



重慶鋼鐵股份有限公司

Chongqing Iron & Steel Company Limited

(H Share Stock Code: 1053) (A Share Stock Code: 601005)

2016

**ANNUAL
REPORT**

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IMPORTANT NOTICE

- I. The board of Directors (the “Board”), the supervisory committee, and Directors, supervisors and senior management of the Company warrant that there are no false representations, misleading statements contained in or material omissions from this annual report and collectively and individually accept full responsibility for the truthfulness, accuracy and completeness of the contents hereof.
- II. All Directors of the Company attended Board meetings.
- III. Pan-China Certified Public Accountants (special general partnership) issued a standard unqualified audit report for the Company.
- IV. Mr. Liu Da Wei, head of the Company, Mr. Tu De Ling, the Chief Financial Officer and Mr. Zhang Zhong Ming, the Chief Accountant, have declared that they guarantee the truthfulness, accuracy and completeness of the financial statements in the annual report.
- V. The profit distribution proposal or proposal to transfer capital reserve to share capital for the reporting period as considered by the Board
The Board proposed neither to distribute profit for the Reporting Period nor to transfer the capital reserve to share capital.
- VI. Risk warning in respect of forward-looking statements
 Applicable Not applicable
The forward-looking statements set out in this annual report such as future plans involve uncertainties and do not constitute the Company’s substantial commitment to investors. Investors are advised to be aware of investment risks.
- VII. Is there any non-operational fund occupancy by the controlling shareholder or its related party?
No
- VIII. Is there any provision of external guarantee by the Company in violation of the stipulated decision making procedure?
No
- IX. Major Risk Warning
 Applicable Not applicable
According to the requirements of the Rules Governing the Listing of Stocks on Shanghai Stock Exchange and the Corporate Bonds Listing Rules of the Shanghai Stock Exchange, the net profit attributable to the shareholders of the Company for 2015 and 2016 were negative, therefore the shares of the Company are subject to delisting risk warning imposed by the Shanghai Stock Exchange, and the corporate bonds of the Company will be suspended from trading.
- X. Others
 Applicable Not applicable

Section I Definitions

I. DEFINITIONS

Unless the context otherwise requires, the following expressions have the following meanings in this report:

Definitions of common terms

Chongqing Iron & Steel Group, Parent Company, Controlling Shareholder	Chongqing Iron & Steel (Group) Co., Ltd.
Company, Chongqing Iron & Steel, Chongqing Iron & Steel Company Limited	Chongqing Iron & Steel Company Limited
Group	Chongqing Iron & Steel Company Limited and its subsidiaries
Board	the board of Directors of Chongqing Iron & Steel Company Limited
Supervisory Committee	the supervisory committee of Chongqing Iron & Steel Company Limited
General Meeting	the general meeting of Chongqing Iron & Steel Company Limited
CSRC	China Securities Regulatory Commission
Chongqing Securities Regulatory Bureau	Chongqing Securities Regulatory Bureau of China Securities Regulatory Commission
Articles of Association	Articles of Association of Chongqing Iron & Steel Company Limited
Companies Law	the Companies Law of the People's Republic of China
Securities Law	the Securities Law of the People's Republic of China
Reporting Period	2016
RMB, RMB'000, RMB0'000	RMB yuan, RMB thousand yuan, RMB10 thousand yuan

Section II Company Profile and Major Financial Indicator

I. COMPANY INFORMATION

Chinese name	重慶鋼鐵股份有限公司
Abbreviation of Chinese name	重鋼股份公司
English name	Chongqing Iron & Steel Company Limited
Abbreviation of English name	CISL
Legal representative	Liu Da Wei

II. CONTACT INFORMATION

	Secretary to the Board	Securities representative
Name	You Xiao An	Peng Guo Ju
Correspondence address	No. 1 Gangcheng Avenue, Changshou Economic Development Zone, Chongqing, the PRC	No. 1 Gangcheng Avenue, Changshou Economic Development Zone, Chongqing, the PRC
Telephone	86-23-6887 3311	86-23-6898 3482
Fax	86-23-6887 3189	86-23-6887 3189
E-mail	yxa@email.cqgt.cn	clarapeng@email.cqgt.cn

III. BASIC INFORMATION

Registered address	No. 1 Gangcheng Avenue, Changshou Economic Development Zone, Chongqing, the PRC
Postal code of registered address	401258
Office address	No. 1 Gangcheng Avenue, Changshou Economic Development Zone, Chongqing, the PRC
Postal code of office address	401258
Website	http://www.cqgt.cn
E-mail	dms@email.cqgt.cn

Section II Company Profile and Major Financial Indicator (Continued)

IV. INFORMATION DISCLOSURE AND PLACE FOR INSPECTION

Name of media designated by the Company for information disclosure China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily

Website designated by CSRC for publishing annual reports <http://www.sse.com.cn>

Place for inspection of annual reports Secretariat of the Board of the Company

V. BASIC INFORMATION ABOUT THE SHARES OF THE COMPANY

Basic Information about the Shares of the Company

Class of shares	Place of listing	Abbreviated name	Stock code	Abbreviated name before change
A shares	Shanghai Stock Exchange	Chongqing Iron & Steel	601005	No
H shares	The Stock Exchange of Hong Kong Limited	Chongqing Iron & Steel	1053	No

VI. OTHER RELATED INFORMATION

Auditor of the Company (domestic)	Name	Pan-China Certified Public Accountants (special general partnership)
	Office address	3F, Block B, Bld. 2, Fortune Park, Fortune Center, 13 Caifu Dadao, New North Zone, Chongqing
	Signing accountants	Zhang Kai, Huang Qiaomei
Auditor of the Company (international)	Name	Pan-China Certified Public Accountants (special general partnership)
	Office address	3F, Block B, Bld. 2, Fortune Park, Fortune Center, 13 Caifu Dadao, New North Zone, Chongqing
	Signing accountants	Zhang Kai, Huang Qiaomei

Section II Company Profile and Major Financial Indicator (Continued)

VII. MAJOR FINANCIAL DATA AND FINANCIAL INDICATORS FOR THE LAST THREE YEARS

(I) Major financial data

Unit: RMB'000

Major financial data	2016	2015	Increase/ decrease from last year (%)	2014
Operating income	4,414,902	8,350,022	-47.13%	12,245,057
Net profit attributable to shareholders of the Company	-4,685,956	-5,987,248	21.73%	51,431
Net profit after extraordinary gain and loss attributable to shareholders of the Company	-5,392,375	-9,302,935	42.04%	-2,536,940
Net cash flow from operating activities	-449,021	-1,678,179	73.24%	2,796,783

	At the end of 2016	At the end of 2015	Increase/ decrease from last year (%)	At the end of 2014
Net assets attributable to shareholders of the Company	-200,494	3,988,873	-105.03%	9,973,914
Total assets	36,438,454	39,228,079	-7.11%	47,152,433

Section II Company Profile and Major Financial Indicator (Continued)

VII. MAJOR FINANCIAL DATA AND FINANCIAL INDICATORS FOR THE LAST THREE YEARS (CONTINUED)

(II) Major financial indicators

Major financial indicators	2016	2015	Increase/ decrease from last year (%)	2014
Basic earnings per share (Yuan/share)	-1.06	-1.35	21.48	0.012
Diluted earnings per share (Yuan/share)	-1.06	-1.35	21.48	0.012
Basic earnings per share after non-recurring profit and loss (Yuan/share)	-1.22	-2.1	41.9	-0.572
Weighted average return on net assets (%)	-284.59	-85.76	-198.83	0.52
Weighted average return on net assets after non-recurring profit and loss (%)	-327.49	-133.25	Reduction of 194.24 percentage points	-25.51

Explanation on the major financial data and financial indicators for the last three years at the end of the Reporting Period

Applicable

Not applicable

VIII. DIFFERENCE IN ACCOUNTING DATA BETWEEN THE PRC ACCOUNTING STANDARDS AND OVERSEAS ACCOUNTING STANDARDS

(I) Difference between the net profit and net assets attributable to shareholders of listed companies as disclosed in the financial statements under International Accounting Standards and those under PRC Accounting Standards

Applicable Not applicable

(II) Difference between net profit and net assets attributable to shareholders of listed companies as disclosed in the financial statements under overseas accounting standards and those under PRC Accounting Standards

Applicable Not applicable

(III) Explanation on the differences between the PRC accounting standards and overseas accounting standards:

Applicable Not applicable

Section II Company Profile and Major Financial Indicator (Continued)

IX. MAJOR FINANCIAL DATA OF EACH QUARTER OF 2016

Unit: RMB'000

	1st Quarter (January– March)	2nd Quarter (April– June)	3rd Quarter (July– September)	4th Quarter (October– December)
Operating income	1,408,443	1,380,969	895,753	729,737
Net profit attributable to shareholders of the Company	-992,488	-797,855	-1,300,921	-1,594,692
Net profit attributable to shareholders of the Company after deducting non- recurring gains and losses	-1,042,525	-864,980	-1,751,560	-1,733,310

Explanation on the differences between quarterly data and disclosed regular reporting data

