,735,830	19,080,000	187,806,274	36	36	-	-	19,080,000
Shenglong Chemical	66,776,000	181,852,159	31,236,761	-	213,088,920	32	32	-	-	-
Shanghai Iron and Steel Electronic	4,000,000	37,949,164	17,531	-	37,966,695	20	20	-	-	-
Maanshan Harbour (ii)	-	193,936,508	3,435,271	197,371,779	-	-	-	-	-	2,025,000
Zhengpu Harbor (ii)	-	34,994,723	35,000,000	69,994,723	-	-	-	-	-	-
Xinchuang Economize Resource	20,000,000	38,345,660	5,577,027	18,392,389	25,530,298	20	20	-	-	-
Ma Steel Jinxi Rail (iii)	105,000,000	84,357,542	42,407,787	-	126,765,329	50	50	-	-	-
Jiyuan Jinyuan Chemical (iii)	36,000,000	18,000,000	23,555,808	-	41,555,808	36	36	-	-	-
Masteel Auto-parking (iv)	4,595,467	-	4,595,467	1,064,082	3,531,385	25	25	-	-	-
	550,871,467	1,067,699,249	266,987,642	384,621,446	950,065,445			-	-	99,105,000

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

12. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

2012 (Restated)

	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	Closing balance	Percentage of equity (%)	Percentage of voting right (%)	Provision for impairment	Impairment loss during the year	Cash dividend received during the year
Equity method:										
Jointly-controlled entities										
BOC-Ma Steel	234,000,000	329,872,302	75,179,762	90,000,000	315,052,064	50	50	–	–	90,000,000
MASTEEL-CMI	500,000	562,835	–	11,642	551,193	50	50	–	–	–
Sino-Japan Resource Regeneration (i)	4,900,000	2,141,798	–	1,632,006	509,792	49	49	–	–	–
Associates										
Jiyuan JinMa Coke	80,000,000	160,943,695	20,286,749	19,080,000	162,150,444	36	36	–	–	19,080,000
Shenglong Chemical	66,776,000	185,532,159	–	3,680,000	181,852,159	32	32	–	–	–
Shanghai Iron and Steel Electronic	4,000,000	39,646,945	2,302,219	4,000,000	37,949,164	20	20	–	–	4,000,000
Maanshan Harbour (ii)	112,500,000	191,745,837	6,690,671	4,500,000	193,936,508	45	45	–	–	4,500,000
All-monitor Transmission System (v)	13,500,000	11,494,044	–	11,463,074	–	(v)	(v)	–	–	–
Zhengpu Harbor (ii)	35,000,000	34,995,484	–	761	34,994,723	35	35	–	–	–
Xinchuang Economize Resource	35,000,000	17,401,780	20,943,880	–	38,345,660	35	35	–	–	–
Ma Steel Jinxi Rail (iii)	75,000,000	–	84,357,542	–	84,357,542	50	50	–	–	–
Jiyuan Jinyuan Chemical (iii)	18,000,000	–	18,000,000	–	18,000,000	36	36	–	–	–
	679,176,000	974,336,879	227,760,823	134,398,453	1,067,699,249			–	–	117,580,000

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

12. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

There was no material restriction on the realization of long term investments as at the balance sheet date.

(i) Since 31 October 2013, Sino-Japan Resource Regeneration was no longer accounted as a jointly-controlled entity of the Group. Please refer to Note V.11 for more information.

(ii) According to the disposal agreement signed between the Company and the Holding, the Company transferred its equity of Maanshan Harbor and Zhengpu Harbor to the Holding, which completed on 31 October 2013. Please refer to Note IV.4 for details. Since 31 October 2013, the Company no longer held the above entities' equity, nor enjoyed the interest. The Company sold all the equity of MG Trading it held to the Holding, causing the disposal of 18% equity of Tongling Yuanda as well. Please refer to Note IV.4 for details.

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

(iv) Masteel Auto-parking was an indirectly held subsidiary of the Company. On 9 April 2013, Holly Industrial transferred all its shares in Masteel Auto-parking to a third party. According to its revised Articles of Association, the board of directors is comprised of three directors, out of which one shall be appointed by Ma Steel (HK), and the other two shall be appointed by the acquiree, as a result of acquiree gaining control over Masteel Auto-parking. Therefore, Masteel Auto-parking has been changed into an associate of the Group since 9 April 2013. Please refer to Note IV.4 for more information.

(v) In 2012, All-monitor Automobile completed the dissolution of liquidation and cancelled its commercial registration.

* All investments in jointly-controlled entities and associates accounted for under the equity method and other equity investments accounted for under the cost method are invested in unlisted companies.

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

13. INVESTMENT PROPERTIES

Investment properties subsequently measured under the cost method:

2013

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

The investment properties transferred from fixed assets refer to the office build for operating by Holly Industrial.

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

13. INVESTMENT PROPERTIES *(CONTINUED)*

Investment properties subsequently measured under the cost method:

2012

	Buildings
Cost:	
At 1 January 2012	5,729,496
Increase	–
Transferred from fixed assets	–
Disposal	–
At 31 December 2012	5,729,496
Accumulated depreciation:	
At 1 January 2012	1,189,087
Provided during the year	139,791
Transferred from fixed assets	–
Disposal	–
At 31 December 2012	1,328,878
Impairment:	
At 1 January 2012 and 31 December 2012	–
Net carrying amount:	
At 31 December 2012	4,400,618
At 1 January 2012	4,540,409

* The Group's investment property is located in Mainland China, and is under medium term leases.

Notes to Financial Statements (Continued)

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

14. FIXED ASSETS

2013

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

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

14. FIXED ASSETS *(CONTINUED)*

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

(ii) The decrease of fixed assets this year was mainly due to the Company's transfer of the equity and assets of the non-steel business subsidiaries to the Holding. Please refer to Note IV.4 for more information.

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

14. FIXED ASSETS *(CONTINUED)*

2012

	Buildings and structures	Plant, machinery and equipment	Transportation vehicles and equipment	Office equipment	Total
Cost:					
At 1 January 2012	21,862,289,908	42,506,448,412	553,467,236	235,109,934	65,157,315,490
Acquisition	12,484,711	34,544,654	87,439,220	2,024,368	136,492,953
Transfer from construction in progress (Note V.15)	1,534,583,650	2,027,947,537	–	17,995,962	3,580,527,149
Reclassifications	(1,243,071,796)	1,241,178,010	741,882	1,151,904	–
Reduction	(87,463,467)	(182,875,712)	(19,165,646)	–	(289,504,825)
Deemed disposal a subsidiary	–	(131,625)	(145,617,532)	(232,095)	(145,981,252)
At 31 December 2012	22,078,823,006	45,627,111,276	476,865,160	256,050,073	68,438,849,515
Accumulated depreciation:					
At 1 January 2012	8,983,343,245	23,159,033,055	392,750,110	116,258,742	32,651,385,152
Provided during the year	1,148,540,413	2,285,373,140	36,088,919	37,761,379	3,507,763,851
Reclassifications	(328,431,083)	327,517,377	523,940	389,766	–
Reduction	(31,275,967)	(143,939,519)	(17,468,959)	(3,306)	(192,687,751)
Deemed disposal a subsidiary	–	(23,870)	(6,360,062)	(26,201)	(6,410,133)
At 31 December 2012	9,772,176,608	25,627,960,183	405,533,948	154,380,380	35,960,051,119
Impairment:					
At 1 January 2012	5,252,400	82,602,336	–	–	87,854,736
Write-back	(5,252,400)	(82,602,336)	–	–	(87,854,736)
31 December 2012	–	–	–	–	–
Net carrying amount:					
At 31 December 2012	12,306,646,398	19,999,151,093	71,331,212	101,669,693	32,478,798,396
At 1 January 2012	12,873,694,263	19,264,813,021	160,717,126	118,851,192	32,418,075,602

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

14. FIXED ASSETS *(CONTINUED)*

As at 31 December 2013, the Group had no intention to dispose of any fixed assets or hold any fixed assets that were being temporarily idle.

As at 31 December 2013, certificates of ownership in respect of 64 of the Group's buildings in Mainland China, with an aggregate cost of RMB1,340.71 million (31 December 2012: approximately RMB1,241.93 million), 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 significant adverse impact on the Group's operations.

As at 31 December 2013, certain of the Group's production equipment with a net carrying amount of RMB47,037,778 (31 December 2012: Nil) was pledged as security to acquire bank loans amounting to RMB15,000,000. The details are disclosed in Note V.21.

The movements of impairment provision for fixed assets for the year are disclosed in Note V.18.

15. CONSTRUCTION IN PROGRESS

	2013			2012		
	Balance	**Provision for impairment**	**Carrying amount**	Balance	Provision for impairment	Carrying amount
Product quality projects	**6,709,561,002**	–	**6,709,561,002**	3,708,314,376	–	3,708,314,376
Energy-saving and environment protection projects	**356,021,360**	–	**356,021,360**	277,581,357	–	277,581,357
Equipment advancement and other modification projects	**1,188,835,449**	–	**1,188,835,449**	1,219,449,377	–	1,219,449,377
Other projects	**475,397,397**	–	**475,397,397**	492,324,566	–	492,324,566
	8,729,815,208	–	**8,729,815,208**	5,697,669,676	–	5,697,669,676

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

15. CONSTRUCTION IN PROGRESS *(CONTINUED)*

2013

Name of projects	Budget cost RMB'000	Opening balance RMB	Additions during the year RMB	Transferred to fixed assets (note V.14) RMB	Closing balance RMB	Source of fund	Average percentage of completion %
1. Product quality projects	10,559,524	3,708,314,376	4,235,232,994	(1,233,986,368)	6,709,561,002	Internally generated funds	70%
2. Energy-saving and environment protection projects	839,896	277,581,357	132,483,353	(54,043,350)	356,021,360	Internally generated funds	76%
3. Equipment advancement and other modification projects	3,375,774	1,219,449,377	356,092,064	(386,705,992)	1,188,835,449	Internally generated funds	87%
4. Other projects	N/A	492,324,566	1,572,055,044	(1,588,982,213)	475,397,397	Internally generated funds	N/A
		5,697,669,676	6,295,863,455	(3,263,717,923)	8,729,815,208		
Less: Impairment		-	-	-	-		
		5,697,669,676	6,295,863,455	(3,263,717,923)	8,729,815,208		

The opening balance of Product quality projects includes amount of RMB1,090,333,483 reclassified from Other projects.

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

15. CONSTRUCTION IN PROGRESS *(CONTINUED)*

2012

Name of projects	Budget cost RMB'000	Opening balance RMB	Additions during the year RMB	Transferred to fixed assets (note V.14) RMB	Closing balance RMB	Source of fund	Average percentage of completion %
1. Product quality projects	11,713,592	3,691,218,753	2,929,710,392	(2,912,614,769)	3,708,314,376	Internally generated funds	57%
2. Energy-saving and environment protection projects	388,200	133,927,924	143,653,433	–	277,581,357	Internally generated funds	73%
3. Equipment advancement and other modification projects	4,049,918	757,806,463	591,837,522	(130,194,608)	1,219,449,377	Internally generated funds	79%
4. Other projects	N/A	89,100,234	940,942,104	(537,717,772)	492,324,566	Internally generated funds	N/A
		4,672,053,374	4,606,143,451	(3,580,527,149)	5,697,669,676		
Less: Impairment		–	–	–	–		
		4,672,053,374	4,606,143,451	(3,580,527,149)	5,697,669,676		

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

16. INTANGIBLE ASSETS

2013

	Concession assets (i)	Back-up roll technology	Land use rights	Mining rights	Total
Cost:					
At 1 January 2013	–	45,082,836	2,307,910,575	170,813,411	2,523,806,822
Additions	136,781,479	–	111,065	19,118,468	156,011,012
Disposal of subsidiaries (ii)	–	(45,082,836)	(8,766,493)	–	(53,849,329)
Disposal (ii)	–	–	(120,359,561)	–	(120,359,561)
Exchange realignment	–	–	–	(30,675,725)	(30,675,725)
At 31 December 2013	136,781,479	–	2,178,895,586	159,256,154	2,474,933,219
Accumulated depreciation:					
At 1 January 2013	–	9,767,947	515,457,568	35,160,126	560,385,641
Provided during the year	8,672,433	3,756,903	53,673,727	4,928,899	71,031,962
Disposal of subsidiaries (ii)	–	(13,524,850)	(824,098)	–	(14,348,948)
Disposal (ii)	–	–	(35,908,561)	–	(35,908,561)
Exchange realignment	–	–	–	(6,406,120)	(6,406,120)
At 31 December 2013	8,672,433	–	532,398,636	33,682,905	574,753,974
Impairment:					
At 1 January 2013 and At 31 December 2013	–	–	–	–	–
Net carrying amount:					
At 31 December 2013	128,109,046	–	1,646,496,950	125,573,249	1,900,179,245
At 1 January 2013	–	35,314,889	1,792,453,007	135,653,285	1,963,421,181

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

16. INTANGIBLE ASSETS *(CONTINUED)*

(i) The concession assets are owned by the subsidiary, Hefei Water Supply. On 18 May 2011, Hefei Water Supply obtained a concession right by signing "Concession Arrangement for Hefei Circle Economy Park Industrial Water Supply" (the "Arrangement") with the Administrative Committee of Hefei Circle Economy Park (the "Park") through open tender. According to the Arrangement, Hefei Water Supply has the right to receive a water fee from water users in the Park by providing principal services including: industrial water supply, and designing, constructing, occupying, operating and maintaining the industrial water treatment plant, water abstraction and pipe networks. The specified concession service period is 25 years. Hefei Water Supply is obliged to transfer all infrastructures to the grantor, the Administrative Committee of Hefei Circle Economy Park, at the end of the period of the Arrangement with smooth operation guaranteed.

(ii) The decrease of intangible assets is mainly attributable to the transfer of the equity and assets of non-core business from the Company to the Holding. The details are stated in Note IV.4

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

16. INTANGIBLE ASSETS *(CONTINUED)*

2012

	Back-up roll technology	Land use rights	Mining rights	Total
Cost:				
At 1 January 2012	45,082,836	2,307,961,413	149,484,610	2,502,528,859
Additions	–	5,031,151	18,188,337	23,219,488
Deductions	–	(5,081,989)	–	(5,081,989)
Exchange realignment	–	–	3,140,464	3,140,464
At 31 December 2012	45,082,836	2,307,910,575	170,813,411	2,523,806,822
Accumulated depreciation:				
At 1 January 2012	5,259,664	465,109,845	29,721,522	500,091,031
Provided during the year	4,508,283	51,485,156	4,802,559	60,795,998
Deductions	–	(1,137,433)	–	(1,137,433)
Exchange realignment	–	–	636,045	636,045
At 31 December 2012	9,767,947	515,457,568	35,160,126	560,385,641
Impairment:				
At 1 January 2012 and At 31 December 2012	–	–	–	–
Net carrying amount:				
At 31 December 2012	35,314,889	1,792,453,007	135,653,285	1,963,421,181
At 1 January 2012	39,823,172	1,842,851,568	119,763,088	2,002,437,828

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

Notes to Financial Statements (Continued)

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

17. DEFERRED TAX ASSETS/LIABILITIES

Recognized deferred tax assets:

	2013	2012
Opening balance	**702,255,349**	626,426,316
Recognized in the income statement during the year	**53,119,405**	75,829,033
Closing balance	**755,374,754**	702,255,349

	2013	2012
Impairment provisions of assets	**156,167,424**	86,838,153
Sales incentive	**31,749,980**	75,024,980
Repair and maintenance expenses	**–**	382,189
Salary payable	**30,859,152**	19,332,640
Unrealized profit	**5,512,005**	15,320,573
Deductible tax losses	**445,970,771**	445,970,771
Others	**85,115,422**	59,386,043
	755,374,754	702,255,349

As at 31 December 2013, the Group had unrecognized deferred tax assets arising from deductible temporary differences of certain subsidiaries amounting to RMB706.41 million (2012: RMB661.06 million) which will expire in 2018 and other unused tax credits amounting to RMB0.00 million (2012: Nil) and RMB201.71 million (2012: RMB209.13 million), respectively, which have not been recognized.

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

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

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

	2013	2012
Expire in 2018	**351,656,642**	–
Expire in 2017	**2,240,752,423**	2,284,525,158
Expire in 2016	**233,247,027**	350,181,039
Expire in 2015	**–**	6,964,082
Expire in 2014	**–**	1,335,502
Expire in 2013	**–**	1,244,806

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

Recognized deferred tax liabilities:

	2013	2012
Opening balance	**40,614,884**	44,328,987
Recognized in the income statement during the year	**(3,714,103)**	(3,714,103)
Closing balance	**36,900,781**	40,614,884

	2013	2012
Fair value adjustments relating to business combination not under common control	**36,900,781**	40,614,884

Notes to Financial Statements (Continued)

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

18. ASSET IMPAIRMENT PROVISIONS

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

Note: The write-off of provision for bad debts for other receivables is regarded as the same as the decrease in the disposal of a subsidiary.

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

18. ASSET IMPAIRMENT PROVISIONS *(CONTINUED)*

	2012					
	Opening balance	Increase during the year	Decrease during the year			Closing balance
			Reversal	Write-back	Write-off	
Provisions for bad debts	22,680,861	1,305,620,921	312,735	756,665,921	460,060	570,863,066
Including: Trade receivables	15,482,085	362,816	312,735	–	455,560	15,076,606
Other receivables (i)	7,070,497	1,302,208,981	–	756,665,921	4,500	553,609,057
Loans and advances to customers	128,279	2,049,124	–	–	–	2,177,403
Provisions for inventories (ii)	737,941,305	1,417,177,552	–	1,805,019,845	–	350,099,012
Including: Raw materials	528,942,228	1,171,366,200	–	1,478,930,254	–	221,378,174
Work in progress	86,456,715	126,770,303	–	163,592,617	–	49,634,401
Finished products	61,316,046	119,041,049	–	161,922,586	–	18,434,509
Spare parts	61,226,316	–	–	574,388	–	60,651,928
Impairment of long term equity investments	3,738,814	–	–	3,738,814	–	–
Impairment of fixed assets	87,854,736	–	–	87,854,736	–	–
Including: Buildings and structures	5,252,400	–	–	5,252,400	–	–
Plant, machinery and equipment	82,602,336	–	–	82,602,336	–	–
	852,215,716	2,722,798,473	312,735	2,653,279,316	460,060	920,962,078

(i) In 2012, the write-back of provision for bad debts for other receivables is attributable to the deemed disposal of a subsidiary.

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

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

19. CUSTOMER DEPOSITS

	2013	2012
Demand deposits	**1,096,029,858**	369,167,982
Notice deposit	**28,500,000**	–
Time deposits	**266,080,000**	196,000,000
	1,390,609,858	565,167,982

The information of customer deposits for shareholders who held 5% or more of voting shares and the related parties at 31 December 2013 and 31 December 2012 are disclosed in Note IV.6.

20. REPURCHASE AGREEMENTS

	2013	2012
Bills	**344,732,675**	494,753,998

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

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

21. SHORT TERM LOANS

	2013			2012		
Types of loans	Original currency	Year end exchange rate	RMB equivalent	Original currency	Year end exchange rate	RMB equivalent
Unsecured loans						
– RMB	2,325,373,369	1	2,325,373,369	2,417,172,000	1	2,417,172,000
– USD	26,166,857	6.0969	159,536,713	79,622,708	6.2855	500,468,532
Short-term financing bonds						
– RMB (i)	1,500,000,000	1	1,500,000,000	3,500,000,000	1	3,500,000,000
Guaranteed loans						
– RMB (ii)	15,000,000	1	15,000,000	–	–	–
Pledged loans						
– RMB (iii)	10,000,000	1	10,000,000	–	–	–
Trust receipt loans (iv)						
– USD	745,231,147	6.0969	4,543,599,778	522,907,904	6.2855	3,286,737,632
– EUR	-	-	-	6,529,153	8.3176	54,306,879
– JPY	-	-	-	257,046,301	0.0730	18,764,380
			8,553,509,860			9,777,449,423

(i) As at 23 August 2012, the Group signed the contract with CITIC Securities, and Industrial and Commercial Bank of China which arranged to issue short-term financing bonds of RMB10,000,000,000 in the next three years and could be issued at intervals. The first bond (12馬鋼CP001) was issued on 25 October 2012, amounting to RMB3,500,000,000 with the interest rate of 4.71% per annum and a maturity of one year. The second bond (13馬鋼CP001) was issued on 16 September 2013, amounting to RMB1,500,000,000 with the interest rate of 6% per annum and a maturity of one year.