Applicable Not applicable

X. NON-RECURRING GAINS AND LOSSES ITEMS AND AMOUNTS

Applicable Not applicable

Unit: RMB'000

Non-recurring items	Amount for 2016	Note (where applicable)	Amount for 2015	Amount for 2014
Gain or loss arising from disposal of non- current assets	6		-3,490	1,132,619
Tax refund or relief arising from unauthorized approval, without official approval or on an occasional basis				2,282
Government subsidies (except for the grants which are closely related to the Company's business and have the standard amount and quantities in accordance with the national standard) attributable to profits and losses for the period	300,228		969,206	923,283

Section II Company Profile and Major Financial Indicator (Continued)

X. NON-RECURRING GAINS AND LOSSES ITEMS AND AMOUNTS (CONTINUED)

Non-recurring items	Amount for 2016	Note (where applicable)	Amount for 2015	Amount for 2014
Capital occupancy fee from non-financial enterprises recognized through profit or loss				
Profit arising from investment costs for acquisition of subsidiaries, associates and joint ventures less than the share of identifiable net assets of the invested entity at fair value at the time of acquisition				
Profit or loss of non-monetary asset exchange				
Profit or loss from entrusting others to invest or manage the assets				
Provision of impairment of assets due to force majeure such as suffering from natural disaster				
Profit or loss of debt restructuring	450,000		2,350,000	49,228
Enterprise restructuring expenses such as employee resettlement compensation and integration expense				
Profit or loss from transactions with obvious unfair transaction price				
Subsidiaries' year-to-date net profit/loss arising from business combination of entities under common control				
Profits or losses arising from contingencies which are not related to company's main business				
Profits or losses on change in fair value from financial assets and financial liabilities held for trading, as well as investment income from disposal of financial assets and financial liabilities held for trading and financial assets available for sales except for effective hedging related with normal businesses of the Company				

Section II Company Profile and Major Financial Indicator (Continued)

X. NON-RECURRING GAINS AND LOSSES ITEMS AND AMOUNTS (CONTINUED)

Non-recurring items	Amount for 2016	Note (where applicable)	Amount for 2015	Amount for 2014
Reversal of impairment provision for account receivables individually tested for impairment	7,923			
Profits or losses from outside entrusted loans				
Profits or losses from change in fair value of investment real estate adopting the fair value mode to do the follow-up measurement				
The influence of the one-off adjustment of current period profits or losses on the profits or losses in current period in accordance with the laws and rules of tax and accounting				
Fee and commission incomes arising from trusted customer asset management business				
Other non-operating income and expenses except as listed above	-51,738		-36	-9,562
Other gain and loss items falling within the definition of non-recurring profit and loss				54,441
Relocation incentives				800,000
Investment income				101,926
Reverse of impairment provision for receivables				-9,075
Effect of minority interest			3	
Effect of income tax			4	-456,771
Total	3,315,687		2,588,371	300

Section II Company Profile and Major Financial Indicator (Continued)

XI. ITEMS MEASURED AT FAIR VALUE

Applicable Not applicable

XII. OTHERS

Applicable Not applicable

XIII. FINANCIAL HIGHLIGHTS

RMB'000

	2012	2013	2014	2015	2016
Income and profit					
Income	18,458,776	17,563,446	12,245,057	8,350,022	4,414,902
Profit before tax	101,825	(2,495,891)	54,540	(5,969,213)	(4,685,667)
Taxation	2,982	3,127	2,897	17,973	17
Profit for the year	98,843	(2,499,018)	51,643	(5,987,186)	(4,685,684)
Attributable to					
Shareholders of the					
Company	98,813	(2,499,018)	51,431	(5,987,248)	(4,685,956)
Non-controlling interests	30	0	212	62	272
Earnings per share					
attributable to					
shareholders of the					
Company – Basic (RMB)	0.057	(1.252)	0.012	(1.35)	(1.06)
Assets and liabilities					
Non-current assets	15,115,801	34,694,420	34,470,161	34,896,884	33,991,308
Current assets	15,990,598	13,351,557	12,682,272	4,331,195	2,447,146
Current liabilities	22,380,623	27,537,765	26,858,739	23,206,904	26,130,733
Non-current liabilities	4,532,800	10,571,909	10,300,568	12,013,028	10,415,155
Net assets	4,192,976	9,936,303	9,993,126	4,008,147	(107,434)
Equity attributable to					
shareholders of the					
Company	4,173,976	9,917,303	9,973,914	3,988,873	(200,494)
Non-controlling interests	19,000	19,000	19,212	19,274	93,060

Section III Company Business Summary

I. MAIN BUSINESS, OPERATIONAL MODE OF THE COMPANY AND EXPLANATION ON INDUSTRY SITUATION DURING THE REPORTING PERIOD

The Company's main business: Production, processing and sales of sheets, profiles, wires, billets and coke coal chemical products, tap water, comprehensive application of resources, power generation, iron and grain slag, steel slag, and steel scrap. The Company belongs to ferrous metal smelting and rolling processing industries. Its main business includes: Production, processing, and sales of sheets, profiles, wires, rods, billets and steel stripes. As China's large iron and steel enterprise and one of China's largest cut deal manufacturers, the Company is characterized by complete production process, independent supply, production and marketing self-contained system, advanced technology, and excellent product quality. Its shipbuilding steel plate, pressure vessel steel plate, and boiler steel plate win multiple quality awards and domestic and international professional agencies' quality authentication, with its Sanfeng trademark products renowned in China.

Operational mode: For the steel sale of the Company, the purchase orders were mainly secured through face-to-face business negotiations between the regional sale branches and subsidiaries of the Company and the market participants or end users. Upon signing of the sale contracts, the Company formulated production plans and conducted product marketing activities based on sale-driven production. Forward sale was generally adopted for the main products by way of the scheduled contracts and the pricing policies were based on pre-determined price or after-settlement. The non-planned products, utilized products, scrap materials and other by-products derived from the production were mainly sold through auction or as a package.

Explanation on industry situation: In 2016, the steel industry deeply promoted the supply side structure reform. With the reduction in overcapacity and the introduction of various policies and measures, it became obvious that the market had shown an active change with steady growth in the steel industry. With a slight increase in the production of crude steel compared to last year, significant rise at the price of steel, slight decline of steel export, the operating efficiency has been improved. However, the fundamental factor regarding overcapacity remained unchanged, the foundation for rising price and improving efficiency was not completed established, and the industry was still bound by the crisis.

II. EXPLANATION ON SUBSTANTIAL CHANGES OF MAJOR ASSETS OF THE COMPANY DURING THE REPORTING PERIOD

Applicable

Not applicable

Section III Company Business Summary (Continued)

III. ANALYSIS OF CORE COMPETITIVENESS DURING THE REPORTING PERIOD

Applicable Not applicable

1. Its environmental relocation was officially approved by the National Development and Reform Commission and was included amongst the third batch of pilot enterprises recycling economy by the National Development and Reform Commission. It passed the environmental assessment and acceptance of the Ministry of Environmental Protection upon commencement of operation.
2. It was one of the industry leaders in energy-saving and emission-reduction as its environmental indicators (including SO₂, chemical oxygen demand, smoke and dust emission) as well as emission-reduction indicators (including coal gas emission of coke furnaces or blast furnaces, fresh water consumption per tonne) reached advanced level in the industry, with more than 70% of power generated by itself.
3. Technologies such as the “one molten iron tank” in the steel making techno-interface method, dry-type vacuum metallurgical technology (“幹式真空冶金技術”) and the distributed residue heat power generation technology were widely acclaimed in the industry and its innovative achievements with proprietary intellectual property rights were widely recognized and rapidly spread.
4. Its innovation platforms and mechanisms were continuously improving, while the combination of the industry, University, Research and application was further pressed ahead. With product structure being continuously upgraded, progresses were made in market exploration, production and research and development of the high strength shipbuilding steel, oriented silicon steel and other high value-added products.
5. It basically achieved the conditions required for the modern steel plant, namely “modern process, cohesive procedure, large-scale equipment, recycling resources and efficient energy-saving and emission-reduction”. Its principal working procedures were equipped with domestic first-class processes and equipment.
6. It owned conspicuous brand advantages and its product quality was traditionally advanced, with brand value and cultural connotation continuously extended and customers’ recognition and brand loyalty continuously enhanced.

Section IV Management Discussion and Analysis

I. MANAGEMENT DISCUSSION AND ANALYSIS

Under the continued grim operating situation and great financial difficulty in 2016, the Company had to process with materials supplied by customers from June to the end of the year. With concerted efforts of all employees, it produced 1.203 million tons of coke, 2.387 million tons of iron, 2.355 million tons of steel and 2.33 million tons of rolled steel, down by about 32% over the past year, achieving an sales income of RMB4.415 billion.

Major Tasks and Results

- (I) **Production operation remained basically stable.** Although production was forced to be reduced due to the situation of funds and insufficient process-on-order, the Company still ensured stable production on the premise of safe production.
- (II) **Cost reduction and efficiency enhancement advanced constantly.** In 2016, the Company achieved RMB1 billion of cost reduction and efficiency enhancement, including cost reduction of RMB279 million, RMB169 million and RMB211 million by procurement, process and financial expenses respectively as well as the efficiency enhancement of RMB232 million and RMB113 million by structural adjustment and striving for policies.
- (III) **Fund support maintained normal generally.** The Company actively raised funds by means including bank loans and financial leases to ensure the basic operation of production and management.
- (IV) **Reform deepening achieved initial success.** Firstly, the Company integrated 13 functional management departments including Manager Office and Finance Division into 6 (including the newly established Risk Management and Control Department and Discipline Inspection Commission/Supervision Department) to strengthen their regulatory and controlling power on operating risks. Secondly, the Company, according to its operational development and production needs, integrated divisions like Production Command Center, Equipment and Maneuvering Division, Quality Department, Iron and steel Research Center and General Engineer Office and established the Operation Center and Technology Center to highlight professional centralized management and reflect the equipment's management characteristic centering on production and technological support production. Thirdly, the Company integrated the Raw Material Division, Sales Division and Equipment Division into a commercial trading company to focus on sufficient production and supply for much more social trades. Fourthly, the Company integrated the Security Division and Logistics Division into Support Center to promote the logistics support system reform and enhance the support capacity according to the market-oriented principle.

Section IV Management Discussion and Analysis (Continued)

I. MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Major Tasks and Results (Continued)

- (V) **Institutional improvement accelerated in all rounds.** In 2016, the Company revised 210 provisions of management systems as well as drafted and amended 1,523 evaluation rules.
- (VI) **Professional management was strengthened.** In terms of security and environmental protection, the Company, by strictly implementing the safe & environmental production responsibility system and intensifying the process control, realized “zero” occupational death with injury rate of 0.801 per 1,000 workers, a year-on-year decrease of 37.96%. Environmental management was reinforced fully and passed the examination of China Environmental Protection Supervision Group as well. In terms of product quality, the Company enhance process control in systems and enabled the overall procedural quality to be controllable. It achieved completion rate 100% of 13 main quality indicators and cut down 355 user quality objections over the previous period.

Work Arrangement in 2017:

Firstly, adjust product structure in local markets.

Secondly, tap the potentialities to cut down production cost.

Thirdly, optimize the human resource structure to improve labor productivity.

Fourthly, strengthen risk control and reduce various risks and contradictions.

Fifthly, improve the corporate governance and establish a scientific decision-making mechanism.

Sixthly, deepen the reform of “three systems” and innovate the incentive and restraint mechanism.

Section IV Management Discussion and Analysis (Continued)

II. MAJOR OPERATIONS DURING THE REPORTING PERIOD

During the Reporting Period, the Company adopted a business model of processing-on-order. Revenue from June to December only consisted of processing expenses, resulting in a substantial decline in sales income. The Company recorded operating income of RMB4,414,902,000 for the year, 47.13% lower than previous year.

(I) Main business analysis

Analysis of changes in certain items from Income Statement and Cash Flow Statement

Unit: RMB'000

Subject	For the period	For the corresponding period of last year	Change (%)
Operating income	4,414,902	8,350,022	-47.13
Operating cost	6,162,610	10,509,209	-41.36
Selling expenses	109,062	248,554	-56.12
Administrative expenses	1,680,799	1,266,607	32.7
Financial expenses	1,187,573	1,264,709	-6.1
Net cash flow from operating activities	-449,021	-1,678,179	73.24
Net cash flow from investing activities	-263,645	613,201	-142.99
Net cash flow from financing activities	1,422,844	946,545	50.32
R&D spending	187,953	481,328	-60.95

Section IV Management Discussion and Analysis (Continued)

II. MAJOR OPERATIONS DURING THE REPORTING PERIOD (CONTINUED)

(I) Main business analysis (Continued)

1. Income and Cost Analysis

Applicable Not applicable

1) Analysis of decisive factors of product income mainly from in-kind sales

In 2016, the realized operating income of the Group was RMB4,414.902 million, with a year-on-year decrease of RMB3,935.12 million. From January to May, the Group has realized income arising from the sale of rolled steel billet of RMB2,185.174 million, with a year-on-year increase of RMB99.26 million. From June to December, the Group has commenced its cooperation with the Panhua Group on processing-on-order business and 1,259,100 tons of steels from Panhua Group were processed and income arising from processing expenses recognized pursuant to accounting standard were 971.482 million during the period, representing a decrease of RMB4,710.142 million from income arising from the sale of rolled steel billet of RMB5,681.624 million of previous year. Therefore, the significant decline of income of the Group in 2016 as compared to previous year was mainly due to the change of operating model.

Item	From January to May in 2016 <i>RMB'000</i>	From January to May in 2015 <i>RMB'000</i>	Year-on-year growth rate (%)	Income increase (<i>RMB'000</i>)
Plate	745,855	658,842	13.21	87,013
Hot rolling	1,399,210	1,390,023	0.66	9,187
Bars	407	352	15.63	55
Profiles	3,254	3,254		72,584
Billet	36,448	36,697	-0.68	-249
Subtotal	2,185,174	2,085,914	4.76	99,260

Section IV Management Discussion and Analysis (Continued)

II. MAJOR OPERATIONS DURING THE REPORTING PERIOD (CONTINUED)

(I) Main business analysis (Continued)

1. Income and Cost Analysis (Continued)

1) Analysis of decisive factors of product income mainly from in-kind sales (Continued)

Item	From June to December in 2016 RMB'000	From June to December in 2015 RMB'000	Year-on-year growth rate (%)	Income increase (RMB'000)
Plate		3,167,253		
Hot rolling		2,369,654		
Bars		25,802	Not comparable	
Wires		72,584		
Billet		46,331		
OEM business	971,482			
Subtotal	971,482	5,681,624		-4,710,142

(1) Main business by sectors, products and regions

Unit: RMB'000

Main operations by sectors

By sectors	Operating income	Operating cost	Gross margin	Year-on-year increase/ decrease in operating income (%)	Year-on-year increase/ decrease in operating cost (%)	Year-on-year increase/ decrease in gross margin (%)
Iron and steel	4,389,462	6,151,764	-40.15	-47.26	-41.44	Reduction by 13.93 percentage points

Section IV Management Discussion and Analysis (Continued)

II. MAJOR OPERATIONS DURING THE REPORTING PERIOD (CONTINUED)

(I) Main business analysis (Continued)

1. Income and Cost Analysis (Continued)

1) Analysis of decisive factors of product income mainly from in-kind sales (Continued)

(1) Main business by sectors, products and regions (Continued)

Main operations by products

By sectors	Operating income	Operating cost	Gross margin (%)	Year-on-year increase/decrease in operating income (%)	Year-on-year increase/decrease in operating cost (%)	Year-on-year increase/decrease in gross margin (%)
Rolled steel billet	2,185,174	3,018,577	-38.14	-71.87	-69.63	-10.20
By-products	563,532	530,779	5.81	1.58	-6.37	7.99
OEM business	971,482	1,938,182	-99.51			
Other	669,274	664,226	0.75			

Main business by regions

By sectors	Operating income	Operating cost	Gross margin (%)	Year-on-year increase/decrease in operating income (%)	Year-on-year increase/decrease in operating cost (%)	Year-on-year increase/decrease in gross margin (%)
Southwest	2,883,170			-31.44		
Other regions	1,506,292			-63.41		
Total	4,389,462			-47.26		

Section IV Management Discussion and Analysis (Continued)

II. MAJOR OPERATIONS DURING THE REPORTING PERIOD (CONTINUED)

(I) Main business analysis (Continued)

1. Income and Cost Analysis (Continued)

1) Analysis of decisive factors of product income mainly from in-kind sales (Continued)

(1) Main business by sectors, products and regions (Continued)

Explanations on main business by sectors, products and regions

Applicable Not applicable

(2) Table of production and sales analysis

Applicable Not applicable

Unit: 0'000 tons

Main products	Production	Sales amount	Inventory	Year-on-year increase/decrease in production (%)	Year-on-year increase/decrease in sales (%)	Year-on-year increase/decrease in inventory (%)
Plates	33.04	35.86	0.36	-76.39	-74.92	-88.00
Hot rolling	74.11	75.95	-	-60.36	-60.24	-100.00
Bars	-	0.03	0.00	-	-97.00	-
Profiles	-	0.21	-	-	-	-
Wires	-	-	-	-100.00	-100.00	-
OEM business	125.91	-	-	-	-	-

Section IV Management Discussion and Analysis (Continued)

II. MAJOR OPERATIONS DURING THE REPORTING PERIOD (CONTINUED)

(I) Main business analysis (Continued)

1. Income and Cost Analysis (Continued)

1) Analysis of decisive factors of product income mainly from in-kind sales (Continued)

(3) Cost analysis table

Unit: RMB'000

By sectors

By sectors	Costs component	Amount for the period	Percentage of the amount for the period in total costs (%)	Amount for the corresponding period of last year	Percentage of the amount for the corresponding period of last year in total costs (%)	Year-on-year change (%)	Explanation
Iron and steel	Raw material	3,445,488	56.01	6,627,031	63.09	-48.01	
Iron and steel	Energy	940,296	15.28	1,239,965	11.80	-24.17	
Iron and steel	Labor and other costs	1,765,980	28.71	2,637,620	25.11	-33.05	