(ii) As at 31 December 2013, the Group's short-term guaranteed loans amounting to RMB15,000,000 were secured by production equipment (31 December 2012: Nil). Details are disclosed in Note V.14.

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

21. SHORT TERM LOANS *(CONTINUED)*

(iii) As at 31 December 2013, the Group's pledged loans amounting to RMB10,000,000 were secured by bills receivable which were hosted by Maanshan Branch of Industrial and Commercial Bank of China. Details are disclosed in Note V.3.

(iv) As at 31 December 2013, the trust receipt loans of the Group not settled yet was amounted to RMB4.54 billion (2012: RMB 3.29 billion).

As at 31 December 2013, the interest rates of the above short-term loans ranged from 1.591% to 6.560% (31 December 2012: 1.269% to 8.64%).

As at 31 December 2013, the Group had no expired outstanding short term loans.

22. BILLS PAYABLE

	2013	2012
Bank acceptance bills	**5,542,646,513**	4,573,802,242
Commercial acceptance bills	**–**	522,500,000
	5,542,646,513	5,096,302,242

As at 31 December 2013 and 31 December 2012, the ageing of the Group's bills payable was all within six months.

The bills payable amounting to RMB5,542,646,513 (2012: RMB5,096,302,242) are due in the next accounting year. As at the balance sheet date, certain amounts of the Group's bills payable were secured by certain amounts of the other balances with financial institutions. Please refer to Notes V.1 and V.3.

The balance of bills payable as at 31 December 2013 and 31 December 2012 did not contain any amount due to either shareholders who held 5% or above of the Company's equity interests or related parties.

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

23. ACCOUNTS PAYABLE

* The ageing analysis of accounts payable is as follows:

	2013	2012
Within one year	**6,396,013,395**	6,585,456,835
One to two years	**53,967,042**	341,987,841
Two to three years	**21,827,472**	38,302,737
Over three years	**52,341,842**	63,579,257
	6,524,149,751	7,029,326,670

The following balances were denominated in foreign currencies:

	2013			2012		
	Original currency	**Year end rate**	**RMB equivalent**	Original currency	Year end rate	RMB equivalent
USD	**-**	**-**	**-**	2,355,700	6.2855	14,806,752
EUR	**3,939,139**	**8.4189**	**33,163,217**	6,512,649	8.3176	54,169,607
AUD	**272,404**	**5.4301**	**1,479,181**	48,514	6.5363	317,100
JPY	**-**	**-**	**-**	240,139,650	0.0730	17,541,961
			34,642,398			86,835,420

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

The amounts due to either shareholders who held 5% or above of the Company's equity interests or other related parties among the balances of accounts payable as at 31 December 2013 and 31 December 2012 are stated in Note VI.6 to the financial statements.

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

23. ACCOUNTS PAYABLE *(CONTINUED)*

At 31 December 2013, the accounts payable with material amounts aged more than one year (over RMB 2 million) are as follows:

Name of the company	Amount due	Reason for non-settlement
Company 1	**19,000,000**	(i)
Company 2	**13,807,700**	(i)
Company 3	**5,190,000**	(i)
Company 4	**7,917,184**	(i)
Company 5	**4,755,173**	(i)
Others	**16,198,307**	(i)

After the balance sheet date, RMB6,106,614 of the above accounts payable with material amounts aged over one year was settled.

(i) The Group's accounts payable aged over one year are mainly attributable to the balances of purchasing equipment and construction projects with settlement periods beyond one year.

24. DEPOSITS RECEIVED

The following balances were denominated in foreign currencies:

	2013			2012		
	Original currency	**Year end rate**	**RMB equivalent**	Original currency	Year end rate	RMB equivalent
USD	**10,881,860**	**6.0969**	**66,345,612**	10,208,208	6.2855	64,163,691
EUR	**522,535**	**8.4189**	**4,399,170**	169,245	8.3176	1,407,712
			70,744,782			65,571,403

The amount of deposits received aged within one year was RMB5,069,702,275, and the amount of deposits received aged more than one year was RMB55,562,926 (2012, all aged within one year).

The amounts due to either shareholders who held 5% or above of the Company's equity interests or other related parties among the balances of deposits received as at 31 December 2013 and 31 December 2012 are stated in Note VI.6 to the financial statements.

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

25. PAYROLL AND BENEFITS PAYABLE

2013

	Opening balance	Increase during the year	Payment during the year	Closing balance
Salaries, bonuses and subsidies	141,025,587	2,960,566,694	2,956,067,151	145,525,130
Welfare	15,972,000	148,033,125	148,954,886	15,050,239
Social insurance	31,374,707	1,080,695,669	1,098,744,932	13,325,444
Including: Pension insurance	*10,817,068*	*625,804,053*	*636,350,100*	*271,021*
Medical insurance	*7,276,421*	*212,735,098*	*217,027,703*	*2,983,816*
Unemployment insurance	*637,293*	*66,604,113*	*67,150,595*	*90,811*
Work-related injury insurance	*1,398,818*	*48,384,321*	*49,170,147*	*612,992*
Maternity insurance	*493,235*	*11,126,841*	*11,469,345*	*150,731*
Supplementary pension scheme	*10,751,872*	*116,041,243*	*117,577,042*	*9,216,073*
Housing fund	27,594,104	326,783,442	332,226,534	22,151,012
Labour union fee and employee education fee	12,140,668	86,194,086	85,495,665	12,839,089
	228,107,066	4,602,273,016	4,621,489,168	208,890,914

2012

	Opening balance	Increase during the year	Payment during the year	Closing balance
Salaries, bonuses and subsidies	168,763,287	2,905,052,313	2,932,790,013	141,025,587
Welfare	19,512,389	152,299,969	155,840,358	15,972,000
Social insurance	19,935,344	1,041,872,619	1,030,433,256	31,374,707
Including: Pension insurance	*120,465*	*617,487,878*	*606,791,275*	*10,817,068*
Medical insurance	*3,549,640*	*206,332,355*	*202,605,574*	*7,276,421*
Unemployment insurance	*105,463*	*45,065,225*	*44,533,395*	*637,293*
Work-related injury insurance	*592,625*	*49,033,611*	*48,227,418*	*1,398,818*
Maternity insurance	*186,603*	*10,741,184*	*10,434,552*	*493,235*
Supplementary pension scheme	*15,380,548*	*113,212,366*	*117,841,042*	*10,751,872*
Housing fund	26,465,102	349,977,813	348,848,811	27,594,104
Labor union fee and employee education fee	9,031,520	83,983,609	80,874,461	12,140,668
	243,707,642	4,533,186,323	4,548,786,899	228,107,066

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

25. PAYROLL AND BENEFITS PAYABLE *(CONTINUED)*

As at 31 December 2013 and 31 December 2012, the balance of payroll and benefits payable had not included performance-based wages.

As at 31 December 2013 and 31 December 2012, the Group had no defaulted payroll and benefits payable.

As at 31 December 2012, the balance of labor union fee and employee education fee was RMB86,194,086 (31 December 2011: RMB83,983,609). In 2013 and 2012, the Group had no payment for non-monetary welfare or compensation for terminating the labor relationship.

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 last month salary and allowance as their deposit base. According to the length of service, the deposit rate can be divided into four levels: length of 1 to 9 years, the rate is 7%; 10 to 19 years, the rate is 9%; 20 to 29 years, the rate is 11%; more than 30 years, the rate is 13%. In 2013, the Group had pay an annuity amount of RMB117,577,042, and the final balance of provisions but unpaid annuity was RMB9,216,073.

26. TAXES PAYABLE

	2013	2012
Value-added tax	**(113,234,839)**	(121,923,402)
Corporate income tax	**(233,672,437)**	(249,003,819)
City construction and maintenance tax	**17,027,679**	5,914,564
Other taxes	**59,437,666**	34,005,337
	(270,441,931)	(331,007,320)

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

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

27. DIVIDENDS PAYABLE

	2013	2012	**Reason for unpayment over one year**
Holding	**–**	–	N/A
Other shareholders	**80,642,412**	80,492,522	Unpaid dividend
	80,642,412	80,492,522	

As at 31 December 2013 and 31 December 2012, no such amounts due to either shareholders who held 5% or above of the Company's equity interests or other related parties.

28. OTHER PAYABLES

	2013	2012
Sales incentive	**126,999,923**	300,099,923
Payable to construction, maintenance and inspection fee	**215,132,392**	248,515,353
Service fees payable	**86,641,685**	68,097,509
Technology project fees received	**33,831,049**	37,084,673
Withholding social welfare and housing fund	**37,449,339**	46,802,324
Accrued interest expense for letter of credit	**159,767,083**	78,755,194
Others	**302,878,003**	279,610,131
	962,699,474	1,058,965,107

The balances of other payables as at 31 December 2013 and 31 December 2012 did not contain any amount due to either shareholders who held 5% or above of the Company's equity interests or other related parties.

As at 31 December 2013, certain of the Group's other payables amounting to RMB158,740,053 (31 December 2012: RMB234,022,631) were aged over one year which was mainly due to unsettled construction and maintenance projects.

For the above other payables with material amounts aged over one year, there was no payment made after the balance sheet date.

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

29. NON-CURRENT LIABILITIES DUE WITHIN ONE YEAR

	2013	2012
Long term loans due within one year	**2,000,887,700**	335,710,000
Medium-term Note due within one year (Note V.32)	**2,797,432,500**	999,832,400
Bonds payable due within one year (Note V.32)	**3,153,397,580**	–
	7,951,717,780	1,335,542,400

	2013	2012
Long term loans due within one year:		
Guaranteed loans (i)	**1,390,887,700**	135,710,000
Unsecured loans	**610,000,000**	200,000,000
	2,000,887,700	335,710,000

(i) As at the balance sheet date, the Group's non-current guaranteed loans due within one year were guaranteed by the Holding.

As at 31 December 2013, the Group had no expired outstanding long term loans.

As at 31 December 2013, the non-current liabilities due within one year are as follows:

	Starting date yy/mm/dd	**Termination date yy/mm/dd**	**Currency**	**Rate (%)**	**2013 balance RMB**	2012 balance RMB
Export-Import Bank of China	2012/09/12	2014/09/10	USD	Note 1	**548,721,000**	565,695,000
Export-Import Bank of China	2012/03/21	2014/03/20	RMB	Note 2	**440,000,000**	440,000,000
Export-Import Bank of China	2012/10/29	2014/10/24	USD	Note 1	**243,876,000**	251,420,000
Agricultural bank of China	2011/01/17	2014/01/16	RMB	Note 3	**200,000,000**	200,000,000
Agricultural bank of China	2011/02/01	2014/01/31	RMB	Note 4	**200,000,000**	200,000,000
					1,632,597,000	1,657,115,000

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

29. NON-CURRENT LIABILITIES DUE WITHIN ONE YEAR *(CONTINUED)*

Note 1: The above borrowing rates of long term loans due within six months were 250 basis points above the London Inter-Bank Offered Rate, which is adjusted semiannually.

Note 2: The above borrowing rates of long term loans due within half year were 5% below the benchmark rate offered by the central bank, which is adjusted semiannually.

Note 3: The above borrowing rates of long term loans due within one year were 10% below the benchmark rate offered by the central bank, which is adjusted annually.

Note 4: The above borrowing rates of long term loans due within three months were 10% below the benchmark rate offered by the central bank, which is adjusted quarterly.

30. ACCRUED LIABILITIES

2013

	Opening balance	Increase during the year	Decrease during the year	Closing balance	
Pending litigation or arbitration	–	4,140,000	–	4,140,000	(i)

(i) Pending litigation was caused by the bills with endorsement. Since the remote holder of the bills, who was also the third party drawer, applied for reporting the loss and could not pay in time, the Company was sued as one of the bill holders. The first trial sentenced that the Company should make compensation of RMB4,140,000. At present, the Company has appealed to a second trial.

31. LONG TERM LOANS

	2013	2012
Entrusted loan (i)	**–**	10,000,000
Guaranteed loans (ii)	**2,366,244,300**	3,395,650,000
Unsecured loans	**2,703,200,000**	6,508,530,000
Pledged loans (iii)	**990,000,000**	–
	6,059,444,300	9,914,180,000

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

31. LONG TERM LOANS *(CONTINUED)*

(i) As at 31 December 2012, the balance of the RMB10,000,000 entrusted loan with three years' terms referred to the one Masteel Auto-parking was commissioned by the Industrial and Commercial Bank of China at the interest rate of 6.42%, entrusted by the Holding. Masteel Auto-parking was disposed of on 9 April 2013 by the Company.

(ii) As at the balance sheet date, the guaranteed loans were all guaranteed by the Holding.

(ii) As at the balance date, the Group's outstanding borrowings of RMB990,000,000 was pledged by the Note receivable held by Maanshan Branch of the Industrial and Commercial Bank of China. Please refer to Note V.3 for details.

As at 31 December 2013, the top five long term loans are as follows:

	Starting date yy/mm/dd	Termination date yy/mm/dd	Currency	Rate (%)	2013 balance RMB equivalent	2012 balance RMB equivalent
Export-Import Bank of China	2013/01/09	2015/01/08	RMB	Note 1	**490,000,000**	565,695,000
Export-Import Bank of China	2013/03/04	2015/03/01	RMB	Note 1	**480,000,000**	565,695,000
Industrial and Commercial Bank of China	2013/03/08	2016/03/07	RMB	Note 2	**470,000,000**	440,000,000
Export-Import Bank of China	2013/08/02	2015/08/01	USD	Note 3	**359,717,100**	370,844,500
Industrial and Commercial Bank of China	2013/10/01	2016/03/07	RMB	Note 4	**300,000,000**	300,000,000
					2,099,717,100	2,110,844,500

Note 1: The above borrowing rates of long term loans were subject to three months' floating rate 10% below the central bank's benchmark interest rate, which is adjusted quarterly.

Note 2: The above borrowing rates of long term loans were subject to annual floating rate 5% below the central bank's benchmark interest rate, which is adjusted annually.

Note 3: The above borrowing rates of long term loans due within six months were 200 basis points above the London Inter-Bank Offered Rate, which is adjusted semiannually.

Note 4: The above borrowing rates of long term loans were subject to the benchmark interest rate of the central bank, which is adjusted annually.

As at 31 December 2013, the Group had no expired outstanding long term loans.

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

31. LONG TERM LOANS *(CONTINUED)*

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

	2013	2012
* Within one year	**2,000,887,700**	335,710,000
One to two years (including two years)	**4,069,444,300**	8,904,180,000
Three to five years (including five years)	**1,990,000,000**	1,010,000,000
	8,060,332,000	10,249,890,000

32. BONDS PAYABLE

2013	**Opening balance**	**Increase**	**Decrease**	**Closing balance**
Medium-term Note payable – 2010 first issue	**999,832,400**	**44,667,600**	**1,044,500,000**	**–**
Medium-term Note payable – 2011 second issue	**2,794,632,900**	**163,239,600**	**160,440,000**	**2,797,432,500**
Corporate bond – 3 Years	**3,143,493,948**	**187,811,632**	**177,908,000**	**3,153,397,580**
Corporate bond – 5 Years	**2,323,865,856**	**138,716,221**	**134,316,000**	**2,328,266,077**
	9,261,825,104	**534,435,053**	**1,517,164,000**	**8,279,096,157**
Less: Transfer into non-current liabilities due within one year (Note V.29)				
Including: Medium-term Note	**999,832,400**	**2,797,432,500**	**999,832,400**	**2,797,432,500**
Corporate bond	**–**	**3,153,397,580**	**–**	**3,153,397,580**
	8,261,992,704			**2,328,266,077**

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

31. LONG TERM LOANS *(CONTINUED)*

2012	Opening balance	Increase	Decrease	Closing balance
Medium-term Note payable – 2010 first issue	998,832,800	45,621,518	44,621,918	999,832,400
Medium-term Note payable – 2011 second issue	2,791,833,300	163,239,600	160,440,000	2,794,632,900
Corporate bond – 3 Years	3,133,590,316	187,811,632	177,908,000	3,143,493,948
Corporate bond – 5 Years	2,319,465,635	138,716,221	134,316,000	2,323,865,856
	9,243,722,051	535,388,971	517,285,918	9,261,825,104
Less: Transfer into non-current liabilities due within one year (Note V.29)				
Including: Medium-term Note	–	999,832,400	–	999,832,400
	9,243,722,051			8,261,992,704

As at 31 December 2013, the bonds payable balance is as follows:

	Issue date	Amount on offer	Opening interest payable	Current year accrued interest	Current year interest paid	Closing interest payable	Closing balance
Medium-term Note payable – 2010 first issue	2010/02	1,000,000,000	40,354,795	4,145,205	44,500,000	-	-
Medium-term Note payable – 2011 second issue	2011/11	2,800,000,000	14,707,000	160,440,000	160,440,000	14,707,000	2,797,432,500
Corporate bond – 3 Years	2011/08	3,160,000,000	62,705,279	177,908,000	177,908,000	62,705,279	3,153,397,580
Corporate bond – 5 Years	2011/08	2,340,000,000	47,340,885	134,316,000	134,316,000	47,340,885	2,328,266,077
		9,300,000,000	165,107,959	476,809,205	517,164,000	124,753,164	8,279,096,157

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

32. BONDS PAYABLE *(CONTINUED)*

As at 31 December 2012, bonds payable balance is as follows:

	Issue date	Amount on offer	Opening interest payable	Current year accrued interest	Current year interest paid	Closing interest payable	Closing balance
Medium-term Note payable – 2010 first issue	2010/02	1,000,000,000	40,232,877	44,621,918	44,500,000	40,354,795	999,832,400
Medium-term Note payable – 2011 second issue	2011/11	2,800,000,000	14,707,000	160,440,000	160,440,000	14,707,000	2,794,632,900
Corporate bond – 3 Years	2011/08	3,160,000,000	62,705,279	177,908,000	177,908,000	62,705,279	3,143,493,948
Corporate bond – 5 Years	2011/08	2,340,000,000	47,340,885	134,316,000	134,316,000	47,340,885	2,323,865,856
		9,300,000,000	164,986,041	517,285,918	517,164,000	165,107,959	9,261,825,104

Medium-term Note payable

In November 2009, the Company obtained the approval of the National Association of Financial Market Institutional Investors regarding the issuance of a medium-term Note with a registration amount of RMB3.8 billion, which will expire within two years. The medium-term Note is allowed to be issued by stages in its registration period of validity.

As at 4 February 2010, the Company issued the first stage medium-term Note of RMB1 billion (abbreviated as 10馬鋼MTN1). The issuance price is RMB100/Note, and has a fixed rate of interest at 4.45% per annum. As at 4 November 2011, the Company issued the second stage medium-term Note of RMB2.8 billion (abbreviated as 11馬鋼MTN1). The issuance price is RMB100/Note, and has a fixed rate of interest at 5.73% per annum. The RMB3.8 billion medium-term Note is circulating in the Chinese Inter-bank Bond Market. This medium-term Note is repayable in three years.

Corporate bonds

Upon the approval of the China Securities Supervision and Management Committee, [2011] no. 1177, the Company issued corporate bonds amounting to RMB5.5 billion with an issue price of RMB100/Note in August 2011, including RMB3.16 billion (abbreviated as 11馬鋼01) due within three years with an interest rate of 5.63%, and RMB2.34 billion (abbreviated as 11馬鋼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 were RMB5,453,788,000.