Section IV Management Discussion and Analysis (Continued)

II. MAJOR OPERATIONS DURING THE REPORTING PERIOD (CONTINUED)

(I) Main business analysis (Continued)

1. Income and Cost Analysis (Continued)

- 1) Analysis of decisive factors of product income mainly from in-kind sales (Continued)
- (3) Cost analysis table (Continued)

By products

By products	Costs component	Amount for the period	Percentage of the amount for the period in total costs (%)	Amount for the corresponding period of last year	Percentage of the amount for the corresponding period of last year in total costs (%)	Year-on-year change (%)	Explanation
Rolled steel billet	Raw material and energy costs	3,018,577	49.07	9,937,755	94.60	-69.63	
By-products	Raw material and energy costs	530,779	8.63	566,861	5.40	-6.37	
OEM business	Raw material and energy costs	1,938,182	31.51				
Other		664,226	10.79				

Cost analysis and explanation

Applicable Not applicable

Section IV Management Discussion and Analysis (Continued)

II. MAJOR OPERATIONS DURING THE REPORTING PERIOD (CONTINUED)

(I) Main business analysis (Continued)

1. Income and Cost Analysis (Continued)

1) Analysis of decisive factors of product income mainly from in-kind sales (Continued)

(4) Major buyers and major suppliers

Applicable Not applicable

The sales attributable to the five largest buyers amounted to RMB1,892.75 million, representing 42.87% of the total sales for the year, among which the sales attributable to the five largest buyers from related party amounted to RMB200.67 million, representing 4.55% of the total sales for the year.

The purchase amount attributable to the five largest suppliers amounted to RMB1,505.8 million, representing 45.77% of the total purchase amount for the year, among which the purchase amount attributable to the five largest suppliers from related party amounted to RMB368.65 million, representing 11.21% of the total purchase amount for the year.

2. Expenses

Applicable Not applicable

Section IV Management Discussion and Analysis (Continued)

II. MAJOR OPERATIONS DURING THE REPORTING PERIOD (CONTINUED)

(I) Main business analysis (Continued)

3. R&D investment

Table of R&D investment

Applicable Not applicable

Unit: RMB'000

Expensed research and development expenses for the period	157,647
Capitalized research and development expenses for the period	30,306
Total R&D investment	187,953
Percentage of the total R&D investment in operating income (%)	4.26
Number of R&D personnel of the Company	705
Percentage of R&D Personnel in total number of employees (%)	7.95
Percentage of capitalized research and development expenses in total R&D investment (%)	16.12

Explanation

Applicable Not applicable

Section IV Management Discussion and Analysis (Continued)

II. MAJOR OPERATIONS DURING THE REPORTING PERIOD (CONTINUED)

(I) Main business analysis (Continued)

4. Cash flow

Applicable Not applicable

In 2016, the Group has strengthened its management on fund budget by actively raising fund by various ways and strictly controlling in expenditure, to maintain the balance of payment for the period; In 2016, net increase from cash and cash equivalent for the period of the Company was RMB713.071 million, net cash outflow from operating activity was RMB449.021 million, net cash inflow from financing activity due to cash received from investors, new bank loans and bill financing RMB1,422.844 million and net cash flow from investing activity decreased by RMB263.645 million due to payments for constructions and investment in new company.

Items from cash flow statement

Unit: RMB'000

Items	January to December 2016	January to December 2015	Main reasons for changes
Net cash flow from operating activities	-449,021	-1,678,179	Payment of payables to suppliers
Net cash flows from investing activities	-263,645	613,201	Payment for constructions and investment in Cold Rolled Project
Net cash flow from financing activities	1,422,844	946,545	New loans and bill financing
Net increase of cash and cash equivalents	713,071	-113,772	

(II) Explanation on material change in profit due to non-principal business

Applicable Not applicable

Section IV Management Discussion and Analysis (Continued)

II. MAJOR OPERATIONS DURING THE REPORTING PERIOD (CONTINUED)

(III) Analysis of assets and liabilities

Applicable Not applicable

1. Assets and liabilities

Unit: RMB'000

Item	Amount at the end of the period	Percentage of the amount at the end of the period in total assets (%)	Amount at the end of the previous period	Percentage of the amount at the end of previous period in total assets (%)	Year-on-year increase/decrease (%)	Explanation
Cash at bank and on hand	1,102,694	3.03	925,471	2.36	19.15	
Bills receivable	19,435	0.05	45,863	0.12	-57.62	
Accounts receivable	256,258	0.7	503,202	1.28	-49.07	
Prepayments	37,191	0.1	39,924	0.1	-6.85	
Other receivables	58,099	0.16	40,376	0.1	43.89	
Inventories	972,960	2.67	2,775,858	7.08	-64.95	
Other current assets	509	0	501	0	1.6	
Available-for-sale financial assets	5,000	0.01	5,000	0.01		
Long-term equity investments	131,015	0.36				
Fixed assets	29,491,264	80.93	30,306,394	77.26	-2.69	
Construction in progress	43,131	0.12	128,949	0.33	-66.55	
Construction materials	15,126	0.04	10,651	0.03	42.01	
Intangible assets	2,648,584	7.27	2,712,264	6.91	-2.35	
Other non-current assets	1,657,188	4.55	1,733,626	4.42	-4.41	
Short-term loans	5,700,587	15.64	3,492,152	8.9	63.24	
Bills payable	1,632,710	4.48	3,663,417	9.34	-55.43	
Accounts payable	9,385,026	25.76	10,532,063	26.85	-10.89	
Advance from customers	1,014,762	2.78	653,721	1.67	55.23	
Employee compensation payable	561,255	1.54	311,835	0.79	79.98	
Taxes payable	235	0	8,679	0.02	-97.29	
Interest payable	117,013	0.32	30,900	0.08	278.68	

Section IV Management Discussion and Analysis (Continued)

II. MAJOR OPERATIONS DURING THE REPORTING PERIOD (CONTINUED)

(III) Analysis of assets and liabilities (Continued)

1. Assets and liabilities (Continued)

Item	Amount at the end of the period	Percentage of the amount at the end of the period in total assets (%)	Amount at the end of the previous period	Percentage of the amount at the end of previous period in total assets (%)	Year-on-year increase/decrease (%)	Explanation
Other payables	4,202,380	11.53	2,702,833	6.89	55.48	
Non-current liabilities due within one year	3,504,533	9.62	1,796,250	4.58	95.1	
Other current liabilities	12,231	0.03	15,054	0.04	-18.75	
Long-term loans	9,073,456	24.9	9,849,988	25.11	-7.88	
Debentures payable			1,987,882	5.07	-100.00	
Long-term payables	61,944	0.17				
Long-term employee benefits payable	276,634	0.76				
Provisions	52,177	0.14				
Deferred income	174,326	0.48	175,158	0.45	-0.47	
Other non-current liabilities	776,618	2.13				

Other explanation

- The decrease in the balance of bills receivable was mainly due to the increase in discount and endorsement of the bills by the Company in 2016.
- The decrease in the balance of account receivables was mainly due to the increase in collection of payment for goods by the Group in 2016.
- The decrease in the balance of inventories was mainly due to the decrease in reserve by the processing-on-order business by the Group in 2016.
- The decrease in the balance of construction in progress was mainly due to the transfer of construction in progress into fixed assets of the Group in 2016.

Section IV Management Discussion and Analysis (Continued)

II. MAJOR OPERATIONS DURING THE REPORTING PERIOD (CONTINUED)

(III) Analysis of assets and liabilities (Continued)

1. *Assets and liabilities (Continued)*

Other explanation (Continued)

5. The increase in the balance of short-term loans was mainly due to the increase in bank loans by the Group in 2016.
6. The decrease in the balance of bills payable was mainly due to the increase in cashing on bills by the Group in 2016.
7. The increase in the balance of advance from customers was mainly due to the increase in prepayment of goods by the Group in 2016.
8. The increase in the balance of employee compensation payable was mainly due to delayed payment of wage surcharges by the Group in 2016.
9. The increase in the balance of interest payable was mainly due to interest on arrears by the Group in 2016.
10. The increase in the balance of other payables was mainly due to the increase in funding support from parent company by the Group in 2016.
11. The increase in the balance of non-current liabilities due within one year was mainly due to the transfer of debentures payable, which will be expired in 2017, into non-current liabilities due within one year by the Group in 2016.
12. The increase in the balance of other non-current liabilities was mainly due to the increase in borrowings from non-financial institutions by the Group in 2016.

2. *Major restricted assets at the end of the Reporting Period*

Applicable Not applicable

Section IV Management Discussion and Analysis (Continued)

II. MAJOR OPERATIONS DURING THE REPORTING PERIOD (CONTINUED)

(III) Analysis of assets and liabilities (Continued)

3. *Other explanation (Continued)*

Applicable Not applicable

Detailed notes to the major changes in the Company's profits structure or profits sources

In 2016, the Company had a net profit of RMB-4,686 million with a year-on-year increase of RMB1,302 million from that of the previous year of RMB-5,987 million, with the following main reasons:

- ① The Group had a gross profit loss of RMB1,762 million with a year-on-year decrease of RMB420 million.
- ② The Group had operating expenses of RMB2,977 million, with a year-on-year increase of RMB198 million.