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

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

33. DEFERRED INCOME

Deferred income is as follows:

	2013	2012
Government grants related to assets		
Technological transformation fund for Phase II silicon steel	**98,000,000**	98,000,000
The new city land subsidies (Block No. 31836 & 31837)	**61,007,068**	71,639,284
New-zone Thermal Power Plant CCPP system engineering	**48,019,976**	56,349,980
Subsidy for developing emerging strategic industries in Anhui Province	**45,000,000**	–
EMU steel wheel production line project	**43,624,994**	47,874,998
Cold-rolled sheet project	**30,851,643**	45,556,647
Hot-rolled sheet project	**25,868,357**	41,763,353
Subsidy for technology advancement from open-hearth furnace to converter for 1st steel plant	**16,301,200**	26,317,600
1 # -4 # coke dry quenching project	**12,473,569**	14,251,765
Dezincification engineering of zinc dust and mud rotary hearth furnace for 3rd iron plant	**12,208,334**	13,908,338
Exhaust gas power generation projects of steel blast furnace	**12,025,000**	13,300,000
Exhaust heat power generation by sintering belt cooler of 3rd iron plant	**10,368,333**	11,718,129
Rolled wheel works	**10,260,000**	14,340,000
6 # full burning blast furnace gas boiler works	**10,226,312**	12,000,260
Subsidy for construction by Wuhu Technique	**10,054,412**	11,508,062
Flue gas desulfurization project of 135 mw thermal environmental subsidy funds	**10,000,000**	–
Slag processing recycling engineering AD201050406 state subsidies	**9,000,000**	–
Masteel 5 # 6 # coal charging and coke dust removal project	**13,312,075**	13,370,513
The municipal environmental protection subsidies of 3rd iron works sintering flue gas desulfurization engineering	**7,870,000**	–
The first iron works iron farm before blast furnace flue gas project	**7,317,101**	7,369,300
Pulse clarifier pollution	**7,249,167**	8,699,167
New-zone coking field project	**9,733,237**	12,373,333
Comprehensive utilization of water resources	**5,634,750**	7,317,750
Environmental funds for desulfurization project of 3rd iron plant’s flue gas (BOT)	**5,550,000**	–
National environmental fund for flue gas treatment by 3rd steel plant (AI201150304)	**9,375,700**	9,375,700
Others	**58,306,304**	56,962,833
Government grants related to income		
Relocation compensation for Transport Company	**20,000,000**	25,000,000
Total	**609,637,532**	618,997,012

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

33. DEFERRED INCOME *(CONTINUED)*

As at 31 December 2013, the government subsidies related to liabilities are as follows:

	Beginning balance	Additions	Included in non-operating income	Other changes	Closing balance	Related to assets/ income
Technological transformation fund for Phase II silicon steel	98,000,000	–	–	–	98,000,000	Assets
Subsidy for land use rights in the new zone (Block No. 31836 & 31837)	71,639,284	–	(10,632,216)	–	61,007,068	Assets
New-zone Thermal Power Plant CCPP system engineering	56,349,980	–	(8,330,004)	–	48,019,976	Assets
Subsidy for developing emerging strategic industries in Anhui Province	–	45,000,000	–	–	45,000,000	Assets
EMU steel wheel production line project	47,874,998	–	(4,250,004)	–	43,624,994	Assets
Cold-rolled sheet project	45,556,647	–	(14,705,004)	–	30,851,643	Assets
Hot-rolled sheet project	41,763,353	–	(15,894,996)	–	25,868,357	Assets
Relocation compensation for Transport Company	25,000,000	–	(5,000,000)	–	20,000,000	Income
Subsidy for technology advancement from open-hearth furnace to converter for 1st steel plant	26,317,600	–	(10,016,400)	–	16,301,200	Assets
1 # -4 # coke dry quenching project	14,251,765	–	(1,778,196)	–	12,473,569	Assets
Dezincification engineering of zinc dust and mud rotary hearth furnace for 3rd iron plant	13,908,338	–	(1,700,004)	–	12,208,334	Assets
Exhaust gas power generation projects of Steel blast furnace	13,300,000	–	(1,275,000)	–	12,025,000	Assets
Exhaust heat power generation by sintering belt cooler of 3rd iron plant	11,718,129	–	(1,349,796)	–	10,368,333	Assets

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

33. DEFERRED INCOME *(CONTINUED)*

As at 31 December 2013, the government subsidies related to liabilities are as follows:

	Beginning balance	Additions	Included in non-operating income	Other changes	Closing balance	Related to assets/ income
Rolled wheel works	14,340,000	–	(4,080,000)	–	10,260,000	Assets
6 # full burning blast furnace gas boiler works	12,000,260	–	(1,773,948)	–	10,226,312	Assets
Subsidy for construction by Wuhu Technique	11,508,062	–	(1,453,650)	–	10,054,412	Assets
Environmental subsidy funds for Flue gas desulfurization and 135 mw thermal power	–	10,000,000	–	–	10,000,000	Assets
National subsidy for slag muck processing and recycling engineering (AD201050406)	–	9,000,000	–	–	9,000,000	Assets
5 # 6 # coke dust removal project	13,370,513	–	(58,438)	–	13,312,075	Assets
Municipal environmental protection subsidies for desulfurization engineering of 3rd iron plant's sintering flue gas	–	7,870,000	–	–	7,870,000	Assets
Flue gas curtailment project for 1st iron plant's blast furnace	7,369,300	–	(52,199)	–	7,317,101	Assets
Subsidy for water pollution deduction in clarifying basin	8,699,167	–	(1,450,000)	–	7,249,167	Assets
New-zone coking field project	12,373,333	–	(2,640,096)	–	9,733,237	Assets
Comprehensive utilization of water resources	7,317,750	–	(1,683,000)	–	5,634,750	Assets
Environmental funds for desulfurization project of 3rd iron plant's flue gas (BOT)	–	5,550,000	–	–	5,550,000	Assets
National environmental fund for flue gas treatment by 3rd steel plant (AI201150304)	9,375,700	–	–	–	9,375,700	Assets
Others	56,962,833	6,656,474	(5,313,003)	–	58,306,304	Assets
Total	618,997,012	84,076,474	(93,435,954)	–	609,637,532	

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

33. DEFERRED INCOME *(CONTINUED)*

As at 31 December 2012, the government subsidies related to liabilities are as follows:

	2012	2011
Government grants related to assets		
Technological transformation fund for Phase II silicon steel	98,000,000	–
Subsidy for land-use rights in the new-zone (Block No. 31836, 31837)	71,639,284	82,271,500
New zone Thermal Power Plant CCPP system engineering	56,349,980	64,679,980
EMU steel wheel production line project	47,874,998	–
Cold-rolled sheet project	45,556,647	60,261,658
Hot-rolled sheet project	41,763,353	57,658,341
Subsidy for technology advancement from open-hearth furnace to converter for 1st steel plant	26,317,600	36,334,000
Rolled wheel works	14,340,000	18,420,000
1 # -4 # coke dry quenching project	14,251,765	16,029,949
Dezincification engineering of zinc dust and mud rotary hearth furnace for 3rd iron plant	13,908,338	15,608,338
5 # 6 # coke dust removal project	13,370,513	5,120,513
Exhaust gas power generation projects of Steel blast furnace	13,300,000	14,575,000
6 # full burning blast furnace gas boiler works	12,000,260	13,774,194
Exhaust heat power generation by sintering belt cooler of 3rd iron plant	11,718,129	13,067,929
Subsidy for Construction by Wuhu Technique	11,508,062	12,961,712
National environmental fund for flue gas treatment by 3rd steel plant (AI201150304)	9,375,700	–
Subsidy for water pollution deduction in clarifying basin	8,699,167	10,129,167
An iron blast furnace iron field gas treatment project environmental protection special fund	7,369,300	5,369,300
Comprehensive utilization of water resources	7,317,750	9,000,750
New-zone coking field project	12,373,333	15,013,433
Others	56,962,833	52,502,736
Government grants related to income		
Relocation compensation for Transport Company	25,000,000	–
Total	618,997,012	502,778,524

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

33. DEFERRED INCOME *(CONTINUED)*

As at 31 December 2012, the government subsidies related to liabilities are as follows:

	Beginning balance	Additions	Included in non-operating income	Other changes	Closing balance	Related to assets/ income
Technological transformation fund for Phase II silicon steel	–	98,000,000	–	–	98,000,000	Assets
Subsidy for land-use rights in the new-zone field project	82,271,500	–	(10,632,216)	–	71,639,284	Assets
New zone Thermal Power Plant CCPP system engineering	64,679,980	–	(8,330,004)	–	56,349,980	Assets
EMU steel wheel production line project	–	50,000,000	(2,125,002)	–	47,874,998	Assets
Cold-rolled sheet project	60,261,658	–	(14,705,011)	–	45,556,647	Assets
Hot-rolled sheet project	57,658,349	–	(15,894,996)	–	41,763,353	Assets
Subsidy for technology advancement from open-hearth furnace to converter for 1st steel plant	36,334,000	–	(10,016,400)	–	26,317,600	Assets
Relocation compensation for Transport Company	–	30,000,000	(5,000,000)	–	25,000,000	Income
Rolled wheel works	18,420,000	–	(4,080,000)	–	14,340,000	Assets
1 # -4 # coke dry quenching project	16,029,961	–	(1,778,196)	–	14,251,765	Assets
Dezincification engineering of zinc dust and mud rotary hearth furnace for 3rd iron plant	15,608,342	–	(1,700,004)	–	13,908,338	Assets
5 # 6 # coke dust removal project	5,120,513	8,250,000	–	–	13,370,513	Assets
Exhaust gas power generation projects of steel blast furnace	14,575,000	–	(1,275,000)	–	13,300,000	Assets
6 # full burning blast furnace gas boiler works	13,774,208	–	(1,773,948)	–	12,000,260	Assets
Exhaust heat power generation by sintering belt cooler of 3rd iron plant	13,067,925	–	(1,349,796)	–	11,718,129	Assets
Subsidy for construction by Wuhu Technique	12,961,712	–	(1,453,650)	–	11,508,062	Assets

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

33. DEFERRED INCOME *(CONTINUED)*

	Beginning balance	Additions	Included in non-operating income	Other changes	Closing balance	Related to assets/ income
National environmental fund for flue gas treatment by 3rd steel plant (AI201150304)	–	9,375,700	–	–	9,375,700	Assets
Subsidy for water pollution deduction in clarifying basin	10,149,167	–	(1,450,000)	–	8,699,167	Assets
Flue gas curtailment project for 1st iron plant's blast furnace	5,369,300	2,000,000	–	–	7,369,300	Assets
Comprehensive utilization of water resources	9,000,750	–	(1,683,000)	–	7,317,750	Assets
"11th five-year plan" technological transformation and structure adjustment of dry quenching project	15,013,429	–	(2,640,096)	–	12,373,333	Assets
Others	52,482,706	9,338,912	(4,858,785)	–	52,482,706	Assets
Total	502,778,524	206,964,612	(90,746,124)	–	618,997,012	

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

34. SHARE CAPITAL

2013	At 1 January 2012		Iincrease/(decrease) during the year			At 31 December 2012	
Registration issued and fully paid	Number of shares	Percentage (%)	Issue of shares	Others	Sub-total	Number of shares	Percentage (%)
A. Shares with selling restriction							
1. State-owned shares	-	-	-	-	-	-	-
2. State-owned legal person shares	-	-	-	-	-	-	-
3. Other domestically owned shares							
Including:							
Shares owned by domestic natural persons	-	-	-	-	-	-	-
Sub-total	-	-	-	-	-	-	-
B. Shares without selling restriction							
1. A shares	5,967,751,186	77.50	-	-	-	5,967,751,186	77.50
2. H shares	1,732,930,000	22.50	-	-	-	1,732,930,000	22.50
Sub-total	7,700,681,186	100	-	-	-	7,700,681,186	100
C. Total	7,700,681,186	100	-	-	-	7,700,681,186	100

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

34. SHARE CAPITAL *(CONTINUED)*

2012	At 1 January 2012		Increase/(decrease) during the year			At 31 December 2012	
Registration issued and fully paid	Number of shares	Percentage (%)	Issue of shares	Others	Sub-total	Number of shares	Percentage (%)
A. Shares with selling restriction							
1. State-owned shares	–	–	–	–	–	–	–
2. State-owned legal person shares	–	–	–	–	–	–	–
3. Other domestically owned shares	–	–	–	–	–	–	–
Including:							
Shares owned by domestic natural persons	–	–	–	–	–	–	–
Sub-total	–	–	–	–	–	–	–
B. Shares without selling restriction							
1. A shares	5,967,751,186	77.50	–	–	–	5,967,751,186	77.50
2. H shares	1,732,930,000	22.50	–	–	–	1,732,930,000	22.50
Sub-total	7,700,681,186	100	–	–	–	7,700,681,186	100.00
C. Total	7,700,681,186	100	–	–	–	7,700,681,186	100.00

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

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

35. CAPITAL RESERVE

2013	**Opening balance**	**Increase during the year**	**Decrease during the year**	**Closing balance**
Share premium	**8,338,358,399**	**–**	**–**	**8,338,358,399**
Business combination involving entities under common control	**(9,290,736)**	**–**	**–**	**(9,290,736)**
	8,329,067,663	**–**	**–**	**8,329,067,663**

2012	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	420,000,000	–	429,290,736	(9,290,736)
	8,758,358,399	–	429,290,736	8,329,067,663

36. SURPLUS RESERVES

2013	**Opening balance**	**Increase during the year**	**Decrease during the year**	**Closing balance**
Statutory reserve (i)	**3,128,384,103**	**47,520,837**	**58,036,395**	**3,117,868,545**
Discretionary surplus reserve (ii)	**466,698,974**	**48,408,663**	**1,191,767**	**513,915,870**
Reserve fund (iii)	**92,679,456**	**5,024,995**	**4,162,008**	**93,542,443**
Enterprise expansion fund (iii)	**63,165,637**	**3,772,128**	**2,528,859**	**64,408,906**
	3,750,928,170	**104,726,623**	**65,919,029**	**3,789,735,764**

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

36. SURPLUS RESERVES *(CONTINUED)*

2012	Opening balance	Increase during the year	Decrease during the year	Closing balance
Statutory reserve (i)	3,107,706,991	20,677,112	–	3,128,384,103
Discretionary surplus reserve (ii)	190,420,420	276,278,554	–	466,698,974
Reserve fund (iii)	85,339,202	7,340,254	–	92,679,456
Enterprise expansion fund (iii)	60,670,775	2,494,862	–	63,165,637
	3,444,137,388	306,790,782	–	3,750,928,170

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

In 2013, the Company accrued the SR with RMB26,849,039 based on 10% of profit after tax (2012: nil) in accordance with the Company Law of the PRC and the articles of association of the Company.

Decrease during the year was due to the disposal of the non-core business subsidiaries. Please refer to Note IV.3 and Note IV.4 for details.

(ii) The Company and certain of its subsidiaries are authorized to allocate the discretionary surplus reserve from profit after tax after the allocation of the statutory reserve. Upon the approval of the board, the discretionary surplus reserve can be used to cover losses or increase capital.

(iii) Certain of the Company's subsidiaries are Chinese-foreign equity joint ventures. In accordance with the Law of the People's Republic of China on Chinese-Foreign Equity Joint Ventures and the articles of association of these subsidiaries, 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.

In 2012, the board of directors of Holly Industrial approved to transfer employee pension and benefits which were accrued in prior years of RMB3,170,532 to reserve funds.

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

36. SURPLUS RESERVES *(CONTINUED)*

During the year, the share of subsidiaries' current year appropriations to each of the SR, the discretionary surplus reserve, the reserve fund and the enterprise expansion fund, in accordance with the percentage of investment held by the Group, was RMB20,671,798 (2012: RMB20,677,112), RMB48,408,663 (2012: RMB276,278,554), RMB5,024,995 (2012: RMB4,169,722) and RMB3,772,128 (2012: RMB2,494,862), respectively.

37. RETAINED PROFITS

	2013	2012
Retained profits at the end of prior year	**3,245,037,973**	7,456,020,890
Business combination under common control (Note)	**–**	11,392,935
Retained profits at beginning of year after restatement	**3,245,037,973**	7,467,413,825
Add: Net profit attributable to equity holders of the parent	**157,220,198**	(3,863,232,545)
Less: Transfer to surplus reserves	**47,520,837**	20,677,112
Transfer to discretionary surplus reserve	**48,408,663**	276,278,554
Transfer to reserve fund	**5,024,995**	4,169,722
Transfer to enterprise expansion fund	**3,772,128**	2,494,862
Transfer to general reserve	**26,399,571**	55,523,057
Disposal of subsidiaries	**(1,274,763)**	–
Retained profits at end of year	**3,272,406,740**	3,245,037,973

Note: Due to the reason of business combination under common control, the retained profits were changed for RMB11,392,935.

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

38. REVENUE AND COST OF SALES

Revenue is stated as follows:

	2013	2012
Principal operating income	**66,302,750,956**	65,852,772,914
Other operating income	**7,546,132,427**	8,551,591,124
	73,848,883,383	74,404,364,038

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

Cost of sales is stated as follows:

	2013	2012
Principal cost of sales	**62,899,401,695**	64,683,261,287
Other cost of sales	**7,494,560,922**	8,157,013,288
	70,393,962,617	72,840,274,575

Principal operating income is stated as follows:

	2013	2012
Sale of steel products	**62,297,934,327**	60,824,244,829
Sale of steel billets and pig iron	**748,130,427**	1,519,072,055
Sale of coke by-products	**976,386,077**	905,082,877
Others	**2,280,300,125**	2,604,373,153
	66,302,750,956	65,852,772,914

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

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

During 2013, the revenue from the top five largest customers is as follows:

	Amount	**Rate in total revenue (%)**
Company 1	**2,369,581,443**	**3**
Company 2	**1,855,925,086**	**2**
Company 3	**1,633,426,787**	**2**
Company 4	**1,436,352,917**	**2**
Company 5	**1,259,382,001**	**2**
	8,554,668,234	**11**

During 2012, the revenue from the top five largest customers is as follows:

	Amount	Rate in total revenue (%)
Company 1	2,494,789,722	3
Company 2	2,448,012,663	3
Company 3	1,604,790,890	2
Company 4	1,330,842,580	2
Company 5	1,137,734,246	2
	9,016,170,101	12

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

39. BUSINESS TAXES AND SURCHARGES

	2013	2012
City construction and maintenance tax	**116,171,861**	84,036,955
Education surcharges	**54,531,894**	37,167,111
Local education surcharges	**28,363,419**	17,284,233
Other taxes	**27,364,472**	21,650,028
	226,431,646	160,138,327

The calculation basis of the above business taxes and surcharges and the related applicable tax rates are disclosed in Note III to the financial statements.

40. SELLING EXPENSES

	2013	2012
Employee benefits	**36,012,819**	38,476,931
Transportation fees	**339,899,029**	259,918,941
Insurance premium	**15,476,422**	20,217,336
Others	**31,685,942**	31,081,820
	423,074,212	349,695,028

41. ADMINISTRATIVE EXPENSES

	2013	2012
Depreciation	**54,105,083**	56,918,551
Employee benefits	**540,320,061**	550,082,566
Office expenses	**195,852,176**	213,355,530
*Auditors' remuneration	**5,115,000**	4,815,000
Other taxes	**188,921,969**	190,603,455
Rental fee	**53,255,486**	48,540,000
Others	**296,422,193**	313,770,784
	1,333,991,968	1,378,085,886

Notes to Financial Statements (Continued)

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

42. FINANCIAL EXPENSES

	2013	2012
Interest expenses (i)	**1,273,862,443**	1,586,090,972
Less: Interest income	**85,077,732**	142,877,305
Exchange gain, net	**(81,515,847)**	(10,201,810)
Others	**46,890,942**	30,224,487
	1,154,159,806	1,463,236,344

*(i) The Group's interest expenses include interest on bank loans, other loans, corporate bonds and MTN (Medium-term Note) which will expire within five years.

43. ASSET IMPAIRMENT LOSS

	2013	2012
Provision/(reversal of provision) for bad debts	**(49,884,945)**	1,305,308,186
Including: Trade receivables	**121,936**	50,081
Other receivables	**(57,292,089)**	1,303,208,981
Loans and advances	**7,285,208**	2,049,124
Provision for inventories	**1,214,384,074**	1,417,177,552
	1,164,499,129	2,722,485,738

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

44. INVESTMENT INCOME

	2013	2012
Long term equity investment income under the equity method	**177,184,255**	111,905,442
Investment income from available-for-sale financial assets	**23,154,717**	15,006,311
Investment income from disposal of subsidiaries (Note IV.4)	**21,093,038**	–
Investment income from deemed disposal of a subsidiary	**–**	484,109,649
Investment income from disposal of an affiliated company (Note V.11)	**67,556,005**	2,752,460
Other investment income	**16,661**	137,155
	289,004,676	613,911,017

* During the current year, the Group's investment income from listed companies and unlisted companies were RMB16,661and RMB288,988,015, respectively (2012: the investment income from listed companies and unlisted companies were RMB21,232 and RMB613,889,785, respectively).

Among the long term equity investment income under the equity method, the top five largest items are as follows:

	2013	2012	Reason for variation
BOC-Ma Steel	**76,216,728**	75,179,762	(i)
Jiyuan Jinma Coke	**44,735,830**	20,286,748	(i)
Shenglong Chemical	**31,236,761**	–	(i)
Jinxi Traffic	**12,407,787**	9,357,542	(i)
Jiyuan Jinyuan Chemical	**5,555,808**	–	(i)
	170,152,914	104,824,052	

(i) In the current year, the decrease of investment income from the above entities under the equity method was mainly due to the decrease in net profits of the above invested entities.

As at 31 December 2013, there was no significant restriction imposed upon the realization of the Group's investment income.

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

45. NON-OPERATING INCOME

	2013	2012
Subsidies granted by government	**452,710,625**	138,323,961
Gain on disposal of non-current assets (Note)	**433,638,305**	9,838,599
Others	**1,789,295**	4,679,954
	888,138,225	152,842,514

The Group's gains on disposal of non-current assets during the year were mainly derived from the disposal of the Company's non-core business and assets to the Holding. Please refer to Note IV.3 for details. Land VAT and stamp duty totaling RMB280,572,361 relevant to this transaction has been deducted from above.

Details of government subsidy income recorded in the income statement are as follows:

	2013	2012
Amortisation of deferred income (Note V.33)	**93,435,954**	90,746,124
Subsidies granted by government (Note)	**359,274,671**	29,324,737
Others	**–**	18,253,100
	452,710,625	138,323,961

(i) Subsidies granted by the government are as follow:

	2013	2012	Assets/ Revenues
The subsidies granted by government for carve-out of non-core business (Note)	**280,572,361**	–	Revenues
Others	**78,702,310**	29,324,737	Revenues
	359,274,671	29,324,737	

Note: The subsidies were granted by Maanshan multicipal government for the Company carving out of non-core business in 2013, in the way of levy-refund of the disposal related land value-added tax and stamp duty.

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

46. NON-OPERATING EXPENSES

	2013	2012
Public relief donation	**820,000**	935,000
Others	**6,863,672**	2,563,367
	7,683,672	3,498,367

47. PROFIT BEFORE TAX

Cost of sales by nature:

	2013	2012
Raw materials and consumables used	**51,434,206,489**	53,065,082,674
Purchase of inventories in relation to trading activities	**6,095,819,033**	7,798,854,788
Employee benefit expenses	**4,023,488,959**	3,944,626,826
Depreciation of property, plant and equipment	**3,732,765,397**	3,449,686,688
Power and utilities	**3,462,880,182**	3,217,680,160
Changes in inventories of finished goods and work in progress	**386,648,386**	(416,026,794)
Reversal of inventory impairment	**(939,230,348)**	(1,231,635,673)
Amortization of intangible assets	**20,248,019**	4,934,611
Repair and maintenance	**521,967,158**	564,376,019
Transportation and testing expense	**902,091,028**	846,361,272
Others	**753,078,314**	1,596,334,004
	70,393,962,617	72,840,274,575

For the classification of the Group's cost of sales, sales expenses, general and administrative expenses, finance expenses, impairment losses and non-operating expenses, please refer to Note V.40, Note V.41, Note V.42, Note V.43 and Note V.46, respectively.

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

48. INCOME TAX

	2013	2012
*Mainland China:		
Current income tax expense	**125,134,536**	87,438,340
Adjustments in respect of current tax of previous periods	**(1,894,206)**	(1,822,018)
Deferred tax income	**(56,833,508)**	(79,543,136)
*Hong Kong current income tax expense (ii)	**5,687,079**	5,782,624
*Overseas current income tax expense	**42,116,465**	42,350,060
	114,210,366	54,205,870

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

	2013	2012
Profit/(loss) before tax	**322,145,444**	(3,746,317,556)
Tax at the applicable tax rate of 25% (i)	**80,536,361**	(936,579,390)
Effect of different tax rates of subsidiaries	**4,139,448**	1,419,323
Expenses not deductible for tax	**42,095,133**	40,803,027
Adjustments in respect of current tax of previous periods	**(1,894,206)**	(1,822,018)
Other tax concessions	**(74,175,568)**	(57,010,255)
Income not subject to tax	**(9,296,092)**	(3,756,886)
Unrecognised deductible temporality difference and tax losses	**125,520,174**	1,095,848,947
Tax losses utilised	**(8,408,643)**	(58,948,979)
Profits and losses attributable to jointly-controlled entities and associates	**(44,306,241)**	(28,003,918)
Withholding income tax of dividends received from associate in the mainland of the PRC	**–**	2,256,019
Tax charge at the Group's effective rate	**114,210,366**	54,205,870

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

48. INCOME TAX *(CONTINUED)*

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

(ii) Income tax for a subsidiary operating in Hong Kong has been provided at the rate of 16.5% on the profits arising in Hong Kong during the year.

49. EARNINGS PER SHARE

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

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

49. EARNINGS PER SHARE *(CONTINUED)*

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

	2013	2012
Earnings/(Loss)		
Profit/(loss) attributable to ordinary equity holders of the parent as used in the basic/diluted earnings per share calculation	**157,220,198**	(3,863,232,545)
Number of shares		
Weighted average number of ordinary shares in issue during the year as used in the basic earnings per share calculation	**7,700,681,186**	7,700,681,186

During 2013 and 2012, there was no dilutive item to adjust the Group's basic earnings per share.

50. OTHER COMPREHENSIVE INCOME

	2013	2012
Exchange fluctuation reserve		
Included in other comprehensive (loss)/income	**(104,711,105)**	14,026,744
Less: recorded in other comprehensive income originally, rolled out and included in current profit or loss	**–**	–
	(104,711,105)	14,026,744

Notes to Financial Statements (Continued)

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

51. NOTE TO THE CASH FLOW STATEMENT

	2013	2012
Cash received relating to other operating activities:		
Specific subsidies granted by the government	**33,454,700**	24,980,407
Others	**1,789,295**	147,557,259
	35,243,995	172,537,666
Cash paid relating to other operating activities:		
Supporting services	**120,016,396**	123,825,791
Security expenses	**58,000,784**	62,193,391
Packing fee	**26,459,588**	24,390,962
Flood prevention fund	**29,202,780**	27,269,137
Environmental improvement fee	**38,728,583**	35,761,637
Research and development fee	**38,503,552**	17,049,725
Bank charges	**46,890,941**	30,224,487
Others	**26,206,539**	162,638,852
	384,009,163	483,353,982
Cash received relating to other investing activities:		
Government special project funding	**84,076,474**	157,104,000

Notes to Financial Statements (Continued)

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

52. SUPPLEMENTS TO CASH FLOWS

(1) Cash flows from operating activities:

	2013	2012
Net profit/ (loss)	**207,935,078**	(3,800,523,426)
Add: Provision/ (reversal of provision) for bad debts	**(57,170,153)**	1,303,259,062
Provision for inventories	**1,214,384,074**	1,417,177,552
Provision for loans and advances to customers	**7,285,208**	2,049,124
Depreciation of fixed assets	**3,788,221,572**	3,507,763,851
Amortisation of investment properties	**60,787**	139,791
Amortisation of intangible assets	**71,031,962**	60,795,998
Amortisation of deferred income	**(93,435,954)**	(90,746,124)
Gain on disposal of non-current assets	**(433,638,305)**	(9,838,599)
Subsidy for carve-out of non-core business*	**(280,572,361)**	–
Increase in special reserves	**(1,712,932)**	14,768,610
Financial expenses	**1,107,268,864**	1,575,889,162
Investment income	**(289,004,676)**	(613,911,017)
Loss on fair value changes	**77,790**	20,860
Increase in deferred tax assets	**(53,208,739)**	(75,829,033)
Decrease in deferred tax liabilities	**(3,714,103)**	(3,714,103)
Decrease/ (Increase) in inventories	**(571,119,921)**	1,430,298,828
Decrease/ (Increase) in receivables from operating activities	**(2,466,600,074)**	477,086,489
Increase in payables from operating activities	**2,941,130,438**	397,900,093
Others	**4,140,000**	–
Net cash flows from operating activities	**5,091,358,555**	5,592,587,118

* The subsidies were granted by Maanshan municipal government for the Company carving out of non-core business in 2013, in the way of Levy-refund of the disposal related land value-added tax and stamp duty.

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

52. SUPPLEMENTS TO CASH FLOWS *(CONTINUED)*

(2) Information of the subsidiaries and associates disposed of

	2013
Price of subsidiaries and associates disposed of	1,384,485,432
Cash and cash equivalents paid for the deemed disposal of the subsidiaries	1,384,485,432
Less: Cash and cash equivalents of subsidiaries deemed disposed of	992,768,884
Net cash paid for the deemed disposal of subsidiaries	391,716,548
The net assets of subsidiaries deemed disposed of	1,552,267,822
Current assets	4,261,560,984
Non-current assets	554,857,990
Current liabilities	3,235,951,152
Non-current liabilities	28,200,000

(3) Information of the subsidiaries deemed disposed of

	2012
Price of subsidiaries deemed disposed of	–
Cash and cash equivalents paid for the deemed disposal of the subsidiaries	–
Less: Cash and cash equivalents of subsidiaries deemed disposed of	107,636,270
Net cash paid for the deemed disposal of subsidiaries	(107,636,270)
The net assets of subsidiaries deemed disposed of	(367,791,377)
Current assets	178,236,949
Non-current assets	162,550,999
Current liabilities	708,579,325
Non-current liabilities	–

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

53. CASH AND CASH EQUIVALENTS

Net movement of cash and cash equivalents:

	2013	2012
Cash closing balance	**1,814,518,125**	6,629,796,092
Less: Cash opening balance	**6,629,796,092**	9,190,021,229
Add: Closing balance of cash equivalents	**–**	–
Less: Opening balance of cash equivalents	**–**	–
Net increase of cash and cash equivalents	**(4,815,277,967)**	(2,560,225,137)

	2013	2012
Cash		
Including: Cash on hand	**267,684**	191,349
Balances with financial institutions without restriction	**1,814,250,441**	6,629,604,743
Other balances without restriction	**–**	–
Cash equivalents	**1,814,518,125**	6,629,796,092

54. DIVIDEND*

	2013	2012
Proposed final – Nil	**–**	–

The board of directors does not recommend the payment of any dividends for the year ended 31 December 2013.

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control or jointly control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control.

1. PARENT COMPANY

Name of parent	Business type	Registered place	Legal representative	Business nature	Registered capital RMB	Share of equity interests (%)	Share of voting rights (%)	Organisation code
Magang (Group) Holding Company Limited	Limited liability	Anhui, PRC	Gao Haijian	Manufacturing	6,298,290,000	50.47	50.47	150509144

As at the balance sheet date, the registered and paid-in capital of the parent remained unchanged.

2. SUBSIDIARIES

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

3. ASSOCIATES AND JOINTLY-CONTROLLED ENTITIES OF THE GROUP

Further details on balances with associates and jointly-controlled entities of the Group are sated in Note V.11 to the financial statements.

4. OTHER RELATED PARTIES WHO CARRIED OUT TRANSACTIONS WITH THE GROUP

Name	Relationship with the Company	Organisation code
Masteel Group Design and Research Institute Co., Ltd.	Controlled by Holding	72850552x
Maanshan Masteel Yan Tu Construction Survey Mining Co., Ltd	Controlled by Holding	150518286
Masteel Group Mapping Co., Ltd	Controlled by Holding	677570144
Masteel Group Kang Tai Land Development Co., Ltd	Controlled by Holding	850512838
Maanshan Yu Tai Property Management Co., Ltd	Controlled by Holding	777366319
Masteel Group Kang Cheng Building and Installing Co., Ltd	Controlled by Holding	750993301
Maanshan Iron & Steel Group Mining Co., Ltd.	Controlled by Holding	573045716
Maanshan Gang Chen Industry Co., Ltd.	Controlled by Holding	70492034x
Masteel Shen Ma Metal Co., Ltd	Controlled by Holding	150509160
Anhui BRC & Masteel Weldmesh Co., Ltd	Controlled by Holding	754875970
Masteel Group Steel Scrap Integrated Utilization Co., Ltd (iii)	Controlled by Holding	733020252

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

4. OTHER RELATED PARTIES WHO CARRIED OUT TRANSACTIONS WITH THE GROUP *(CONTINUED)*

Name	Relationship with the Company	Organisation code
Shenzhen Yue Hai Masteel Industry Co., Ltd	Controlled by Holding	192443796
Maanshan Bo Li Construction Supervising Co., Ltd	Controlled by Holding	711716304
Maanshan Jia Hua Commodity Concrete Co., Ltd	Controlled by Holding	750960780
Anhui Masteel Luo He Mining Co., Ltd	Controlled by Holding	783071808
Anhui Metal Technology Institute	Controlled by Holding	F10441773
Anhui Masteel Advanced Technician Institute	Controlled by Holding	485409479
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	Controlled by Holding	55781951-5
Xinchuang Economize Resource	Controlled by Holding	581537534
Masteel Industry Sheng Xing Raw Material Processing Co., Ltd	Controlled by Holding	728509803
Masteel Group Power and Machinery Installation Co., Ltd	Controlled by Holding	150510858
Masteel Green Energy Technology Development	Controlled by Holding	731674797
Masteel Heavy Machinery Manufacturing (i)	Controlled by Holding	080333234
Masteel Transportation Equipment Manufacturing (i)	Controlled by Holding	080320353
Masteel Equipment Maintenance Engineering (i)	Controlled by Holding	080337083
Masteel Automobile Transportation Service (i)	Controlled by Holding	080335037
Used Vehicle Trading (i)	Controlled by Holding	664226184
Masteel Refractory Materials (i)	Controlled by Holding	080342405
Masteel International Trade Corp (i)	Controlled by Holding	150509582
Tongling Yuanda (i)	Controlled by Holding	769020473
Jiangnan Iron and Steel (i)	Controlled by Holding	69570971X
Masteel Automation and Information Technology (i)	Controlled by Holding	738900283
Masteel Metallurgy Construction (i)	Controlled by Holding	575718435
Masteel Steel Structure (i)	Controlled by Holding	575715234
Masteel Surface Engineering (i)	Controlled by Holding	575719905
Masteel Electric Repair (i)	Controlled by Holding	575719550
Masteel Engineering Technology (i)	Controlled by Holding	732997248
Shanghai Electrical and Mechanical Technology (i)	Controlled by Holding	580630331
Masteel Powder Metallurgy (i)	Controlled by Holding	055756542
Maanshan Harbor (i)	Controlled by Holding	150502057
Maanshan Yangtze River Logistics (i)	Controlled by Holding	150523560
Maanshan Changjiang Shipping Agency (i)	Controlled by Holding	150523552
Maanshan China Ocean Shipping Tally (i)	Controlled by Holding	150516504
Ma Steel Roller (i)	Controlled by Holding	667902117

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

4. OTHER RELATED PARTIES WHO CARRIED OUT TRANSACTIONS WITH THE GROUP *(CONTINUED)*

Name	Relationship with the Company	Organisation code
Zhengpu Harbor (i)	Controlled by Holding	564958863
Maanshan Li Sheng Group Co., Ltd (ii)	Controlled by Holding	711703722
Masteel Group Chu Jiang Holiday Tour Co., Ltd (iv)	Controlled by Holding	734975296
Huang Shan Tai Bai Shan Zhuang (iv)	Controlled by Holding	704953862
Maanshan Shi Fa Metal Industry and Trading Co., Ltd (v)	Controlled by Holding	713957507

(i) These are companies newly owned by the Company in the current year. As at 22 August 2013, the Company and the Holding signed the "Disposal Agreement" to transfer the equity of the companies above to Magang (Group) Holding Company Limited. The transfer was finished on 31 October 2013. The details are stated in Note IV.3 and Note IV.4 to the financial statements. Since 1 November 2013, the companies transferred were no longer included in the scope of consolidation and have become related parties of the Company.

(ii) During the first half year of 2013, the Holding's share in this company was decreased to 9.99%, and had lost the control over this company. This company was no longer a related party of the Group since 7 March 2013.

(iii) This company entered into liquidation during 2012. As at 31 December 2013, the liquidation was not completed.

(iv) These companies were subsidiaries of Maanshan Li Sheng Group Co., Ltd. and they were no longer considered as related parties since 7 March 2013.

(v) This company was cancelled during 2012.

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

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

(1) Purchases of iron ore from related parties

		2013		2012	
	Note	**Amount RMB**	**Percentage of Similar transactions %**	Amount RMB	Percentage of Similar transactions %
Holding	(i)	**3,757,971,651**	**16**	2,661,796,946	19
Anhui Masteel Luo He Mining Co., Ltd. ("Luo He Mining")	(i)	**24,939,981**	**–**	158,073,384	2
Tongling Yuanda Co., Ltd.	(i)	**7,499,897**	**–**	–	–
Ma Steel International Trade Corp.	(i)	**16,244,188**	**–**	–	–
		3,806,655,717	**16**	2,819,870,330	21

(i) The terms for the purchases of iron ore from Holding were determined in accordance with an agreement dated 7 February 2013 entered into between the Company and the Holding. The agreement stipulated that the price should be determined basing on the Platts Index. The Group purchase iron ore from Tongling Yuanda and two subsidiaries of the Group purchase iron ore from Luo He Mining and Ma Steel International Trade Corp., and the price terms of which are negotiated.

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

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

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

	Note	**2013** Amount RMB	**2013** Percentage of Similar transactions %	2012 Amount RMB	2012 Percentage of Similar transactions %
Holding	(ii)	**81,563,516**	**11**	152,226,086	42
Maanshan Li Sheng Group Co., Ltd.	(ii)	**19,168,766**	**3**	43,884,765	12
Maanshan Gang Chen Industry Co., Ltd.	(ii)	**25,799,634**	**3**	18,550,893	5
Anhui Xinchuang Economize Resource Co., Ltd.	(ii)	**172,535,864**	**23**	115,383,237	32
Masteel Automation and Information Technology Co., Ltd.	(ii)	**33,131,515**	**4**	–	–
Masteel Equipment Maintenance Engineering Co., Ltd.	(ii)	**37,219,235**	**5**	–	–
Masteel Automobile Transportation Service Co., Ltd.	(ii)	**39,047,553**	**5**	–	–
Maanshan Harbor Co., Ltd.	(ii)	**41,493,734**	**6**	–	–
Masteel Engineering Technology Co., Ltd.	(ii)	**89,056,305**	**12**	–	–
Masteel Refractory Materials Co., Ltd.	(ii)	**89,896,867**	**12**	–	–
Masteel Electric Repair Co., Ltd.	(ii)	**12,424,384**	**2**	–	–
Masteel Steel Structure Co., Ltd.	(ii)	**8,306,350**	**1**	–	–
Masteel Surface Engineering Co., Ltd.	(ii)	**8,814,155**	**1**	–	–
Masteel Transportation Equipment Manufacturing Co., Ltd.	(ii)	**4,801,263**	**1**	–	–
Others	(ii)	**82,306,262**	**11**	30,356,499	9
		745,565,403	**100**	360,401,480	100

Notes to Financial Statements (Continued)

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

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

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

(ii) The terms for the provision of certain services, including on-the-job training, food and sanitary services, environmental and hygiene services, maintenance of roads and landscaping services were determined in accordance with a service agreement between the Company and the Holding.