Item	Amount for the period	Amount for the corresponding period of last year	Year-on-year change (%)
Selling expenses	109,062	248,554	-56.12
Administrative expenses	1,680,799	1,266,607	32.7
Finance expenses	1,187,573	1,264,709	-6.1

- ③ The Group had realized non-operating income of RMB751,447,000, with a year-on-year increase of loss of RMB2,568,343,000.
- ④ The Group had an asset impairment loss of RMB608,307,000, with a year-on-year decrease of loss of RMB3,736,421,000.

Section IV Management Discussion and Analysis (Continued)

II. MAJOR OPERATIONS DURING THE REPORTING PERIOD (CONTINUED)

(IV) Analysis on industry operating information

Applicable Not applicable

The iron & steel industry in 2016 presented the following features.

The market demand picked up slowly and the apparent consumption of crude steel realized recovery growth. In 2016, demands in iron & steel market grew sluggishly. In the first 11 months, the national apparent consumption of crude steel totaled 650 million tons, with a year-on-year increase of 1.5%. It is expected that the apparent consumption of crude steel would increase slightly over the last year, which was the first rally in two years.

The crude steel output was lower at first and higher in the end with a modest increase in total. In the first 11 months, China produced 640 million tons of pig iron, 740 million tons of crude steel and 1.04 billion tons of rolled steel (with duplicate material included), with a year-on-year increase of 0.4%, 1.1% and 2.4% respectively; while the average daily output of crude steel reached 2.206 million tons, with a year-on-year increase of 0.8%. The crude steel output was lower at first and higher afterwards: sharply reduced by 5.7% in January and February; stayed on upswing after March; and exceeded the total output in September.

Subject to the trend of higher at first and lower in the end, the rolled steel export was expected to undergo a year-on-year decrease in 2016. In the first 11 months, the rolled steel export reached 100 million tons, with a year-on-year decrease of 1% and the rolled steel import reached 12.02 million tons, with a year-on-year increase of 3.6%; the crude steel generated from net exported rolled steel was 91.96 million tons, down 1.7%; This trend was affected by the increase in domestic rolled steel price and international trade protectionism.

In 2016, China's rolled steel price grew in fluctuations for several reasons such as the improved market demand and historically low rolled steel stocks. The aggregate price index of rolled steel rebounded from the historical low 54.48 in December last year and reached 84.66 in the end of April, 90.38 in the end of November, with a year-on-year increase of 60.85% as well as 103.4 in the middle of December, with a year-on-year increase of more than 80%. The average price index of China's rolled steel was 72.16 in the first 11 months, with a year-on-year increase of 3.94 and 5.78%.

Section IV Management Discussion and Analysis (Continued)

II. MAJOR OPERATIONS DURING THE REPORTING PERIOD (CONTINUED)

(IV) Analysis on industry operating information (Continued)

Steel and Iron Industry Operational Information Analysis

1. Manufacturing and Sales of Steel Material Based on Processing Techniques

Applicable Not applicable

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

Applicable Not applicable

Unit: RMB '000

Types Based on Forms of Finished	Production volume (tonnes)		Sales volume (tonnes)		Revenue		Operating costs		Gross profit margin (%)	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	Products profiles	-	-	2,100	-	3,254	-	10,937	-	-236.11
Plates and strips	2,321,400	3,286,600	2,370,200	3,334,500	3,116,547	7,585,772	4,899,613	9,636,022	-57.21	-27.03
Tube										
Others	-	31,500	300	44,000	407	98,738	2,233	182,189	-448.65	-84.52

3. Steel Material Sales Based on Sales Channels

Applicable Not applicable

4. Manufacturing and Sales of Special Steel Products

Applicable Not applicable

5. Supply Source of Iron Ore

Applicable Not applicable

6. Others

Applicable Not applicable

Section IV Management Discussion and Analysis (Continued)

II. MAJOR OPERATIONS DURING THE REPORTING PERIOD (CONTINUED)

(V) Investment Analysis

1. *General analysis of external equity investment*

Applicable Not applicable

The Company and POSCO Corporation (hereinafter referred to as "POSCO") signed the Cold-Rolled and Galvanized Steel Joint Venture Cooperation Agreement for CISL-POSCO Cold-Rolled Plate Project and CISL-POSCO Galvanized Plate Project in Chongqing on 6 August, 2015. The Company and POSCO signed the joint venture agreement in relation to Chongqing Chonggang High Intensity Cold-Rolled Plate Co., Ltd between CISL and POSCO and the joint venture agreement in relation to Chongqing POSCO Chonggang Automotive Steel Co., Ltd between CISL and POSCO on 6 April, 2016. Both parties have set up a joint venture in Chongqing, China in accordance with the terms and conditions of such contracts.

(1) Significant Equity Investment

Applicable Not applicable

(2) Significant Non-Equity Investment

Applicable Not applicable

(3) Financial Assets Measured at Fair Value

Applicable Not applicable

(VI) Major Assets and Equity Disposal

Applicable Not applicable

Section IV Management Discussion and Analysis (Continued)

II. MAJOR OPERATIONS DURING THE REPORTING PERIOD (CONTINUED)

(VII) Analysis of major controlled companies and investees

Applicable Not applicable

Name of subsidiary	Principal place of business	Place of registration	Business nature	Shareholdings (%)		Acquisition method
				Direct	Indirect	
Jingjiang San Feng Steel Processing & Distribution Company Limited	Jingjiang, Jiangsu Province	Jingjiang, Jiangsu Province	Steel Processing and Distribution	72.86%		Establishment by capital contribution
Jingjiang Chongqing Iron & Steel East China Trading Co., Ltd.	Jingjiang, Jiangsu Province	Jingjiang, Jiangsu Province	Trading	100%		Establishment by capital contribution
Guizhou Chonggang Sales Co., Ltd.	Guiyang, Guizhou Province	Guiyang, Guizhou Province	Trading	100%		Establishment by capital contribution
Xi'an Chonggang Sales Co., Ltd.	Beilin District, Xi'an	Beilin District, Xi'an	Trading	100%		Establishment by capital contribution
Chonggang Buliding Materials Sales Co., Ltd.	Changshou Economic Development Zone, Chongqing	Changshou Economic Development Zone, Chongqing	Trading	100%		Establishment by capital contribution
CISL High-Strength Cold-Rolled Steel Plate Ltd. (重慶重鋼高強冷軋板材有限公司)	Changshou Economic Development Zone, Chongqing	Changshou Economic Development Zone, Chongqing	Steel Production, research and development service	90%		Establishment by capital contribution

(VIII) Structured entities under the control of the Company

Applicable Not applicable

Section IV Management Discussion and Analysis (Continued)

III. MANAGEMENT DISCUSSION AND ANALYSIS ON FUTURE DEVELOPMENT OF THE COMPANY

(I) Industry Competition Pattern and Development Trend

Applicable Not applicable

The pattern of the iron and steel industry in 2016 is as follows: 1. Industry concentration was low and the problem of overcapacity was still serious; 2. the conflicts regarding the international trade of steel products were intensified and the order of exporting was yet to be regulated; 3. raw fuel prices rose significantly and the profit margins of the iron and steel industry were on the low side; 4. The “ground steel strip” chaos were serious and the market environment needed to be further improved.

The future development trend: 1. Resolving of excess production capacity will carry on more intensely; 2. the standard of effective supply will continue to be raised; 3. merger and reorganisation within the iron and steel industry will be further advanced; 4. the demand for steel products will remain stable.

(II) Corporate Development Strategy

Applicable Not applicable

The Party’s Eighteenth Congress, the Third, Fourth, Fifth, and Sixth Plenary Session of the Eighteenth Congress, the Central Economic Work Conference, Work Conference of the Party Construction of State Enterprises Nationwide and the Spirits of General Secretary Xi Jinping Serial Talks, are taken as guidance and the requirements of strengthening the party discipline will be seriously followed. Reform and innovation will be implemented, and corporate vitality will be enhanced. Financial management will be intensified and corporate operation will be guided. The strategy of low costs will be advanced, and the competitiveness of products will be raised. The product mix will be adjusted, and regional markets will be expanded. Costs reduction and efficiency enhancement will be commenced to achieve the goal of making up deficits. Systematic development will be strengthened to ensure efficient operation.