(3) Agency fees paid to related parties

		2013		2012	
			Percentage of Similar		Percentage of Similar
		Amount	**transactions**	Amount	transactions
	Note	**RMB**	**%**	RMB	%
Holding	(iii)	**–**	**–**	702,375	5
Masteel Shen Ma Metal Co., Ltd.	(iii)	**468,209**	**3**	1,164,286	8
Maanshan Gang Chen Industry Co., Ltd.	(iii)	**14,345,073**	**97**	12,998,096	87
		14,813,282	**100**	14,864,757	100

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

(4) Rental expenses

		2013		2012	
			Percentage of Similar		Percentage of Similar
		Amount	**transactions**	Amount	transactions
	Note	**RMB**	**%**	RMB	%
Holding	(iv)	**48,540,000**	**100**	48,540,000	100

(iv) The Holding leased a building to the Group in the current year.

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

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

(5) Purchases of fixed assets and construction services

	Note	**2013** Amount RMB	**2013** Percentage of Similar transactions %	2012 Amount RMB	2012 Percentage of Similar transactions %
Holding	(iii)	**9,344,190**	**–**	9,943,340	–
Anhui Xinchuang Economize Resource Co., Ltd.	(iii)	**179,389,909**	**3**	101,247,403	2
Maanshan Gang Chen Industry Co., Ltd.	(iii)	**–**	**–**	2,252,448	–
Maanshan Li Sheng Group Co., Ltd.	(iii)	**3,131,973**	**–**	7,072,550	–
Masteel (Group) Kang Cheng Building and Installing Industry Co., Ltd.	(iii)	**2,091,000**	**–**	971,700	–
Anhui BRC & Masteel Weldmesh Co., Ltd	(iii)	**3,970,718**	**–**	2,826,435	–
Maanshan Jia Hua Commodity Concrete Co., Ltd.	(iii)	**12,680,825**	**–**	42,175,303	1
Masteel Surface Engineering Co., Ltd.	(iii)	**20,840,000**	**–**	–	–
Ma Steel International Trade Corp.	(iii)	**83,220,999**	**1**	–	–
Masteel Metallurgy Construction Co., Ltd.	(iii)	**49,168,876**	**1**	–	–
Masteel Electric Repair Co., Ltd.	(iii)	**287,127**	**–**	–	–
		364,125,617	**5**	166,489,179	3

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

Notes to Financial Statements (Continued)

31 December 2013
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VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

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

	Note	2013 Amount RMB	2013 Percentage of Similar transactions %	2012 Amount RMB	2012 Percentage of Similar transactions %
Holding	(iii)	**59,148,280**	**3**	25,638,810	3
Maanshan Gang Chen Industry Co., Ltd	(iii)	**2,313,285**	**–**	4,284,381	–
Maanshan Jia Hua Commodity Concrete Co., Ltd.	(iii)	**985,399**	**–**	1,174,755	–
Masteel Group Steel Scrap Integrated Utilization Co., Ltd.	(iii)	**–**	**–**	161,671	–
Masteel Heavy Machinery Manufacturing Co., Ltd.	(iii)	**32,977,978**	**2**	–	–
Masteel Metallurgy Construction Co., Ltd.	(iii)	**174,643,094**	**10**	–	–
Anhui Xinchuang Economize Resource Co., Ltd.	(iii)	**46,357,842**	**3**	–	–
Others	(iii)	**32,974,036**	**2**	–	1
	(iii)	**349,399,914**	**20**	41,078,342	4

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

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

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

(7) Sale of steel products and related by products

	Note	2013 Amount RMB	2013 Percentage of Similar transactions %	2012 Amount RMB	2012 Percentage of Similar transactions %
Maanshan Masteel K.Wah Commodity Concrete Co., Ltd.	(iii)	–	–	662,101	–
Masteel Metallurgy Construction Co., Ltd.	(iii)	57,846,513	–	–	–
Maanshan Gang Chen Industry Co., Ltd.	(iii)	68,780,101	–	57,334,766	–
Others	(iii)	27,360,223	–	–	–
		153,986,837	–	57,996,867	–

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

(8) Financial service costs paid to related parties

	Note	2013 Amount RMB	2013 Percentage of Similar transactions %	2012 Amount RMB	2012 Percentage of Similar transactions %
Holding	(iv)	10,994,722	64	5,704,239	68
Anhui Xinchuang Economize Resource Co., Ltd.	(iv)	431,083	3	1,039,923	12
Maanshan Gang Chen Industry Co., Ltd.	(iv)	1,452,073	8	803,014	9
Others	(iv)	4,302,241	25	972,600	11
		17,180,119	100	8,519,776	100

(iv) Masteel Financial took deposits from the Holding and its subsidiaries, and paid interest to them.

Notes to Financial Statements (Continued)

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

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

(9) Financial service income received from related parties

		2013		2012	
	Note	**Amount RMB**	**Percentage of Similar transactions %**	Amount RMB	Percentage of Similar transactions %
Holding	(v)	**6,930,525**	**29**	1,217,474	35
Anhui Xinchuang Economize Resource Co., Ltd.	(v)	**–**	**–**	305,148	9
Maanshan Gang Chen Industry Co., Ltd.	(v)	**11,605,581**	**48**	1,358,350	39
Anhui BRC & Masteel Weldmesh Co., Ltd.	(v)	**1,654,506**	**7**	–	–
Anhui Masteel Luo He Mining Co., Ltd	(v)	**3,436,605**	**14**	–	–
Others	(v)	**608,221**	**2**	573,310	17
		24,235,438	**100**	3,454,282	100

(v) Masteel Financial 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 loans.

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

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

(10) Purchases of coke from associates

	Note	2013 Amount RMB	2013 Percentage of Similar transactions %	2012 Amount RMB	2012 Percentage of Similar transactions %
Shenglong Chemical	(vi)	**5,410,102**	**–**	101,945,736	23

(vi) These transactions were made between the Group and Shenglong Chemical and were conducted in accordance with the terms mutually agreed between the parties.

(11) Sales of coke from associates

	Note	2013 Amount RMB	2013 Percentage of Similar transactions %	2012 Amount RMB	2012 Percentage of Similar transactions %
Jiyuan JinMa Coke	(vii)	**40,786,530**	**4**	–	–

(vii) These transactions were made between the Group and Shenglong Jiyuan JinMa Coke and were conducted in accordance with the terms mutually agreed between the parties.

(12) Loading expenses paid to associates

	Note	2013 Amount RMB	2013 Percentage of Similar transactions %	2012 Amount RMB	2012 Percentage of Similar transactions %
Maanshan Harbour Co., Ltd.	(viii)	**13,112,198**	**1**	143,629,429	13

(viii) These transactions were made between the Group and Maanshan Harbour and were conducted in accordance with the terms mutually agreed between the parties.

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

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

(13) Fix assets transferred to associates

	Note	2013 Amount RMB	2013 Percentage of Similar transactions %	2012 Amount RMB	2012 Percentage of Similar transactions %
Masteel Auto-parking	(ix)	**595,280**	**–**	–	–

(ix) These transactions were made between the Group and Masteel Auto-parking and were conducted in accordance with the terms mutually agreed between the parties.

(14) Rental income from a jointly-controlled entity

	Note	2013 Amount RMB	2013 Percentage of Similar transactions %	2012 Amount RMB	2012 Percentage of Similar transactions %
BOC-Ma Steel	(x)	**1,250,000**	**100**	1,250,000	100

(x) These transactions were made between the Group and BOC-Ma Steel and were conducted in accordance with the terms mutually agreed between them.

(15) Fee received for the supply of electricity from a jointly-controlled entity

	Note	2013 Amount RMB	2013 Percentage of Similar transactions %	2012 Amount RMB	2012 Percentage of Similar transactions %
BOC-Ma Steel	(x)	**275,092,387**	**60**	278,674,436	67

(x) These transactions were made between the Group and BOC-Ma Steel and were conducted in accordance with the terms mutually agreed between them.

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

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

(16) Fee received for utilities and facilities from a jointly-controlled entity

		2013		2012	
	Note	**Amount RMB**	**Percentage of Similar transactions %**	Amount RMB	Percentage of Similar transactions %
BOC-Ma Steel	(x)	**5,694,520**	**100**	5,685,347	100

(x) These transactions were made between the Group and BOC-Ma Steel and were conducted in accordance with the terms mutually agreed between them.

(17) Purchase of gas products from a jointly-controlled entity

		2013		2012	
	Note	**Amount RMB**	**Percentage of Similar transactions %**	Amount RMB	Percentage of Similar transactions %
BOC-Ma Steel	(x)	**554,617,244**	**100**	548,309,053	100

(x) These transactions were made between the Group and BOC-Ma Steel and were conducted in accordance with the terms mutually agreed between them.

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

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

(18) Guarantee from a related party

2013	**Note**	**Guarantee name**	**Guarantee amount**	**Start date**	**End date**	**Has guarantee matured**
Holding	(xi)	the Company	1.885 billion	August, 2012	August, 2016	Not yet as at the signing date of the report

2012	Note	Guarantee name	Guarantee amount	Start date	End date	Has guarantee matured
Holding	(xi)	the Company	3.381 billion	August, 2012	August, 2016	Not yet as at the signing date of the report

(xi) The Holding has guaranteed certain bank loans of the Group amounting approximately to RMB1.885 billion (2012: approximately RMB3.381billion) in 2013 at nil consideration. The Holding has guaranteed part of bank loans and corporate bonds amounting approximately to RMB9.257 billion (2012: part of the Group's bank loans and bonds with warrants amounting approximately to RMB10.607 billion) as at 31 December 2013.

(19) Salaries of key management paid to of a related party

The total amount of key management salaries paid to a related party (including salaries in the form of monetary, in kind and in other forms) was RMB4,317,144 during the current year (2012: RMB1,831,537).

(20) Directors' and supervisors' emoluments*

	2013	2012
Fees	**447,368**	447,368
Other emoluments:		
Salaries, allowances and benefits in kind	**603,648**	1,072,162
Performance-related bonuses	**1,526,266**	–
Pension scheme contributions	**26,528**	22,500
	2,156,442	1,094,662
	2,603,810	1,542,030

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

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

(20) 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:

	2013	2012
Independent directors		
Mr. Qin Tongzhou (i)	**100,000**	100,000
Ms. Yang Yada (i)	**100,000**	100,000
Mr. Wu Tat Man Damon Albert (ii)	**–**	66,667
Mr. Liu Fangduan (iii)	**100,000**	33,333
	300,000	300,000
Independent supervisors		
Mr. Wong Chun Wa (iv)	**73,684**	73,684
Mr. Su Yong (iv)	**73,684**	73,684
	147,368	147,368
	447,368	447,368

There were no other emoluments payable to the independent directors and independent supervisors during the year (2012: Nil).

(i) Appointed to the board on 31 August 2011
(ii) Appointed to the board on 31 August 2011, resigned his directorship on 31 August, 2012
(iii) Appointed to the board on 25 October 2012
(iv) Appointed to the supervisor position on 31 August 2011

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

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

(20) Directors' and supervisors' emoluments *(Continued)**

(ii) Non-independent directors and non-independent supervisors

	Fees	Salaries, allowances and benefits in kind	Performance-related bonuses	Pension scheme contributions	Total remuneration
2013					
Executive directors					
Mr. Su Jiangang (v)	-	-	-	-	-
Mr. Ding Yi (vi)	-	-	-	-	-
Mr. Qian Haifan	-	180,000	501,444	6,505	687,949
Mr. Ren Tianbao	-	144,000	401,155	6,505	551,660
	-	324,000	902,599	13,010	1,239,609
Non-executive directors					
Mr. Zhao Jianming (vii)	-	-	-	-	-
	-	-	-	-	-
Supervisors					
Mr. Zhang Xiaofeng	-	180,000	501,444	6,505	687,949
Mr. Liu Xianli (viii)	-	89,648	108,782	5,929	204,359
Ms. Yan Taixia (ix)	-	10,000	13,441	1,084	24,525
Mr. Fang Jinrong	-	-	-	-	-
	-	279,648	623,667	13,518	916,833
	-	603,648	1,526,266	26,528	2,156,442

(v) Resigned to chairman of the board on 9 August, 2013

(vi) Appointed to chairman of the board on 9 August 2013

(vii) Appointed to the board on 5 February 2013

(viii) Resigned to the supervisor position on 29 November 2013

(viii) Appointed to the supervisor position on 29 November 2013

There was no arrangement under which an executive director or a supervisor waived or agreed to waive any remuneration during the year (2012: Nil).

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

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

(20) Directors' and supervisors' emoluments *(Continued)**

(ii) Non-independent directors and non-independent supervisors (Continued)

	Fees	Salaries, allowances and benefits in kind	Performance-related bonuses	Pension scheme contributions	Total remuneration
2012					
Executive directors					
Mr. Su Jiangang	–	–	–	–	–
Mr. Qian Haifan	–	300,000	–	5,625	305,625
Mr. Ren Tianbao	–	240,000	–	5,625	245,625
		540,000	–	11,250	551,250
Non-executive directors					
Mr. Zhao Jianming (i)	–	–	–	–	–
	–	–	–	–	–
Supervisors					
Mr. Zhang Xiaofeng	–	300,000	–	5,625	305,625
Mr. Liu Xianli	–	232,162	–	5,625	237,787
Mr. Fang Jinrong	–	–	–	–	–
	–	532,162	–	11,250	543,412
	–	1,072,162	–	22,500	1,094,662

(i) Resigned his directorship on 21 December 2012

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

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

(21) Five highest paid individuals*

The three highest paid employees during the year were directors and supervisors (2012: five), details of whose remuneration are stated in Note VI.5 (20) above. Details of the remuneration of the remaining two non-directors, non-supervisors, highest paid employees in 2012 are as follows:

	2013	2012
Group		
Salaries, allowances and benefits in kind	**288,000**	480,000
Performance-related bonuses	**802,310**	–
Pension scheme contributions	**13,010**	11,250
	1,103,320	491,250

In 2013, the remuneration of the remaining two non-directors, non-supervisors, highest paid employees fell within the band of nil to HKD1,000,000.

(22) As at 22 August 2013, the Company and the Holding signed the "Disposal Agreement" to transfer the assets of the non-core business from the Company to the Holding with a final consideration of RMB3,926,492,545. The consideration of the transfer is determined based on the appraisal report issued by Beijing Pan-China Assets Appraisal Co., Ltd. Up to 31 December 2013, the Company has already received payment of RMB2,373,272,800 from the Holding and the balanced amount of receivables from the Holding was RMB1,553,219,745. According to the Disposal Agreement, the Holding should pay the consideration in full before 15 March 2014 and should pay interests to the Company at 6 months' loan rate issued by the bank. The details are stated in Note IV.3 and Note IV.4.

(23) Except for the receivables from the Holding, which are related to the disposal of assets of the non-core business, the balances of other receivables, prepayments, payables, and advance receipts are unsecured, interest-free and have no fixed terms of repayment.

(24) The Group has not obtained any long-term entrusted loans in 2013 (31 December 2012: RMB10,000,000).

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

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

(25) At 12 December 2012, Masteel Financial and the Holding signed the agreement of financial service. From 1 January 2013 to 31 December 2013, the highest daily outstanding loan should be less than RMB0.5 billion, other financial service charge should be less than RMB50 million. The annual cap was the highest demand for daily deposit, which was decided according to the Holding and its affiliates' expectations of the capital and operational requirement.

The directors believe that the above transactions in (1) to (9), (18), (24) and (25) above are in the ordinary course of business of the Group.

* The related party transactions in (1) to (9), (18), (22), (24) and (25) above constitute connected transactions or continuing connected transactions which are defined in Chapter 14A of the Hong Kong Stock Exchange's Listing Rules.

Notes to Financial Statements (Continued)

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

6. RECEIVABLE FROM/PAYABLE TO RELATED PARTIES

	2013	2012
Trade receivables:		
Holding and its subsidiaries		
Holding	**784,528**	4,473,542
Masteel Group Steel Scrap Integrated Utilization Co., Ltd.	**–**	17,982,919
Anhui Xinchuang Economize Resource Co., Ltd.	**–**	2,083,550
Maanshan Jia Hua Commodity Concrete Co., Ltd.	**470,338**	1,062,101
Masteel Powder Metallurgy	**39,823,899**	–
Masteel Heavy Machinery Manufacturing	**16,083,336**	–
Masteel Steel Structure	**12,399,475**	–
Masteel Powder Metallurgy	**5,282,817**	–
Others entities controlled by Holding	**8,491,603**	759,953
	83,335,996	26,362,065
Prepayments:		
Holding and its subsidiaries		
Holding	**1,408,389**	500,000
Anhui BRC & Masteel Weldmesh Co., Ltd.	**–**	406,803
Ma Steel International Trade Corp.	**10,472,460**	–
Masteel Engineering Technology Co., Ltd.	**15,426**	–
Ma Steel United Electric Steel Roller Co. Ltd.	**21,734,918**	–
Anhui Xinchuang Economize Resource Co., Ltd.	**–**	29,412,642
	33,631,193	30,319,445
Other receivables:		
Holding and its subsidiaries		
Holding (i)	**1,569,539,285**	–
Maanshan Li Sheng Group Co., Ltd	**–**	7,046
	1,569,539,285	7,046

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

6. RECEIVABLE FROM/PAYABLE TO RELATED PARTIES *(CONTINUED)*

	2013	2012
Dividends receivable:		
Associates and jointly-controlled entities of the Group		
Masteel Engineering Technology Co., Ltd.	**17,687,460**	–
Maanshan Li Sheng Group Co., Ltd	**27,100,000**	46,800,000
	44,787,460	46,800,000
Accounts payable:		
Holding and its subsidiaries		
Holding	**–**	2,664,945
Anhui Xinchuang Economize Resource Co., Ltd.	**100,378,632**	44,634,163
Masteel Engineering Technology Co., Ltd.	**108,927,470**	–
Masteel Metallurgy Construction Co., Ltd.	**96,570,736**	–
Masteel Surface Engineering.	**24,976,530**	–
Maanshan Harbor	**14,544,157**	14,396,430
Masteel Automation and Information Technology	**19,446,257**	–
Masteel Automobile Transportation Service	**17,969,410**	–
Masteel Equipment Maintenance Engineering	**21,428,275**	–
Others entities controlled by Holding	**33,948,499**	18,330,549
	438,189,966	65,629,657
Associates and jointly-controlled entities of the Group		
BOC-Ma Steel	**19,775,394**	21,888,952
Shenglong Chemical	**2,861,804**	24,191,225
	22,637,198	46,080,177

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

6. RECEIVABLE FROM/PAYABLE TO RELATED PARTIES *(CONTINUED)*

	2013	2012
Deposits received:		
Holding and its subsidiaries		
Anhui BRC & Masteel Weldmesh Co., Ltd.	**11,463,556**	6,863,688
Holding	**325,464**	12,315,708
Maanshan Gang Chen Industry Co., Ltd.	**252,843,752**	300,397,188
Masteel Surface Engineering	**53,177,931**	–
Others entities controlled by Holding	**6,657,640**	2,749,015
	324,468,343	322,325,599
Associates and jointly-controlled enteritis of the Group		
Jiyuan JinMa Coke	**56,992**	23,235
Jinxi Traffic	**97,995**	18,539
Shenglong Chemical	**176,142**	247,827
	331,129	289,601

According to the Disposal Agreement signed by the Company and the Holding, the Holding should pay the consideration in full before 15 March 2014 and should pay interests to the Company at 6 months' loan rate issued by the bank. Except for the receivables from the Holding, which are related to the disposal of assets of the non-core business, the balances of other receivables, prepayments, payables, and advance receipts are unsecured, interest-free and have no fixed terms of repayment.

* As at December 31 2013, among the current assets and current liabilities, the company's trade receivables from, account payables to subsidiaries are RMB759,322,537 (2012:RMB851,504,789) and RMB4,474,831,616 (2012:RMB2,538,569,796) respectively. All these receivables and payables have no interest, no pledge and will be paid in the future.