Section IV Management Discussion and Analysis (Continued)

III. MANAGEMENT DISCUSSION AND ANALYSIS ON FUTURE DEVELOPMENT OF THE COMPANY (CONTINUED)

(III) Operating Plans

Applicable Not applicable

1. Focus on realising and implementing science development concepts, learn diligently from spirits of the Fifth Plenary Session of the Eighteenth Congress of the Communist Party and the Spirits of General Secretary Xi Jinping Serial Talks, identify impacts of the present and future macro-economic situations on the iron and steel industry, unify thinking, adopt the guiding ideology of “scale control, cost reduction, structure adjustment, loss control” in production and operation, continue to deepen the “10 cost reduction measures”, endeavor to make up deficits and overcome difficulties.
2. Launch and enhance the integration and development between information technology and digitalisation with manufacturing technology, adopt smart manufacturing as the main direction of the deep integration of information technology and digitalization in order to coordinate conflicts between production and sales, improve quality of service, enhance safe production, product quality and effective utilization of resources, conserve energy, reduce production costs, optimise labour environment and enhance labour productivity.
3. In view of the overcapacity of the iron and steel industry, establish innovative development ideas, enhance enterprise innovation and excellence, improve on technology and streamline management, endeavor to enhance the optimisation and upgrading of products and industry structure under the present production mode, overcome difficulties and achieve breakthrough by innovation.
4. Continuously optimize methods of production organization, endeavour to achieve safe production, balanced production and balanced system.
5. Unwaveringly adhere to continue with the 10 cost reduction and efficiency initiatives of “cost reduction by scale, procurement, process, management, capital, reform, finance refinement and policy efficiency improvement by sales and resources” to promote the possibility of the integration of the 3 goals of “product cost reduction, product research and development and market development.

Section IV Management Discussion and Analysis (Continued)

III. MANAGEMENT DISCUSSION AND ANALYSIS ON FUTURE DEVELOPMENT OF THE COMPANY (CONTINUED)

(III) Operating Plans (Continued)

6. Adhere to develop technical research, proactively apply new technology, improve on technical and economic indicators; adhere to improve on product quality and optimize product structure to satisfy market demand, maintain brand image and highlight cost effectiveness.
7. Enhance safe and environmental – friendly production awareness, implement responsibility systems of safety and environmental-friendliness, endeavor to ensure occupational safety and health.
8. Improve on management standard, optimise work flow, clearly identify duties and responsibilities, carry out strict performance appraisals; endeavor to work towards the goals of controlling and reducing losses through practically enhancing work efficiency and management effectiveness.

(IV) Potential risks

Applicable Not applicable

Firstly, there is a grim situation in the steel market: the contradiction between overcapacity of the steel industry and upgrading of demand structure became outstanding; rigid demand that supports steel prices to rise was on an unsustainable growth course; raw materials including coal and iron ore rose in prices; the profitability for steel enterprises was narrowed down.

Secondly, the national differentiation in credit policy for industries with overcapacity increased the difficulty in fund raising and financing. Due to the Company's continued losses and utterly lacking cash flow, the security of funds was still difficult.

(V) Other

Applicable Not applicable

IV. FAILURE OF DISCLOSURE OF THE COMPANY AS PER RULES DUE TO INAPPLICABILITY OR SPECIAL REASONS

Applicable Not applicable

Section V Significant Events

I. SCHEME FOR PROFIT DISTRIBUTION OF ORDINARY SHARES OR TRANSFER OF CAPITAL RESERVE TO SHARE CAPITAL

(I) Formulation, implementation and adjustment of cash dividend distribution policies

Applicable Not applicable

The Medium- and Long-Term Dividend Distribution Plan of the Chongqing Iron & Steel Company Limited was considered and approved by the Company in 2012 and amendments to the corresponding articles of the “Articles of Association of Chongqing Iron & Steel Company Limited” (the “Articles of Association”) made in 2014 laid out detailed requirements on the basic principles, forms and conditions for profit distribution, the consideration and deliberation procedures and decision-making mechanism in respect of the profit distribution plan and adjustment to profit distribution policies. In view of the facts that the Company suffered losses in 2015, the Board proposed neither to distribute profit for 2015 nor to transfer the capital reserve to share capital.

THE FORMULATION OF THE DIVIDEND DISTRIBUTION PLAN FOR THE SHAREHOLDERS FOR THE NEXT THREE YEARS (2015–2017):

1. *Forms and basic principles of profit distribution*

The Company may distribute the profits by cash, shares, or a combination of cash and shares. The profit distribution policy of the Company shall maintain its continuity and stability. Profit distribution shall highly value the reasonable investment returns to investors and shall simultaneously take into account the Company’s long-term interests, sustainable development and the interests of all shareholders as a whole. The Company’s profit distribution shall be based on the parent company’s profit available for distribution realized in the current year. Dividends shall be distributed to shareholders according to the lawful order and the proportion. Each share in the same class must be entitled to the same rights and to receive the same dividends, except where it is provided in the Articles of Association that distribution may be made not pursuant to the shareholding proportion. When the Company fulfils the conditions for cash dividends, it shall give priority to the distribution of profit in form of cash dividends. The Company’s shares held by the Company itself will not be involved in profit distribution.

Section V Significant Events (Continued)

I. SCHEME FOR PROFIT DISTRIBUTION OF ORDINARY SHARES OR TRANSFER OF CAPITAL RESERVE TO SHARE CAPITAL (CONTINUED)

(I) Formulation, implementation and adjustment of cash dividend distribution policies (Continued)

2. *Conditions for and proportion of cash dividend*

The Company may distribute profits by cash if it can at least simultaneously satisfy the following conditions:

- (1) The distributable profits (that is the after-tax profits remaining after the Company has recovered the loss and has withdrawn the public accumulation fund) realized by the Company for the year is positive and the cash flow is adequate, such that the implementation of cash dividend distribution will not affect the Company's sustainable operation subsequently;
- (2) The auditing institution issues a standard unqualified audit report regarding the Company's financial report for the current year;
- (3) The Company had no substantial investment plan or substantial cash expenditure (except for such investment projects for fund raising). The foregoing substantial investment plan or substantial cash expenditure refers to the accumulated expenditure regarding any intended external investment, acquisition of assets or purchase of assets that would reach or exceed 30% of the latest audited total assets of the Company within the next twelve months.

When the foregoing conditions for cash dividend can be simultaneously satisfied, the profit distributed by cash shall not be less than 10% of such profits available for distribution realized in the current year, and the accumulated profits distributed by cash for any three consecutive years shall not, in principle, be less than 30% of the average distributable profits over such three years. As for the specific proportion of each year's dividend, the Board shall submit a proposal in line with the Company's annual profitability and the future plan for the use of funds.

Section V Significant Events (Continued)

I. SCHEME FOR PROFIT DISTRIBUTION OF ORDINARY SHARES OR TRANSFER OF CAPITAL RESERVE TO SHARE CAPITAL (CONTINUED)

(I) Formulation, implementation and adjustment of cash dividend distribution policies (Continued)

3. *Different cash dividend policy*

Taken into account comprehensively of the factors including the characteristics of the industry in which the Company operates, stage of development, its own operating mode, profits level and whether there is arrangement for substantial capital expenditure, the Company has put forward the different profit distribution proposal:

- (1) If the Company is at the mature stage of development and has no arrangement for significant capital expenditure, the proportion of cash dividends shall be at least 80% in the profit distribution;
- (2) If the Company is at the mature stage of development and has arrangement for significant capital expenditure, the proportion of cash dividends shall be at least 40% in the profit distribution;
- (3) If the Company is at the growing stage of development and has some arrangement for significant capital expenditure, the proportion of cash dividends shall be at least 20% in the profit distribution.

If it is difficult to determine the Company's stage of development while it has some arrangement for significant capital expenditure, the profit distribution may be handled pursuant to the foregoing provision.

Section V Significant Events (Continued)

I. SCHEME FOR PROFIT DISTRIBUTION OF ORDINARY SHARES OR TRANSFER OF CAPITAL RESERVE TO SHARE CAPITAL (CONTINUED)

(I) Formulation, implementation and adjustment of cash dividend distribution policies (Continued)

4. *Specific conditions for release of stock dividends*

Based on the actual situation including the Company's accumulated profit available for distribution and cash flow and subject to the guarantee of sufficient cash dividends and the Company's reasonable scale of share capital, the Company may simultaneously adopt the release of stock dividends for profit distribution. The specific distribution proportion of dividends shall be proposed by the Board. When the Board determines the specific amount of stock dividends to be released, it shall take full account of whether the total share capital after the distribution of stock dividends will accommodate the Company's current operating scale and speed of the growth of profit, and it shall also take into consideration of the impact on the cost of future debt financing, for purposes of ensuring the profit distribution policy being in the best interest of the shareholders as a whole and in the long run.

5. *Time interval for profit distribution*

Subject to both the Company's profit for the current year and the accumulated undistributed profits for the current year being positive, the Company is required to implement at least one profit distribution per annum. The Company may implement interim profit distribution. The Board may propose for interim dividend based on the scale of profit, cash flow, stage of development and the capital need of the Company for the current period.

Section V Significant Events (Continued)

I. SCHEME FOR PROFIT DISTRIBUTION OF ORDINARY SHARES OR TRANSFER OF CAPITAL RESERVE TO SHARE CAPITAL (CONTINUED)

(II) Profit distribution scheme or proposal and scheme or proposal for transfer of capital reserve to the share capital for the latest 3 years (including the Reporting Period)

Unit: RMB'000

Year	Number of bonus shares for every 10 shares <i>(Share)</i>	Dividends for every 10 shares <i>(RMB)</i> <i>(tax inclusive)</i>	Number of shares transferred for every 10 shares <i>(Share)</i>	Amount of cash dividends <i>(tax inclusive)</i>	Net profit attributable to shareholders of the Company in the consolidated statements for the year with dividend distribution	As a percentage of net profit attributable to shareholders of the Company in the consolidated statements <i>(%)</i>
2016	0	0	0	0	-4,685,956	0
2015	0	0	0	0	-5,987,248	0
2014	0	0	0	0	51,431	0

(III) Repurchase of shares under cash offer included in cash dividend

Applicable Not applicable

(IV) If the Company records profits and the parent company records a positive undistributed profit during the Reporting Period but there is no resolution for cash dividend, the Company shall disclose the reasons and the usage of the undistributed profits and the usage plan in details

Applicable Not applicable

Section V Significant Events (Continued)

II. FULFILLMENT OF COMMITMENTS

(I) Commitment of de facto controller, Shareholders, related parties, acquirer and the Company during or sustained to the Reporting period

Applicable Not applicable

Background	Type	Commitment party	Contents	Time and term of commitment	Performance term or not	Performed in time and strictly or not
Commitment in relation to material assets reorganisation	To solve the horizontal Competition	Parent Company	<p>(1) The Parent Company and enterprises controlled or invested by the Parent Company do not have, and will not be engaged in by any means (including but not limited to investment, acquisition, joint venture, joint operation, contracting, operation under lease arrangement or any other way of having stakes or interests) at any place in or outside China after the Reorganisation, any business that competes or may compete, directly or indirectly, with the principal activities of the Company.</p> <p>(2) If the Parent Company and enterprises controlled or invested by the Parent Company are engaged in, involved in or invest in any business or projects that compete or may compete, directly or indirectly, with the principal activities of the Company, the Company is entitled to require the Parent Company to terminate the competing business and stop investing in related enterprises or projects, and has the right of first refusal over the related business assets, investment return or project assets.</p> <p>(3) The above undertaking is effective as long as the Parent Company remains the controlling shareholder or de facto controller of the Company. The Parent Company will be willing to take responsibility for the damages should the Company suffer any loss of interests due to the Parent Company's violation of the aforesaid undertakings.</p>	3 May 2012	No	Yes
Commitment in relation to material assets reorganisation	To solve the related party transactions	Parent Company	<p>(1) To ensure that the Company shall have independent business, complete assets, independent and complete production, supply and sales, and other auxiliary systems, to prevent and reduce unnecessary connected transactions;</p> <p>(2) To determine the transaction price and sign connected transaction contracts according to law and in strict accordance with the principle of openness, fairness and impartiality and by reference to common prevailing market standards with respect to the unavoidable connected transactions;</p> <p>(3) To follow procedures of having the connected shareholders and connected Directors to abstain from voting and the independent Directors to express opinions on connected transactions in strict accordance with the Articles of Association and relevant regulations of regulatory authorities, and to ensure that the procedures for connected transactions are legal and the results of connected transactions are fair and reasonable;</p> <p>(4) To strictly comply with the rules on information disclosure regarding connected transactions.</p>	3 May 2012	No	Yes

Section V Significant Events (Continued)

II. FULFILLMENT OF COMMITMENTS (CONTINUED)

(I) Commitment of de facto controller, Shareholders, related parties, acquirer and the Company during or sustained to the Reporting period (Continued)

Background	Type	Commitment party	Contents	Time and term of commitment	Performance term or not	Performed in time and strictly or not
Commitment in relation to material assets reorganisation	Release of liabilities	Parent Company	<p>(1) If creditors who have not returned their reply slips agreeing the relevant creditors' rights and liabilities to be generally assumed by the Company before the completion of the Material Assets Reorganisation and would claim their rights against the Parent Company after the completion of the Material Assets Reorganisation, the Parent Company will send the written notices to the Company within 2 days after receiving the notices from the creditors claiming their rights, and will refer the aforesaid claims to the Company. If the above creditors do not agree to transfer their rights and liabilities to the Company, the Parent Company will inform the Company by written notice and assist in handling the transfer. Under this premise, the Company can choose to settle its debts directly with creditors or through the Parent Company. If the above creditors request the Parent Company's guarantee, the Parent Company would provide guarantee to them.</p> <p>(2) If the Company faces any liabilities or loss in the course of generally assuming creditors' rights and liabilities during the Material Assets Reorganisation, the Parent Company will make full compensation to the Company within 5 working days after receiving the Company's written notice and the proof for relevant liabilities.</p>	From 22 October 2012 to the date on which relevant creditors claim their rights	Yes	Yes
Commitment regarding the initial public issuance	To solve the related party transactions	Parent Company	As long as the Company's shares remained listed on any stock exchange in PRC or Hong Kong, and the Parent Company held 30% or more in issued shares or be deemed to be a controlling shareholder under the requirements on relevant stock exchanges or laws, the Parent Company and its subsidiaries or companies directly or indirectly invested or controlled by the Parent Company will not participate in any business or activity that constituted or may constitute competition with reorganised business in PRC or overseas, or in any other ways (including but not limited to separate operation, joint venture or held shares or other interests in another company or corporate).	2 September 1997	No	Yes

Section V Significant Events (Continued)

II. FULFILLMENT OF COMMITMENTS

(I) Commitment of de facto controller, Shareholders, related parties, acquirer and the Company during or sustained to the Reporting period

Background	Type	Commitment party	Contents	Time and term of commitment	Performance term or not	Performed in time and strictly or not
Other commitment to minority shareholders	Dividend	The Company	<ol style="list-style-type: none"> The Company shall implement a proactive profit distribution mechanism to ensure that investors receive reasonable returns. The Company shall distribute dividends in cash or a combination of cash and shares, and may pay interim dividends based on the Company's capital needs. If there are no significant investment plan, large cash outlay or other events, the Company shall distribute no less than 10% of the distributable profit realised for the year in cash and the total profit distributed in cash in any given consecutive three years shall be no less than 30% of the average annual distributable profit realised in the recent three years provided that the capital needs of the Company for normal production and operation are satisfied. The Board of the Company shall put forth an annual profit distribution plan at the end of each financial year and submit the same to the general meeting for approval. If the Board of the Company does not propose a cash dividends distribution plan although profit is recorded, it shall explain in details in the annual report the specific reasons therefore and the purpose for the retained profit. Independent Directors shall express and publicly disclose their independent opinions thereon. Upon occurrence of any illegal appropriation of the Company's funds by shareholders, the Company shall deduct the cash dividend to be paid to such shareholders to make up for the appropriated funds. 	30 August 2012	No	Yes

(II) Explanation of whether the Company fulfilled its profits forecast in relation to assets or projects, if any profits forecast in relation to the Company's assets or projects, and the reporting period is within the profits forecast period

Fulfilled

Not Fulfilled

Not Applicable

Section V Significant Events (Continued)

III. FUND OCCUPANCY AND PROGRESS OF THE COLLECTION DURING THE REPORTING PERIOD

Applicable Not applicable

IV. EXPLANATION FROM THE BOARD FOR THE “NON-STANDARD AUDIT REPORT” ISSUED BY THE ACCOUNTING FIRM

Applicable Not applicable

V. BOARD’S ANALYSIS AND EXPLANATION ABOUT THE REASONS FOR AND IMPACT OF CHANGES IN ACCOUNTING POLICY, ACCOUNTING ESTIMATES OR ACCOUNTING METHOD

(I) Board’s analysis and explanation about the reasons for and impact of changes in accounting policy, accounting estimates or accounting method

Applicable Not applicable

(II) Board’s analysis and explanation about the reasons for and impact of correction to material previous errors

Applicable Not applicable

(III) Communication with previous accounting firm

Applicable Not applicable

(IV) Other explanations

Applicable Not applicable

Section V Significant Events (Continued)

VI. APPOINTMENT AND REMOVAL OF ACCOUNTING FIRMS

Unit: RMB'000

	Current
Name of the domestic accounting firm	Pan-China Certified Public Accountants (Special General Partnership)
Remuneration of the domestic accounting firm	3,600
Term of service of the domestic accounting firm	2
Name of the international accounting firm	Pan-China Certified Public Accountants (Special General Partnership)
Remuneration of the international accounting firm	3,600
Term of service of the international accounting firm	2

	Name	Remuneration
Accounting firm for audit of internal control	Pan-China Certified Public Accountants (Special General Partnership)	1,000

Explanations for appointment and removal of accounting firms

Applicable Not applicable

Explanations for change of the accounting firm during the auditing period

Applicable Not applicable

Section V Significant Events (Continued)

VII. RISK OF SUSPENSION OF LISTING

(I) Reason for suspension of listing

Applicable Not applicable

(II) Measures taken by the Company to cancel the suspension of listing

Applicable Not applicable

VIII. STATUSES AND CAUSES OF TERMINATION OF LISTING

Applicable Not applicable

IX. MATTERS RELATING TO INSOLVENCY OR RESTRUCTURING

Applicable Not applicable

X. MATERIAL LITIGATION AND ARBITRATION

Material litigations and arbitrations occurs during the year No material litigations and arbitrations occurs during the year