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

6. RECEIVABLE FROM/PAYABLE TO RELATED PARTIES *(CONTINUED)*

	2013	2012
Loans and advances to customers:		
Holding and its subsidiaries		
Holding	**390,000,000**	149,085,000
Anhui Masteel Luo He Mining Co., Ltd.	**50,000,000**	50,000,000
Masteel International Trade Corp.	**35,393,015**	–
Anhui BRC & Masteel Weldmesh Co., Ltd.	**19,854,500**	15,495,919
Other entities controlled by Holding	**726,844**	3,159,290
	495,974,359	217,740,209
Customer deposits:		
Holding and its subsidiaries		
Holding	**727,097,584**	251,729,915
Masteel Engineering Technology	**91,822,260**	–
Masteel Metallurgy Construction	**88,964,413**	–
Maanshan Gang Chen Industry Co., Ltd	**79,141,617**	85,595,196
Other entities controlled by Holding	**403,583,984**	227,842,871
	1,390,609,858	565,167,982

The fee charged by Masteel Financial for the financing services and deposit transactions is determined based on mutual negotiation between Masteel Financial and the Group and its subsidiaries.

7. THE COMMITMENT OF THE GROUP WITH RELATED PARTIES

As at 31 December 2013, the Group did not have significant commitment in relation to related parties.

VII. CONTINGENT LIABILITIES

DIFFERENCE OF CORPORATE INCOME TAX

As detailed in Note III.3 to the financial statements, the Group still has potential risks on corporate income tax in prior years to be determined. The directors of the Company consider that it is not possible to reliably estimate whether the relevant tax authorities will retrospectively claim additional CIT from the Company and that it is not possible to reliably estimate the eventual outcome of this matter. Consequently, no provision or adjustment has been made in these financial statements in respect of the extra tax and related tax concessions, deferred tax, penalties and interest (if applicable).

PENDING LITIGATION

As of December 31 2013, the significant pending litigation of the Group and the Company was as follows:

Chongqing Jianghe Coalification (Group) Co., Ltd. sued the Company regarding the dispute of the right of bill recourse, relating to the claim amount of RMB4,140,000. By the Guang'an City Intermediate People's Court of first instance judgment, the Company shall bear joint and several liabilities. The Company has appealed and has been waiting for the decision of the Sichuan Province Higher People's Court.

Zhejiang Wukuang Sanxing Import and Export Co., Ltd. and Zhejiang Wukuang Sanhe Import and Export Co., Ltd. launched litigation against Shanghai Trading regarding dispute over steel trading, and the relevant claim amounts were RMB10,219,694 and RMB30,571,458, respectively. The lawsuits are currently pending for judicial decision by the court.

A natural person sub-contractor of Qiu Guo launched litigation against Ma Steel (Hefei) regarding dispute over an engineering service payment, and the relevant claim amount was RMB8,173,579. The project was sub-contracted by China MMC 17 Group Co., Ltd., and was executed finally by the natural person sub-contractor of Qiu Guo. Ma Steel (Hefei) has settled all the liabilities relevant to the project. The lawsuit is currently pending for judicial decision by the court.

VIII. COMMITMENTS

1. THE COMMITMENTS OF THE GROUP ARE AS FOLLOWS:

	2013 RMB'000	2012 RMB'000
Capital commitments		
Authorised, but not contracted for	**1,858,618**	2,513,081
Contracted, but not provided for	**5,119,014**	5,414,877
	6,977,632	7,927,958
Investment commitments		
Authorised, but not contracted for	**–**	–
Contracted, but not fully contributed	**60,000**	108,980

2. THE GROUP'S SHARE IN THE COMMITMENTS OF A JOINTLY-CONTROLLED ENTITY (NOT INCLUDED IN NOTE 1 ABOVE) IS AS FOLLOWS:

	2013 RMB'000	2012 RMB'000
Capital commitments		
Authorised, but not contracted for	**–**	–

IX. POST BALANCE SHEET EVENTS

On 7 January 2014, Ma Steel (Hefei) was informed to suspend its production and to take curtailment measures with regard to its emission of dust and other atmospheric pollutants requested by the Environmental Protection Department and Supervision Department of Anhui Province. On 9 January 2014, the Holding submitted the proposal themed with shutting down the existent iron and steel production lines and switching to more environmentally friendly production on behalf of Ma Steel (Hefei) to the Hefei Municipal Party Committee and the Hefei Municipal Government. On 16 January 2014, the Hefei Municipal Government reached an oral agreement with the Holding that Hefei City Land Reserve Center will purchase back the land-use rights over 556.47 acres of industrial land with book value of RMB148,722,133 which Ma Steel (Hefei) possessed at a consideration of no less than RMB1,200,000,000. The consideration is aimed at compensating the downsized employees and production switching expenditure, as well as loss of the land-use rights and production lines.

On 28 February 2014, the Board of Directors of the Company resolved to approve the sale of land-use rights to Hefei Municipal Land Reserve Center by Ma Steel (Hefei).

IX. POST BALANCE SHEET EVENTS *(CONTINUED)*

On 28 February 2014, based on the preliminary asset evaluation report, Hefei Municipal Land Reserve Center entered into the agreement with Ma Steel (Hefei) and consented that the consideration is no less than RMB1,200,000,000. The final consideration will be subject to approval by the Hefei Municipal Bureau of Land Resources, Hefei Municipal Management Bureau of Real Estate and Hefei Municipal Architecture Affairs Administration. The compensation will be paid by instalments with the schedule as follows, 30% be paid before 10 March 2014, 30% be paid before 30 June 2014, 20% to be paid before 30 September 2014, and the leftover 20% to be paid before 30 December 2014.

On 10 March 2014, Ma Steel (Hefei) received the first batch of instalment of RMB360,000,000.

X. OTHER SIGNIFICANT EVENTS

1. LEASES

As lessor

The Group has leased certain of its investment properties under operating lease arrangements ranging from two to eighteen years. The periodic rent is fixed during the operating lease periods.

	2013	2012
Remaining lease period		
Within 1 year, inclusive	**1,250,000**	1,750,000
1 to 2 years, inclusive	**1,250,000**	1,250,000
2 to 3 years, inclusive	**1,250,000**	1,250,000
Over 3 years	**7,657,534**	8,907,534
	11,407,534	13,157,534

X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

2. ASSETS MEASURED AT FAIR VALUE

2013

	Opening balance	Fair value gains or losses through profit or loss	Accumulated fair value through equity	Provision for the year	Closing balance
Financial assets					
Financial assets at fair value through profit or loss	587,120	(77,790)	–	–	509,330

2012

	Opening balance	Fair value gains or losses through profit or loss	Accumulated fair value through equity	Provision for the year	Closing balance
Financial assets					
Financial assets at fair value through profit or loss	607,980	(20,860)	–	–	587,120

3. FINANCIAL ASSETS AND LIABILITIES IN FOREIGN CURRENCIES

2013

	Opening balance	Fair value gains or losses through profit or loss	Accumulated fair value through equity	Provision for the year	Closing balance
Financial assets					
Loans and trade receivables	175,318,454	–	–	–	183,660,830
Financial liabilities					
Borrowings	3,618,962,623	–	–	–	6,410,268,490
Trade payables	86,823,658	–	–	–	34,642,398

X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

3. FINANCIAL ASSETS AND LIABILITIES IN FOREIGN CURRENCIES *(CONTINUED)*

2012

	Opening balance	Fair value gains or losses through profit or loss	Accumulated fair value through equity	Provision for the year	Closing balance
Financial assets					
Loans and trade receivables	441,856,745	–	–	–	175,318,454
Financial liabilities					
Borrowings	11,439,598,316	–	–	–	3,618,962,623
Trade payables	43,167,573	–	–	–	86,823,658

4. OPERATING SEGMENT INFORMATION

Operating segment

The Group divides the operation services into three operating segments which are determined based on the internal organization structure, management requirements and internal reporting system:

- Production and sale of iron and steel products and related by-products: the Company and subsidiaries except for Masteel Financial, Ma Steel International Trade Corp. and Shanghai Trading.

- Trading of steel, iron ores and raw materials: Ma Steel International Trade Corp. and Shanghai Trading.

- Financial service: Masteel Financial.

X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

4. OPERATING SEGMENT INFORMATION *(CONTINUED)*

The Group did not consider trade service and financial service as an individual reportable segment, as their revenue, profit and assets are lower than 10% of the Group, and that Masteel Financial mainly offers financial service to internal companies. Therefore, the Group focuses on the production and sale of steel and it is unnecessary for the Group to disclose more detailed information.

Other information

Products and service information

External principal operation income

	2013	2012
Sale of steel products	**62,297,934,327**	60,824,244,829
Sale of steel billets and pig iron	**748,130,427**	1,519,072,055
Sale of coke by-products	**976,386,077**	905,082,877
Others	**2,280,300,125**	2,604,373,153
	66,302,750,956	65,852,772,914

Geographical information

External principal operation income

	2013	2012
The PRC	**64,487,713,563**	63,132,558,528
Overseas	**1,815,037,393**	2,720,214,386
	66,302,750,956	65,852,772,914

X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

4. OPERATING SEGMENT INFORMATION *(CONTINUED)*

Non-current assets

	2013	2012
The PRC	**42,267,826,947**	41,815,111,602
Overseas	**201,626,423**	213,221,638
	42,469,453,370	42,028,333,240

The non-current asset information above is based on the locations of assets and excludes deferred tax assets.

Major customer information

The Group has not placed reliance on any single external customer which accounted for 10% or more of its revenue.

5. FINANCIAL INSTRUMENTS AND RISKS

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

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

X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

5. FINANCIAL INSTRUMENTS AND RISKS *(CONTINUED)*

(1) Classification of financial instruments

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

2013

Financial assets

	Financial assets at fair value through profit or loss	Loans and receivables	Available for sale	Total
Cash and bank balances	–	5,106,718,069	–	5,106,718,069
Financial assets at fair value through profit or loss	509,330	–	–	509,330
Bills receivable	–	8,629,108,926	–	8,629,108,926
Trade receivables	–	800,946,475	–	800,946,475
Other receivables	–	1,948,145,123	–	1,948,145,123
Interest receivable	–	3,540,453	–	3,540,453
Dividends receivable	–	44,787,460	–	44,787,460
Loans and advances to customers	–	486,511,748	–	486,511,748
Available for sale	–	–	126,772,160	126,772,160
	509,330	17,019,758,254	126,772,160	17,147,039,744

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X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

5. FINANCIAL INSTRUMENTS AND RISKS *(CONTINUED)*

(1) Classification of financial instruments *(Continued)*

Financial liabilities

	Other financial liabilities	Total
Short-term loans	8,553,509,860	8,553,509,860
Customer deposits	1,390,609,858	1,390,609,858
Repurchase agreements	344,732,675	344,732,675
Bills payable	5,542,646,513	5,542,646,513
Accounts payable	6,524,149,751	6,524,149,751
Interest payable	165,365,086	165,365,086
Dividends payable	80,642,412	80,642,412
Other payables	962,699,474	962,699,474
Non-current liabilities due within one year	7,951,717,780	7,951,717,780
Long term loans	6,059,444,300	6,059,444,300
Bonds payable	2,328,266,077	2,328,266,077
	39,903,783,786	39,903,783,786

X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

5. FINANCIAL INSTRUMENTS AND RISKS *(CONTINUED)*

(1) Classification of financial instruments *(Continued)*

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

2012 (Restated)

Financial assets

	Financial assets at fair value through profit or loss	Loans and receivables	Available for sale	Total
Cash and bank balances	–	9,782,424,115	–	9,782,424,115
Financial assets at fair value through profit or loss	587,120	–	–	587,120
Bills receivable	–	8,060,760,260	–	8,060,760,260
Trade receivables	–	1,411,927,109	–	1,411,927,109
Other receivables	–	469,008,747	–	469,008,747
Interest receivable	–	4,846,087	–	4,846,087
Dividends receivable	–	46,800,000	–	46,800,000
Loans and advances to customers	–	215,562,806	–	215,562,806
Available for sale	–	–	142,612,160	142,612,160
	587,120	19,991,329,124	142,612,160	20,134,528,404

X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

5. FINANCIAL INSTRUMENTS AND RISKS *(CONTINUED)*

(1) Classification of financial instruments *(Continued)*

Financial liabilities

	Other financial liabilities	Total
Short-term loans	9,777,449,423	9,777,449,423
Customer deposits	565,167,982	565,167,982
Repurchase agreements	494,753,998	494,753,998
Bills payable	5,096,302,242	5,096,302,242
Accounts payable	7,029,326,670	7,029,326,670
Interest payable	205,268,222	205,268,222
Dividends payable	80,492,522	80,492,522
Other payables	1,058,965,107	1,058,965,107
Non-current liabilities due within one year	1,335,542,400	1,335,542,400
Long term loans	9,914,180,000	9,914,180,000
Bonds payable	8,261,992,704	8,261,992,704
	43,819,441,270	43,819,441,270

(2) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Group's exposure to credit risk mainly arises from default or delinquency in principal payment trade receivables. The Group trades only with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, trade 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 Company does not offer credit terms without the specific approval of the Head of Credit Control.

The credit risk of the other major financial assets of the Group, which comprise cash and bank balances and other receivables, arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

5. FINANCIAL INSTRUMENTS AND RISKS *(CONTINUED)*

(2) Credit risk *(Continued)*

Since the Group trades only with recognized and creditworthy third parties, there is no requirement for collateral. At the balance sheet date, the Group had a certain concentration of credit risk as 6% (2012: 8%) and 24% (2012: 27%) of the Group's trade receivables were due from the Group's largest customer and five largest customers respectively.

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

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

2013

			Overdue	
	Total	**Not overdue**	**Less than six months**	**Over six months**
Trade receivables	**800,946,475**	**685,446,823**	**94,485,658**	**21,013,994**
Bills receivable	**8,629,108,926**	**8,629,108,926**	**–**	**–**
Dividends receivable	**44,787,460**	**44,787,460**	**–**	**–**
Interest receivable	**3,540,453**	**3,540,453**	**–**	**–**
Other receivables	**1,948,145,123**	**1,414,469,152**	**185,905,704**	**347,770,267**
Loans and advances to customers	**486,511,748**	**486,511,748**	**–**	**–**

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X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

5. FINANCIAL INSTRUMENTS AND RISKS *(CONTINUED)*

(2) Credit risk *(Continued)*

2012

			Overdue	
	Total	Not overdue	Less than six months	Over six months
Trade receivables	1,411,927,109	1,341,628,354	37,876,693	32,422,062
Bills receivable	8,060,760,260	8,060,760,260	–	–
Dividends receivable	46,800,000	46,800,000	–	–
Interest receivable	4,846,087	4,846,087	–	–
Other receivables	469,008,747	462,203,281	6,176,767	628,699
Loans and advances to customers	215,562,806	215,562,806	–	–

As at 31 December 2013, the Group's trade receivables and other receivables that are not considered to be impaired were mainly related to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Group are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

(3) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

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

X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

5. FINANCIAL INSTRUMENTS AND RISKS *(CONTINUED)*

(3) Liquidity risk *(Continued)*

The maturity profile of the Group's financial liabilities as at the balance sheet date was as follows:

2013

Financial assets

	Within 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Total
Cash and bank balances	5,106,718,069	-	-	-	-	5,106,718,069
Financial assets held for trading	509,330	-	-	-	-	509,330
Bills receivable	8,629,108,926	-	-	-	-	8,629,108,926
Trade receivables	800,946,475	-	-	-	-	800,946,475
Dividend receivables	44,787,460	-	-	-	-	44,787,460
Interest receivables	3,540,453	-	-	-	-	3,540,453
Other receivables	1,948,145,123	-	-	-	-	1,948,145,123
Loans and advances to customers	486,511,748	-	-	-	-	486,511,748
Available for sale financial assets	-	-	-	-	126,772,160	126,772,160

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X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

5. FINANCIAL INSTRUMENTS AND RISKS *(CONTINUED)*

(3) Liquidity risk *(Continued)*

Financial liabilities

	Within 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Total
Short term loans	8,553,509,860	–	–	–	–	8,553,509,860
Customer deposits	1,390,609,858	–	–	–	–	1,390,609,858
Repurchase agreements	344,732,675	–	–	–	–	344,732,675
Bills payable	5,542,646,513	–	–	–	–	5,542,646,513
Trade payables	6,524,149,751	–	–	–	–	6,524,149,751
Interest payable	165,365,086	–	–	–	–	165,365,086
Dividends payable	80,642,412	–	–	–	–	80,642,412
Other payables	962,699,474	–	–	–	–	962,699,474
Non-current liabilities due within one year	7,951,717,780	–	–	–	–	7,951,717,780
Long term loans	–	4,201,701,240	2,054,675,000	–	–	6,256,376,240
Bonds payable	–	–	2,403,934,725	–	–	2,403,934,725

2012

Financial assets

	Within 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Total
Cash and bank balances	9,782,424,115	–	–	–	–	9,782,424,115
Financial assets at fair value through profit or loss	587,120	–	–	–	–	587,120
Bills receivable	8,060,760,260	–	–	–	–	8,060,760,260
Trade receivables	1,411,927,109	–	–	–	–	1,411,927,109
Dividend receivables	46,800,000	–	–	–	–	46,800,000
Interest receivables	4,846,087	–	–	–	–	4,846,087
Other receivables	469,008,747	–	–	–	–	469,008,747
Loans and advances to customers	215,562,806	–	–	–	–	215,562,806
Available-for-sale Financial assets	–	–	–	–	142,612,160	142,612,160

X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

5. FINANCIAL INSTRUMENTS AND RISKS *(CONTINUED)*

(3) Liquidity risk *(Continued)*

Financial liabilities

	Within 1 year	1 to 2 years	2 to 3 years	3 to 5 years	Over 5 years	Total
Short term loans	9,777,449,423	–	–	–	–	9,777,449,423
Customer deposits	565,167,982	–	–	–	–	565,167,982
Repurchase agreements	494,753,998	–	–	–	–	494,753,998
Bills payable	5,096,302,242	–	–	–	–	5,096,302,242
Trade payables	7,029,326,670	–	–	–	–	7,029,326,670
Interest payable	205,268,222	–	–	–	–	205,268,222
Dividends payable	80,492,522	–	–	–	–	80,492,522
Other payables	1,058,965,107	–	–	–	–	1,058,965,107
Non-current liabilities due within one year	1,378,947,528	–	–	–	–	1,378,947,528
Long term loans	–	9,193,565,850	1,042,825,000	–	–	10,236,390,850
Bonds payable	–	5,886,789,049	138,681,270	2,505,037,148	–	8,530,507,467

(4) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The market risk mainly includes interest rate risk and foreign currency risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. 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).

X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

5. FINANCIAL INSTRUMENTS AND RISKS *(CONTINUED)*

(4) Market risk *(Continued)*

Interest rate risk (Continued)

	Increase/ (decrease) in basis points	Increase/ (decrease) in net profit/ (loss)
2013		
RMB	**50**	**(47,509,267)**
USD	**50**	**(9,333,344)**
RMB	**(50)**	**47,509,267**
USD	**(50)**	**9,333,344**
2012		
RMB	50	(45,851,000)
USD	50	(4,059,000)
RMB	(50)	45,851,000
USD	(50)	4,059,000

Foreign currency risk

Foreign currency risk is that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The foreign currency risk of the Group was mainly derived from its operating activities (when the currencies of receipt and payment were different from the Group's functional currency) and its net investment arising from overseas subsidiaries.

The Group faces transactional foreign currency risk. This risk arises from the sales and purchases carried out by operating units which were denominated in currencies other than its functional currencies.

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

X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

5. FINANCIAL INSTRUMENTS AND RISKS *(CONTINUED)*

(4) Market risk *(Continued)*

Foreign currency risk (Continued)

The carrying amounts and related maximum exposure to foreign currency risk of Group's cash and bank balances, trade receivables, short term loans, accounts payable and long term loans are stated in Notes V.1, 4, 21, 23 and 31 to the financial statements, respectively.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the exchange rates of the United States dollar, Euro and Japanese Yen, with all other variables held constant, of the Group's net profit/ (loss) (due to changes in the fair values of monetary assets and liabilities).

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in net profit/ (loss)	Increase/ (decrease) in equity
2013			
Depreciation of RMB to USD	**(1%)**	**(15,264,612)**	**–**
Depreciation of RMB to EUR	**(1%)**	**299,727**	**(158,955)**
Depreciation of RMB to JPY	**(1%)**	**636**	**–**
Depreciation of RMB to AUD	**(1%)**	**990,312**	**(1,808,799)**
Depreciation of RMB to HKD	**(1%)**	**128**	**(1,022,456)**
Appreciation of RMB to USD	**1%**	**15,264,612**	**–**
Appreciation of RMB to EUR	**1%**	**(299,727)**	**158,955**
Appreciation of RMB to JPY	**1%**	**(636)**	**–**
Appreciation of RMB to AUD	**1%**	**(990,312)**	**1,808,799**
Appreciation of RMB to HKD	**1%**	**(128)**	**1,022,456**
2012			
Depreciation of RMB to USD	(1%)	(20,577,410)	–
Depreciation of RMB to EUR	(1%)	87,833	6,549,707
Depreciation of RMB to JPY	(1%)	(175,227)	–
Appreciation of RMB to USD	1%	20,577,410	–
Appreciation of RMB to EUR	1%	(87,833)	(6,549,707)
Appreciation of RMB to JPY	1%	175,227	–

X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

6. FAIR VALUE

The carrying amounts and fair values of the Group's financial instruments are as follows:

	Carrying amounts		Fair values	
	2013	2012	**2013**	2012
Financial liabilities				
Long term loans	**6,059,444,300**	9,914,180,000	**6,059,444,300**	9,914,180,000
Bonds payable	**2,328,266,077**	8,261,992,704	**2,328,266,077**	8,364,436,900

The Management has assessed the fair value of cash and cash equivalents, Note receivable, accounts receivable, dividends receivable, interest receivable, other receivables, Note payable, accounts payable, interest payable, dividends payable, other payables, loans and advances, deposits, financial assets sold under repurchase agreements, short-term borrowings, and other non-current liabilities due within one year. Since the residual terms of the above mentioned items are not long, the fair values almost equate the book values.

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

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

The method of discounted cash flows is adopted to determine the fair value of long-term borrowings and medium-term Note payable, in which the market return rate of other financial instruments with similar contract terms, credit risk, remaining maturity and yield characteristics is used as the discount rate. As at 31 December 2013, the default risk for the long-term borrowings is evaluated as not significant; for corporate bond payables, quoted market prices are adopted to determine its fair value.

The fair values of listed equity investments are based on quoted market prices.

X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

6. FAIR VALUE *(CONTINUED)*

Financial instruments measured at fair value:

2013

	Active market quotation Level 1	Repetitive and observable inputs Level 2	Repetitive but unobservable inputs Level 3	Total
Financial assets held for trading	509,330	–	–	509,330

During the year of 2013, for all the financial assets and financial liabilities, there was neither significant transfer between Level 1 and Level 2, nor into or out of Level 3.

Financial instruments disclosed at fair value:

2013

	Active market quotation Level 1	Repetitive and observable inputs Level 2	Repetitive but unobservable inputs Level 3	Total
Long term loans	–	6,059,444,300	–	6,059,444,300
Bonds payable	–	2,328,266,077	–	2,328,266,077

7. CAPITAL MANAGEMENT

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

The Group manages its capital structure and makes adjustments according to changes in economic conditions and the risk characteristics of the relevant assets. In order to maintain or adjust the capital structure, the Group may adjust the distribution of profits to shareholders, return capital to shareholders or issue new shares. The Group is not subject to externally imposed capital requirements constraints. For the years ended 31 December 2013 and 2012, the capital management objectives, policies or procedures of the Group did not change.

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X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

7. CAPITAL MANAGEMENT *(CONTINUED)*

The Group uses a leverage ratio to manage its capital. Leverage ratio refers to the percentage of net debt versus the amount of adjusted capital plus net debt, and the target leverage ratio for the Group is between 60% and 70%. Net debt includes deposits, amounts from selling of financial assets, bank loans, Note payable, bonds payable, accounts payable, payroll, interest payable, dividends payable and other payables. Capital refers to paid-in capital, capital reserve, special reserve, surplus reserve, general reserve and retained earnings. The Group's gearing ratio at the balance sheet date is as follows:

	2013	2012
Customer deposits	**1,390,609,858**	565,167,982
Repurchase agreements	**344,732,675**	494,753,998
Short term loans	**8,553,509,860**	9,777,449,423
Bills payable	**5,542,646,513**	5,096,302,242
Accounts payable	**6,524,149,751**	7,029,326,670
Payroll and benefits payable	**208,890,914**	228,107,066
Interest payable	**165,365,086**	205,268,222
Dividends payable	**80,642,412**	80,492,522
Other payables	**962,699,474**	1,058,965,107
Non-current liabilities due within one year	**7,951,717,780**	1,335,542,400
Long term loans	**6,059,444,300**	9,914,180,000
Bonds payable	**2,328,266,077**	8,261,992,704
Net asset	**40,112,674,700**	44,047,548,336
Share capital	**7,700,681,186**	7,700,681,186
Capital reserve	**8,329,067,663**	8,329,067,663
Special reserve	**13,055,678**	14,768,610
Surplus reserve	**3,789,735,764**	3,750,928,170
General reserve	**98,706,649**	55,650,161
Retained profits	**3,272,406,740**	3,245,037,973
Adjusted capital	**23,203,653,680**	23,096,133,763
Capital and net liabilities	**63,316,328,380**	67,143,682,099
Gearing ratio	**63%**	66%

X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

8. OTHER FINANCIAL INFORMATION*

	Group		Company	
	2013	2012	**2013**	2012
Current assets	**28,092,383,597**	33,280,575,450	**20,249,204,832**	22,714,387,922
Less: Current liabilities	**36,583,927,593**	31,663,322,867	**26,262,094,274**	21,361,356,363
Net current (liabilities)/ assets	**(8,491,543,996)**	1,617,252,583	**(6,012,889,442)**	1,353,031,559

	Group		Company	
	2013	2012	**2013**	2012
Total assets	**71,317,211,721**	76,011,164,039	**59,157,985,674**	63,459,283,349
Less: Current liabilities	**36,583,927,593**	31,663,322,867	**26,262,094,274**	21,361,356,363
Net total assets minus liabilities	**34,733,284,128**	44,347,841,172	**32,895,891,400**	42,097,926,986

9. EMPLOYEE COSTS (EXCLUDING DIRECTORS AND SUPERVISORS' REMUNERATION (NOTE VI.5)*

	2013	2012
Wages and salaries	**2,699,515,678**	2,709,564,627
Welfare	**828,728,794**	859,571,384
Pension scheme contributions (i)	**692,933,460**	700,755,005
	4,221,177,932	4,269,891,016

(i) As at 31 December 2013 and 31 December 2012, no contribution was capitalized or waived to reduce the Group's liability to pay pension scheme contributions in the future.

Notes to Financial Statements (Continued)

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X. OTHER SIGNIFICANT EVENTS *(CONTINUED)*

10. COMPARATIVE DATA

Due to the early adoption of several revised/new CASs, the accounting treatments, presentations and amounts of relevant items have been modified, in order to conform to the requirements of the new requirements. Accordingly, certain comparative figures have been restated in order to comply with the requirement of financial statement presentation. Please refer to Note II.3 for the details.

XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS

1. TRADE RECEIVABLES

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

An aged analysis of trade receivables is as follows:

	2013	2012
Within one year	**1,270,738,192**	1,603,053,558
One to two years	**25,760,955**	138,711,163
Two to three years	**602,210**	9,126,501
Over three years	**8,314,031**	47,806,673
	1,305,415,388	1,798,697,895
Less: Provisions for bad debts	**13,382,203**	13,382,203
	1,292,033,185	1,785,315,692

XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

1. TRADE RECEIVABLES *(CONTINUED)*

Trade receivable balance is analyzed as follows:

	2013				2012			
		Book value	Provision for bad debts			Book value	Provision for bad debts	
	Balance	Ratio (%)	Amount	Ratio (%)	Balance	Ratio (%)	Amount	Ratio (%)
Individually significant and assessed for impairment individually	**1,284,187,506**	**98**	**(6,927,040)**	**1**	1,732,379,310	96	(6,927,040)	–
Other insignificant but assessed for impairment individually	**21,227,882**	**2**	**(6,455,163)**	**30**	66,318,585	4	(6,455,163)	10
	1,305,415,388	**100**	**(13,382,203)**		1,798,697,895	100	(13,382,203)	

The movements of provision for bad debts against trade receivables for the year are disclosed in Note XI.5.

The following balances are denominated in foreign currencies:

	2013			2012		
	Original currency	Exchange rate	RMB equivalents	Original currency	Exchange rate	RMB equivalents
EUR	**529,657**	**8.4189**	**4,459,126**	34,627	8.3176	288,015
USD	**27,081,545**	**6.0969**	**165,113,473**	19,185,749	6.2855	120,592,024
			169,572,599			120,880,039

Notes to Financial Statements (Continued)

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XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

1. TRADE RECEIVABLES *(CONTINUED)*

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

	Relation with the Group	Balance	Ageing	Ratio (%)
Company 1	**Subsidiary**	**272,409,041**	**Within one year**	**21**
Company 2	**Subsidiary**	**270,833,330**	**Within one year**	**21**
Company 3	**Subsidiary**	**188,089,471**	**Within one year**	**14**
Company 4	**Subsidiary**	**53,520,747**	**Within one year**	**4**
Company 5	**Independent third party**	**51,715,171**	**Within one year**	**4**
		836,567,760		**64**

As at 31 December 2012, the top five largest customers were as follows:

	Relationship with the Group	Balance	Ageing	Ratio (%)
Company 1	Independent third party	197,223,710	Within one year	11
Company 2	Subsidiary	174,524,790	Within one year	10
Company 3	Subsidiary	104,840,889	Within one year	6
Company 4	Independent third party	90,587,673	Within one year	5
Company 5	Subsidiary	85,974,880	Within one year	5
		653,151,942		37

XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

2. OTHER RECEIVABLES

An aged analysis of the other receivables is as follows:

	2013	2012
Within one year	**1,524,776,171**	610,939,620
One to two years	**545,040,813**	915,370
Two to three years	**130,000**	447,251
Over three years	**6,259,137**	6,787,885
	2,076,206,121	619,090,126
Less: Provisions for bad debts	**310,044,429**	339,712,597
	1,766,161,692	279,377,529

The movements of provision for bad debts against other receivables for the year are disclosed in Note XI.5.

Other receivable balance is analyzed as follows:

	2013				2012			
		Book value	**Provision for bad debts**			Book value	Provision for bad debts	
	Balance	**Rate (%)**	**Amount**	**Rate (%)**	Balance	Rate (%)	Amount	Rate (%)
Individually significant and assessed for impairment Individually	**2,044,668,677**	**98**	**(306,185,292)**	**15**	537,794,033	87	(335,181,684)	62
Other insignificant but assessed for impairment Individually	**31,537,444**	**2**	**(3,859,137)**	**12**	81,296,093	13	(4,530,913)	6
	2,076,206,121	**100**	**(310,044,429)**		619,090,126	100	(339,712,597)	

XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

2. OTHER RECEIVABLES *(CONTINUED)*

During the year, there was no provision for bad debts against other receivables that were written off. The other receivables for which the bad debt provision was accrued in whole or in a great proportion in prior years but was reversed in current year are as follows. The reversal was due to subsequent collection of the amounts in full or in most of the amounts.

	Reason for reversal	Basis of provision for bad debts	Cumulated provision of bad debts before reversal	The reversed amount
Company 1	Received	Unreceived for a long time	49,970,750	29,668,168
			49,970,750	29,668,168

As at 31 December 2013, the balance of other receivables due from shareholders who held 5% or above of the Company's equity interests was RMB1,569,539,285 (2012: none).

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

	Relationship with the Group	Balance	Ageing	Ratio (%)
Company 1	**The Holding**	**1,569,539,285**	**Within one year**	**76**
Company 2	**Independent third party**	**132,186,434**	**One to two years**	**6**
Company 3	**Independent third party**	**127,685,368**	**One to two years**	**6**
Company 4	**Independent third party**	**60,939,960**	**One to two years**	**3**
Company 5	**Independent third party**	**37,243,733**	**One to two years**	**2**
		1,927,594,780		**93**

XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

2. OTHER RECEIVABLES *(CONTINUED)*

As at 31 December 2012, the top five largest other receivables were as follows:

	Relationship with the Group	Balance	Ageing	Ratio (%)
Company 1	Independent third party	153,324,000	Within one year	25
Company 2	Independent third party	141,286,434	Within one year	23
Company 3	Independent third party	127,685,368	Within one year	21
Company 4	Independent third party	66,625,132	Within one year	11
Company 5	Independent third party	37,464,000	Within one year	6
		526,384,934		86

3. INVENTORIES

	2013			2012		
	Balance	Provision for impairment	Carrying amount	Balance	Provision for impairment	Carrying amount
Raw materials	**3,836,636,266**	**(509,774,940)**	**3,326,861,326**	3,898,986,776	(219,713,336)	3,679,273,440
Spare parts	**1,619,816,724**	**(60,333,681)**	**1,559,483,043**	1,794,379,179	(60,651,928)	1,733,727,251
Finished goods	**1,264,499,371**	**(18,202,582)**	**1,246,296,789**	1,010,005,768	(17,434,142)	992,571,626
Work in progress	**1,031,457,762**	**(12,334,950)**	**1,019,122,812**	1,816,332,841	(49,553,203)	1,766,779,638
	7,752,410,123	**(600,646,153)**	**7,151,763,970**	8,519,704,564	(347,352,609)	8,172,351,955

The movements of impairment provision against inventories for the year are disclosed in Note XI.5.

At the balance sheet date, inventories were measured at the lower of costs and net realizable values, and provision for impairment was made for items whose costs were higher than their net realizable values. Net realizable value is the estimated selling price under normal business terms deducted by the estimated costs to completion, the estimated selling expenses and related taxes. In the current year and the year of 2012, there was no reversal of impairment provision against inventories.

Notes to Financial Statements (Continued)

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XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

4. LONG TERM EQUITY INVESTMENTS

	2013	2012 (Restated)
Long term investments under the equity method		
Jointly-controlled entities (i)	**313,820,736**	315,603,257
Associates (ii)	**632,713,324**	735,152,344
Long term investments under the cost method		
Subsidiaries (iii)	**5,290,814,490**	5,861,169,848
	6,237,348,550	6,911,925,449
Less: Provision for impairment	**330,000,000**	330,000,000
	5,907,348,550	6,581,925,449

In the opinion of the directors, there was no material restriction on the realization of investments as at the balance sheet date.

* The above investments in jointly-controlled entities and associates under the equity method and the investments in subsidiaries and other entities under the cost method are all unlisted equity investments.

The movements of impairment provision for long term investments for the year are disclosed in Note XI.5.

XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

4. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

(i) Jointly-controlled entities

2013

Name of investee	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	*Including: Cash dividend received during the year*	Closing balance
BOC-Ma Steel	234,000,000	315,052,064	76,216,728	78,000,000	78,000,000	313,268,792
MASTEEL-CMI	500,000	551,193	751	–	–	551,944
		315,603,257	76,217,479	78,000,000		313,820,736
Less: Impairment		–	–	–	–	–
		315,603,257	76,217,479	78,000,000		313,820,736

2012

Name of investee	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	*Including: Cash dividend received during the year*	Closing balance
BOC-Ma Steel	234,000,000	329,872,302	75,179,762	90,000,000	90,000,000	315,052,064
MASTEEL-CMI	500,000	562,835	–	11,642	–	551,193
		330,435,137	75,179,762	90,011,642		315,603,257
Less: Impairment		–	–	–	–	–
		330,435,137	75,179,762	90,011,642		315,603,257

XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

4. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

(ii) Associates

	2013					
Name of investee	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	*Including: Cash dividend received during the year*	Closing balance
Jiyuan JinMa Coke	80,000,000	162,150,444	44,735,830	19,080,000	19,080,000	187,806,274
Shenglong Chemical	66,776,000	181,852,159	31,236,761	-	-	213,088,920
Shanghai Iron and Steel Electronic	4,000,000	37,949,164	17,531	-	-	37,966,695
Maanshan Harbour①	112,500,000	193,936,508	3,435,271	197,371,779	2,025,000	-
Zhengpu Harbor①	35,000,000	34,994,723	35,000,000	69,994,723	-	-
Xinchuang Economize Resource	20,000,000	21,911,804	3,618,494	-	-	25,530,298
Ma Steel Jinxi Rail	105,000,000	84,357,542	42,407,787	-	-	126,765,329
Jinyuan Chemical	36,000,000	18,000,000	23,555,808	-	-	41,555,808
		735,152,344	184,007,482	286,446,502	21,105,000	632,713,324
Less: Impairment		-	-	-	-	-
		735,152,344	184,007,482	286,446,502	21,105,000	632,713,324

① According to the agreement signed between the Company and the Holding, the Company transferred the equity of Maanshan Harbour and Zhengpu Harbor (called 'the associated companies of the non-steel business') to the Holding. which completed on 31 October 2013. Since that day, the Company no longer held the equity or enjoyed the rights of the above entities. Please refer to Note IV.4 and Note V.10 for more information.

XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

4. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

(ii) Associates

	2012					
Name of investee	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	*Including: Cash dividend received during the year*	Closing balance
Jiyuan JinMa Coke	80,000,000	160,943,695	20,286,749	19,080,000	*19,080,000*	162,150,444
Shenglong Chemical	66,776,000	185,532,159	–	3,680,000	–	181,852,159
Shanghai Iron and Steel Electronic	4,000,000	39,646,945	2,302,219	4,000,000	*4,000,000*	37,949,164
Maanshan Harbor	112,500,000	191,745,837	6,690,671	4,500,000	*4,500,000*	193,936,508
Zhengpu Harbor	35,000,000	34,995,484	–	761	–	34,994,723
Masteel Financial	490,000,000	496,844,061	7,037,812	503,881,873	–	–
Xinchuang Economize Resource	35,000,000	9,901,780	12,010,024	–	–	21,911,804
Ma Steel Jinxi Rail	75,000,000	–	84,357,542	–	–	84,357,542
Jinyuan Chemical	18,000,000	–	18,000,000	–	–	18,000,000
		1,119,609,961	150,685,017	535,142,634		735,152,344
Less: Impairment		–	–	–		–
		1,119,609,961	150,685,017	535,142,634		735,152,344

Major financial information of associates is disclosed in Note V.11.

XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

4. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

(iii) Subsidiaries

	2013						
Name of investee	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	Closing balance	Impairment loss	Provision for impairment during the year
Masteel International Trade Corp. ①	50,000,000	50,000,000	-	50,000,000	-	-	-
Masteel Engineering Technology ①	7,500,000	7,500,000	-	7,500,000	-	-	-
MG Control Technique ①	7,500,000	7,500,000	-	7,500,000	-	-	-
Masteel K. Wah	44,443,067	44,443,067	-	-	44,443,067	-	-
Masteel (Wuhu)	8,225,885	8,225,885	-	-	8,225,885	-	-
Masteel (Guangzhou)	80,000,000	80,000,000	-	-	80,000,000	-	-
Masteel (HK)	4,101,688	4,101,688	-	-	4,101,688	-	-
MG Trading	1,573,766	1,573,766	-	-	1,573,766	-	-
Holly Industrial	21,478,316	21,478,316	-	-	21,478,316	-	-
Huayang Equipment	900,000	900,000	-	-	900,000	-	-
Masteel (Jinhua)	90,000,000	90,000,000	-	-	90,000,000	-	-
Masteel (Australia)	126,312,415	126,312,415	-	-	126,312,415	-	-
Masteel (Hefei)	1,207,000,000	1,207,000,000	568,000,000	-	1,775,000,000	-	-
Masteel (Hefei) Processing	73,200,000	73,200,000	-	-	73,200,000	-	-
Masteel (Yangzhou) Processing	116,462,300	116,462,300	-	-	116,462,300	-	-
Masteel Roller ①	22,720,806	106,855,358	-	106,855,358	-	-	-
Used Vehicle Trading ①	500,000	500,000	-	500,000	-	-	-
Wuhu Technique	106,500,000	106,500,000	-	-	106,500,000	-	-
Masteel Electrical Repair ①	10,000,000	10,000,000	-	10,000,000	-	-	-
Masteel Steel Structure ①	530,000,000	530,000,000	-	530,000,000	-	-	-
Masteel Surface Engineering ①	275,000,000	275,000,000	-	275,000,000	-	-	-
Masteel Equipment Installation ①	100,000,000	100,000,000	-	100,000,000	-	-	-
Masteel Scrap Steel	100,000,000	100,000,000	-	-	100,000,000	-	-
Shanghai Trading	60,000,000	60,000,000	-	-	60,000,000	60,000,000	-
Masteel Chongqing Material	175,000,000	175,000,000	-	-	175,000,000	-	-
Anhui Chang Jiang Iron and Steel	1,234,444,444	1,234,444,444	-	-	1,234,444,444	-	-
Financial Company	933,172,609	933,172,609	-	-	933,172,609	-	-
Hefei Materials Technology	70,000,000	70,000,000	-	-	70,000,000	-	-
Masteel Powder Metallurgy ①	51,000,000	51,000,000	-	51,000,000	-	-	-
Masteel Yuyuan Logistics	270,000,000	270,000,000	-	-	270,000,000	270,000,000	-
		5,861,169,848	568,000,000	1,138,355,358	5,290,814,490	330,000,000	-

① During 2013, the Company signed an agreement with the Holding and transferred the equity of the above 10 subsidiaries of the non-steel business to the Holding. The detailed information is disclosed in Note IV.3.

XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

4. LONG TERM EQUITY INVESTMENTS *(CONTINUED)*

(iii) Subsidiaries *(Continued)*

	2012						
Name of investee	Initial investment cost	Opening balance	Increase during the year	Decrease during the year	Closing balance	Impairment loss	Provision for impairment during the year
Masteel International Trade Corp.	50,000,000	50,000,000	–	–	50,000,000	–	–
Masteel Engineering Technology	7,500,000	7,500,000	–	–	7,500,000	–	–
MG Control Technique	7,500,000	7,500,000	–	–	7,500,000	–	–
Masteel K. Wah	24,854,930	44,443,067	–	–	44,443,067	–	–
Masteel (Wuhu)	8,225,885	8,225,885	–	–	8,225,885	–	–
Masteel (Guangzhou)	80,000,000	80,000,000	–	–	80,000,000	–	–
Masteel (HK)	4,101,688	4,101,688	–	–	4,101,688	–	–
MG Trading	1,573,766	1,573,766	–	–	1,573,766	–	–
Holly Industrial	21,478,316	21,478,316	–	–	21,478,316	–	–
Huayang Equipment	900,000	900,000	–	–	900,000	–	–
Masteel (Jinhua)	90,000,000	90,000,000	–	–	90,000,000	–	–
Masteel (Australia)	126,312,415	126,312,415	–	–	126,312,415	–	–
Masteel (Hefei)	355,000,000	355,000,000	852,000,000	–	1,207,000,000	–	–
Masteel (Hefei) Processing	73,200,000	73,200,000	–	–	73,200,000	–	–
Masteel (Yangzhou) Processing	61,651,010	116,462,300	–	–	116,462,300	–	–
Masteel Roller	22,720,806	106,855,358	–	–	106,855,358	–	–
Used Vehicle Trading	500,000	500,000	–	–	500,000	–	–
Wuhu Technique	26,625,000	106,500,000	–	–	106,500,000	–	–
Masteel Electrical Repair	10,000,000	10,000,000	–	–	10,000,000	–	–
Masteel Steel Structure	530,000,000	530,000,000	–	–	530,000,000	–	–
Masteel Surface Engineering	275,000,000	275,000,000	–	–	275,000,000	–	–
Masteel Equipment Installation	100,000,000	100,000,000	–	–	100,000,000	–	–
Masteel Scrap Steel	50,000,000	50,000,000	50,000,000	–	100,000,000	–	–
Shanghai Trading ①	60,000,000	60,000,000	–	–	60,000,000	60,000,000	60,000,000
Masteel Chongqing Material	175,000,000	175,000,000	–	–	175,000,000	–	–
Anhui Chang Jiang Iron and Steel	1,234,444,444	1,234,444,444	–	–	1,234,444,444	–	–
Financial Company	933,172,609	–	933,172,609	–	933,172,609	–	–
Hefei Materials Technology	70,000,000	–	70,000,000	–	70,000,000	–	–
Masteel Powder Metallurgy	51,000,000	–	51,000,000	–	51,000,000	–	–
Masteel Yuyuan Logistics ①	70,000,000	200,000,000	70,000,000	–	270,000,000	270,000,000	270,000,000
		3,834,997,239	2,026,172,609	–	5,861,169,848	330,000,000	330,000,000

① At 31 December 2012, the net worth of Maanshan (Shanghai) Industrial Trading Co., Ltd. and Maanshan Masteel Yuyuan Logistics Co., Ltd. was negative. A full provision for impairment of long-term equity investments in these two subsidiaries was made after comparing the carrying amounts to the recoverable amounts of these long-term equity investments.

Notes to Financial Statements (Continued)

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Renminbi Yuan

XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

5. ASSET IMPAIRMENT PROVISIONS

	2013					
	Opening Balance	Increase during the year	Decrease during the year: Reversal	Decrease during the year: Write-back	Decrease during the year: Write-off	Closing balance
Provisions for bad debts	353,094,800	-	29,668,168	-	-	323,426,632
Including: Trade receivables	13,382,203	-	-	-	-	13,382,203
Other receivables	339,712,597	-	29,668,168	-	-	310,044,429
Provisions for inventories (i)	347,352,609	1,190,949,479	-	937,655,935	-	600,646,153
Including: Raw materials	219,713,336	957,569,761	-	667,508,157	-	509,774,940
Semi-finished products	49,553,203	66,387,275	-	103,605,528	-	12,334,950
Finished products	17,434,142	166,992,443	-	166,224,003	-	18,202,582
Spare parts	60,651,928	-	-	318,247	-	60,333,681
Provisions for long term investments	330,000,000	-	-	-	-	330,000,000
Including: Subsidiary	330,000,000	-	-	-	-	330,000,000
Impairment of fixed assets	-	-	-	-	-	-
Including: Buildings and structures	-	-	-	-	-	-
Plant, machinery and equipment	-	-	-	-	-	-
	1,030,447,409	1,190,949,479	29,668,168	937,655,935	-	1,254,072,785

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

XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

5. ASSET IMPAIRMENT PROVISIONS *(CONTINUED)*

	2012					
	Opening Balance	Increase during the year	Decrease during the year			Closing balance
			Reversal	Write-back	Write-off	
Provisions for bad debts	20,313,116	332,781,684	–	–	–	353,094,800
Including: Trade receivables	13,382,203	–	–	–	–	13,382,203
Other receivables	6,930,913	332,781,684	–	–	–	339,712,597
Provisions for inventories (i)	735,706,316	1,414,882,827	–	1,803,236,534	–	347,352,609
Including: Raw materials	526,707,239	1,170,153,040	–	1,477,146,943	–	219,713,336
Semi-finished products	86,456,715	126,689,105	–	163,592,617	–	49,553,203
Finished products	61,316,046	118,040,682	–	161,922,586	–	17,434,142
Spare parts	61,226,316	–	–	574,388	–	60,651,928
Provisions for long term investments	–	330,000,000	–	–	–	330,000,000
Including: Subsidiary	–	330,000,000	–	–	–	330,000,000
Impairment of fixed assets	87,854,736	–	–	87,854,736	–	–
Including: Buildings and structures	5,252,400	–	–	5,252,400	–	–
Plant, machinery and equipment	82,602,336	–	–	82,602,336	–	–
	843,874,168	2,077,664,511	–	1,891,091,270	–	1,030,447,409

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

XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

6. REVENUE AND COST OF SALES

Revenue is stated as follows:

	2013	2012
Principal operating income	**52,392,006,838**	53,948,884,313
Other operating income	**3,993,715,720**	3,784,957,883
	56,385,722,558	57,733,842,196

Cost of sales is stated as follows:

	2013	2012
Principal cost of sales	**50,238,268,624**	53,951,112,477
Other cost of sales	**4,260,149,112**	3,519,962,695
	54,498,417,736	57,471,075,172

Principal operating income is stated as follows:

	2013	2012
Sale of steel products	**49,241,184,547**	51,179,093,580
Sale of steel billets and pig iron	**693,260,169**	606,817,007
Sale of coke by-products	**1,000,083,294**	928,354,298
Others	**1,457,478,828**	1,234,619,428
	52,392,006,838	53,948,884,313

XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

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

In 2013, the revenue from the top five largest customers is as follows:

	Amount	**Percentage of total revenue (%)**
Company 1	**2,789,153,239**	**5**
Company 2	**2,774,196,974**	**5**
Company 3	**2,392,365,495**	**4**
Company 4	**2,369,581,443**	**4**
Company 5	**2,015,474,879**	**4**
	12,340,772,030	**22**

In 2012, the revenue from the top five largest customers is as follows:

	Amount	Percentage of total revenue (%)
Company 1	2,932,686,300	5
Company 2	2,494,789,722	4
Company 3	2,448,012,663	4
Company 4	2,104,444,792	4
Company 5	1,583,185,819	3
	11,563,119,296	20

7. ASSET IMPAIRMENT LOSS

	2013	2012
(Reversal)/provision for bad debts	**(29,668,168)**	332,781,684
Including: Trade receivables	**–**	–
Other receivables	**(29,668,168)**	332,781,684
Provision for inventories	**1,190,949,479**	1,414,882,827
Provision of long term equity investments	**–**	330,000,000
	1,161,281,311	2,077,664,511

Notes to Financial Statements (Continued)

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XI. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS *(CONTINUED)*

8. INVESTMENT INCOME

	2013	2012
Long term equity investment income under the equity method	**177,224,960**	119,172,376
Long term equity investment income under the cost method	**449,839,530**	165,079,317
Investment income from losing control of subsidiaries	**232,343,674**	–
Investment income from disposal of associates	**67,556,005**	–
Investment income from holding Available for sale financial assets	**23,154,717**	15,006,311
Other investment income	**16,661**	21,232
	950,135,547	299,279,236

As at the balance sheet date, there was no significant restriction imposed upon the realisation of the Company's investment income.

9. CASH FLOWS FROM OPERATING ACTIVITIES

	2013	2012
Net profit/(loss)	**268,490,383**	(4,085,768,158)
Add: (Reversal)/provision for bad debts	**(29,668,168)**	332,781,684
Provision for inventories	**1,190,949,479**	1,414,882,827
Provision for long term equity investments	**–**	330,000,000
Depreciation of fixed assets	**3,250,662,689**	3,022,117,200
Amortisation of investment properties	**405,049**	405,049
Amortisation of intangible assets	**31,419,994**	32,079,116
Amortisation of deferred income	**(89,493,117)**	(87,019,474)
Gain on disposal of non-current assets	**(432,576,296)**	(12,272,652)
Subsidy for carve-out of non-core business	**(280,572,361)**	–
Financial expenses	**934,994,559**	1,643,574,152
Investment income	**(950,135,547)**	(299,279,236)
Loss on fair value changes of financial assets held for trading	**77,790**	20,860
Increase in deferred tax assets	**(44,472,452)**	(82,349,900)
(Increase)/Decrease in inventories	**(170,361,494)**	846,736,670
(Increase)/Decrease in receivables from operating activities	**(32,587,438)**	3,384,011,187
Increase/ (Decrease) in payables from operating activities	**2,130,575,077**	(685,260,306)
Others	**4,140,000**	–
Net cash flows from operating activities	**5,781,848,147**	5,754,659,019

Appendices Supplementary Information

31 December 2013
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.

	2013	2012
Items of non-recurring gains or losses		
Profit on disposal of non-current assets	**433,638,305**	9,838,599
Subsidy income	**359,274,671**	47,577,837
Amortisation of deferred income	**93,435,954**	90,746,124
Other non-operating expense and income items	**(5,894,377)**	1,181,587
Loss on fair value changes of financial assets held for trading	**(77,790)**	(20,860)
Other investment income	**16,661**	137,155
	880,393,424	149,460,442
Less: Income tax effect of non-recurring gains	**277,237,195**	63,286,618
Non-recurring gains attributable to minority shareholders	**205,668**	254,650
Net effect of non-recurring gains	**602,950,561**	85,919,174
Net profit attributable to equity holders of the parent excluding non-recurring gains or losses		
Net profit/(loss) attributable to equity holders of the parent	**157,220,198**	(3,863,232,545)
Less: Net effect of non-recurring gains	**602,950,561**	85,919,174
Net loss attributable to equity holders of the parent excluding non-recurring gains or losses	**(445,730,363)**	(3,949,151,719)

Appendices Supplementary Information (Continued)

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2. RETURN ON NET ASSETS AND EARNINGS PER SHARE

2013

	Return on net assets (%)	**Earnings per share (RMB) Basic**	**Earnings per share (RMB) Diluted**
Net profit attributable to equity holders of the parent	**0.68**	**0.020**	**0.020**
Net loss attributable to equity holders of the parent excluding non-recurring gains or losses	**(1.93)**	**(0.058)**	**(0.058)**

2012

	Return on net assets (%)	Earnings per share (RMB) Basic	Earnings per share (RMB) Diluted
Net loss attributable to equity holders of the parent	(15.30)	(0.502)	(0.502)
Net loss attributable to equity holders of the parent excluding non-recurring gains or losses	(15.64)	(0.513)	(0.513)

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.

3. VARIANCE ANALYSIS

In accordance with to the requirement of *Information Disclosure Rules of Companies which Publicly Issue Securities No. 15 – General Rules on Financial Statements (amended in 2010),* an analysis of the financial statement items either with a fluctuation over 30% compared with the comparative period, or with an amount over 5% of the total assets as at the reporting date or 10% of profit before tax for the reporting period, is as follows:

3. VARIANCE ANALYSIS (CONTINUED)

(1) Accounts receivable balances amounted to RMB800,946,475, a decrease of 43% over the previous year, which was mainly attributable to efforts on collecting the payments from customers. Therefore, the turnover rate of capital has been increased and this year's receivables from credit sales could be collected timely.

(2) Prepayments amounted to RMB1,022,394,879, a decrease of 50% over the previous year, which was mainly attributable to the decrease of prepayments of crude fuel trading.

(3) Other receivable balances amounted to RMB1,948,145,123, an increase of 315%, which was mainly attributable to the increase of receivables of balance payment resulting from the asset reorganization.

(4) Loans and advances to customers amounted to RMB486,511,748, an increase of 126%, which was mainly attributable to increasing the loan size of Financial Company, whose role as the management platform of internal capital has become stronger gradually.

(5) Investment properties amounted to RMB64,412,476, an increase of 1364% over the previous year, which was mainly attributable to the increase of investments in real estate.

(6) Fix assets amounted to RMB30,668,420,630, a decrease of 6% over the previous year, which was mainly attributable to the transfer of assets of the non-steel business to the Holding.

(7) Construction materials amounted to RMB29,788,206, a decrease of 96% over the previous year, which was mainly attributable to the decrease of purchase.

(8) Construction in progress amounted to RMB8,729,815,208, an increase of 53% over the previous year, which was mainly attributable to the increase in the number of projects of Anhui Chang Jiang Iron and Steel.

(9) Customer deposits amounted to RMB1,390,609,858, an increase of 146% over the previous year, which was mainly attributable to the transfer of 10 directly held subsidiaries and 8 branches to the Holding.

(10) Repurchase agreements amounted to RMB344,732,675, an decrease of 30% over the previous year, which was mainly attributable to the decreased cash demand from Financial Company in current year.

(11) The balance of non-current liabilities due within one year of RMB7,951,717,780 increased by 495% in comparison with that of prior year end, which was mainly due to the increase of current portion of long term loans and bonds payable.

3. VARIANCE ANALYSIS (CONTINUED)

(12) Long term loans amounted to RMB6,059,444,300, a decrease of 39% over the previous year, which was mainly attributable to the fact that some long term loans amounted to RMB2 billion transferred to non-current liabilities due within one year at the end of the year.

(13) Bonds payable amounted to RMB2,328,266,077, a decrease of 72% over the previous year, which was mainly attributable to the maturity of a debenture in 2014, with a face value of RMB3.16 billion, as well as a medium-term notes, with a face value of RMB 2.8 billion. Therefore, the debenture was reclassified as a non-current liability due within one year.

(14) General reserve amounted to RMB98,706,649, an increase of 77% over the previous year, which was mainly attributable to Financial Company comprehensively carrying out the loan and discounted bill business in the current year. The general reserve was increased accordingly.

(15) Exchange fluctuation reserve amounted to negative RMB72,208,059, a decrease of 337% over the previous year, which was mainly attributable to the depreciation of Australian dollar of Ma Steel Australia against Renminbi.

(16) Revenue amounted to RMB73,848,883,383, a decrease of 1% over the previous year, which was mainly attributable to the decrease in the average unit sales price of steel products.

(17) Cost of sales amounted to RMB70,393,962,617, a decrease of 3% over the previous year, which was mainly attributable to the structure optimization of coal blending and ore blending, increasing the recycling of waste and defective products and decreasing material consumption and operational energy consumption. Besides, the decrease in the price of raw materials such as iron ore and coal also helped reduce costs.

(18) Business taxes and surcharges amounted to RMB226,431,646, an increase of 41% over the previous year, which was mainly attributable to the increase of surcharges (mainly including city maintenance and construction tax and educational surcharges), resulting from the increase of commodity turnover tax.

(19) Selling expenses amounted to RMB423,074,212, an increase of 21% over the previous year, which was mainly attributable to the increase of transport charges, resulting from the increase of production and sales of Anhui Chang Jiang Iron and Steel.

3. VARIANCE ANALYSIS (CONTINUED)

(20) Financial expenses amounted to RMB1,154,159,806, a decrease of 21% over the previous year, which was mainly attributable to the decrease in the bank loan amount of the Group. In addition, a 3-year medium term Note issued on 5 February 2010 with a face value of RMB1 billion, and a short-term financing bond issued on 25 October 2012 with a face value of RMB3.5 billion matured in 2013 and are repaid with interest.

(21) Asset impairment losses amounted to RMB1,164,499,129, a decrease of 57% over the previous year, which was mainly attributable to the increase in the allowance for doubtful accounts in 2012.

(22) Investment income amounted to RMB289,004,676, a decrease of 53% over the previous year, which was mainly attributable to the investment income amounting to RMB0.48 billion gained from the deemed disposal of Masteel Yuyuan Logistics in 2012.

(23) Non-operating income amounted to RMB888,138,225, an increase of 481% over the previous year, which was mainly attributable to the gain from disposal of non-current assets from the Company to the Holding and the subsidy received from the Maanshan Government for carve-out of the non-core business.

(24) Income tax amounted to RMB114,210,366, an increase of 111% over the previous year, which was mainly attributable to the increase in profit for the current year.

(25) Minority interests amounted to RMB50,714,880, a decrease of 20% over the previous year, which was mainly attributable to the decrease in the profits of non-wholly owned subsidiaries.

(26) Cash inflows from operating activities amounted to RMB5,091,358,555, a decrease of 9% over the previous year, which was mainly attributable to the decrease in the cash received from selling goods.

(27) Cash outflows from investing activities amounted to RMB4,542,698,610, a decrease of 25% over the previous year, which was mainly due to the cash received for the transfer of some equities to the Holding in current year.

(28) Cash outflows from financing activities amounted to RMB5,300,586,970, an increase of 146% over the previous year, which was mainly attributable to the decrease in cash received from borrowings.

(29) Effect of foreign exchange rate changes on cash amounted to RMB63,350,942, an increase of 212% over the previous year, which was mainly attributable to the depreciation of the foreign currency held by the Group against Renminbi.

XI. Documents Available for Inspection

1. Financial statements signed and sealed by the Company's legal representative, chief accountant and head of Accounting Department.

2. Original copy of the audited accounts prepared under the China Accounting Standards, sealed by Ernst & Young Hua Ming and signed by Ms. Zhong Li and Mr. Wang Yinfeng, certified public accountants in the PRC.

3. Original copies of all documents and announcements of the Company disclosed in Shanghai Securities News and on the website of the SSE during the reporting period.

4. Annual report announced on the website of the Hong Kong Stock Exchange.

5. The Articles of Association of the Company.

Chairman: **Ding Yi**
MAANSHAN IRON & STEEL COMPANY LIMITED

26 March 2014