(I) Litigation and arbitration which have been disclosed in announcement without subsequent progress

Applicable Not applicable

Section V Significant Events (Continued)

X. MATERIAL LITIGATION AND ARBITRATION (CONTINUED)

(II) Litigation and arbitration which have not been disclosed in announcement or might have had subsequent progress

Applicable Not applicable

Unit: 0'000 Yuan Currency: RMB

During the reporting period:

Suitor (sue)	Defendant (being sued)	Jointly and severally liable parties	Category of the litigation and arbitration	Basic information of proceeding (arbitration)	Amount subject to the litigation (arbitration)	Provisions and relevant amount of the litigation (arbitration)	Progress of the litigation (arbitration)	Ruling and implication of the litigation (arbitration)	Implementation of ruling of the litigation (arbitration)
Er Zhong Group (De Yang) Heavy Industries Co., Ltd. (二重集團 (德陽) 重型裝備股份有限公司)	Chongqing Iron & Steel Company Limited		Litigation	execute the contract disputes	10,068.697346	The Company shall assume the costs of litigation		Under mediation and being satisfied	Prior to procedure of execution
Zoomlion Material Handling Equipment Co., Ltd. (中聯重科物料輸送設備有限公司)	Chongqing Iron & Steel Company Limited		Litigation	Dispute over purchase and sale contract	1,545.66801	Other than the principal, the Company shall assume the interest, litigation fees and execution fee		Judgement was made	Prior to procedure of execution
Chongqing Tong Hui Coal Processing Co., Ltd. (重慶通匯煤炭洗選有限公司)	Chongqing Iron & Steel Company Limited		Litigation	Dispute over purchase and sale contract	7,798.26113	Other than the principal, the Company shall assume the interest, litigation fees and execution fee		Judgement was made	Prior to procedure of execution
Shanxi Coal International Energy Group (Qingdao) Co., Ltd. (山煤國際能源集團青島有限公司)	Chongqing Iron & Steel Company Limited		Litigation	Dispute over purchase and sale contract	4,009.14	The Company shall assume the costs of litigation		Under mediation	Under procedure of execution
Daye Sanlin Trade Co., Ltd. (大冶市三林貿易有限公司)	Chongqing Iron & Steel Company Limited		Litigation	Dispute over purchase and sale contract	4,145.69	Under mediation		Under procedure of execution	

Section V Significant Events (Continued)

X. MATERIAL LITIGATION AND ARBITRATION (CONTINUED)

(II) Litigation and arbitration which have not been disclosed in announcement or might have had subsequent progress (Continued)

Suitor (sue)	Defendant (being sued)	Jointly and severally liable parties	Category of the litigation and arbitration	Basic information of proceeding (arbitration)	Amount subject to the litigation (arbitration)	Provisions and relevant amount of the litigation (arbitration)	Progress of the litigation (arbitration)	Ruling and implication of the litigation (arbitration)	Implementation of ruling of the litigation (arbitration)
Daye Shenglin Trade Co., Ltd. (大冶市盛林貿易有限公司)	Chongqing Iron & Steel Company Limited		Litigation	Dispute over purchase and sale contract	2,518.354022	Other than the principal, the Company shall assume the interest, litigation fees and execution fee		Judgement was made	Under procedure of execution
China Coal and Coke Holdings Limited (中煤焦化控股有限責任公司)	Chongqing Iron & Steel Company Limited		Litigation	Dispute over purchase and sale contract	1,769.57	Other than the principal, the Company shall assume the interest, litigation fees and execution fee		Judgement was made	Under procedure of execution
Huangshi Tonghai Trade Co., Ltd. (黃石通海商貿有限公司)	Chongqing Iron & Steel Company Limited		Litigation	Dispute over purchase and sale contract	4,412.978915	Under mediation		Under procedure of execution	
Henan Xibao Metallurgy Materials Group Co., Ltd. (河南西保冶材集團有限公司)	Chongqing Iron & Steel Company Limited		Litigation	Dispute over purchase and sale contract	4,349.80457	Under mediation		Under procedure of execution	
Xixia Hengye Metallurgy Materials Co., Ltd. (西峽縣恒業冶材有限公司)	Chongqing Iron & Steel Company Limited		Litigation	Note dispute	1,000	Other than the principal, the Company shall assume the interest, litigation fees and execution fee		Judgement was made	Under procedure of execution

Section V Significant Events (Continued)

X. MATERIAL LITIGATION AND ARBITRATION (CONTINUED)

(II) Litigation and arbitration which have not been disclosed in announcement or might have had subsequent progress (Continued)

Suitor (sue)	Defendant (being sued)	Jointly and severally liable parties	Category of the litigation and arbitration	Basic information of proceeding (arbitration)	Amount subject to the litigation (arbitration)	Provisions and relevant amount of the litigation (arbitration)	Progress of the litigation (arbitration)	Ruling and implication of the litigation (arbitration)	Implementation of ruling of the litigation (arbitration)
CITIC Metal Ningbo Energy Co., Ltd. (中信金屬寧波能源有限公司)	Chongqing Iron & Steel Company Limited		Litigation	Dispute over purchase and sale contract	1,588.07726	Other than the principal, the Company shall assume the interest, litigation fees and execution fee		Judgement was made	Under procedure of execution
Chongqing Minxin Construction (Group) Co., Ltd. (重慶民信建設(集團)有限公司)	Chongqing Iron & Steel Company Limited		Litigation	Dispute over construction work contract	1,185.22189	Other than the principal, the Company shall assume the interest, litigation fees and execution fee		Judgement was made	Under procedure of execution
Nantong DongJin New Energy Co., Ltd. (南通東錦新能源有限公司)	Chongqing Iron & Steel Company Limited		Litigation	Dispute over purchase and sale contract	1,061.04314	Other than the principal, the Company shall assume the interest, litigation fees and execution fee		Judgement was made	Under procedure of execution
Huanggang Chuhe Metal Material Co., Ltd. (黃岡楚和金屬材料有限公司)	Chongqing Iron & Steel Company Limited		Litigation	Dispute over purchase and sale contract	2,800	Other than the principal, the Company shall assume the interest, litigation fees and execution fee		Judgement was made	Under procedure of execution
China Shipbuilding Industry Equipment and Materials (Chongqing) Co., Ltd. (中船重工物資集團重慶有限公司)	Chongqing Iron & Steel Company Limited		Litigation	Dispute over purchase and sale contract	22,889.79124	Other than the principal, the Company shall assume the interest, litigation fees and execution fee		Judgement was made	Under procedure of execution

Section V Significant Events (Continued)

X. MATERIAL LITIGATION AND ARBITRATION (CONTINUED)

(II) Litigation and arbitration which have not been disclosed in announcement or might have had subsequent progress (Continued)

Suitor (sue)	Defendant (being sued)	Jointly and severally liable parties	Category of the litigation and arbitration	Basic information of proceeding (arbitration)	Amount subject to the litigation (arbitration)	Provisions and relevant amount of the litigation (arbitration)	Progress of the litigation (arbitration)	Ruling and implication of the litigation (arbitration)	Implementation of ruling of the litigation (arbitration)
Chongqing Gold Construction (Group) Co., Ltd. (重慶黃金建設(集團)有限公司)	Chongqing Iron & Steel Company Limited		ARBITRATION	Dispute over construction work contract	1,965.698125	Other than the principal, the Company shall assume the interest, litigation fees and execution fee		Judgement was made	Prior to procedure of execution
BeijingCentury Benefits Co., Ltd. (北京世紀源博科技股份有限公司)	Chongqing Iron & Steel Company Limited		Litigation	Dispute over purchase and sale contract	7,124.37845	Other than the principal, the Company shall assume the interest, litigation fees and execution fee		Judgement was made	Prior to procedure of execution
China Railway Group Limited (中國中鐵股份有限公司)	Chongqing Iron & Steel Company Limited		Litigation	Dispute over construction work contract	18,167.60215	Other than the principal, the Company shall assume the interest, litigation fees and execution fee		Judgement was made	Prior to procedure of execution
Chongqing Chishidun New Material Technology Co., Ltd. (重慶赤土盾新材料技術有限公司)	Chongqing Iron & Steel Company Limited		Litigation	Dispute over purchase and sale contract	1,610.92	Other than the principal, the Company shall assume the interest, litigation fees and execution fee		Judgement was made	Under procedure of execution
Guangyuan Shifang Logistics Co., Ltd. (天津市廣緣十方物流有限公司)	Chongqing Iron & Steel Company Limited		Litigation	Dispute over purchase and sale contract	1,027.893866	Other than the principal, the Company shall assume the interest, litigation fees and execution fee		Judgement was made	Under procedure of execution

Section V Significant Events (Continued)

X. MATERIAL LITIGATION AND ARBITRATION (CONTINUED)

(II) Litigation and arbitration which have not been disclosed in announcement or might have had subsequent progress (Continued)

Suitor (sue)	Defendant (being sued)	Jointly and severally liable parties	Category of the litigation and arbitration	Basic information of proceeding of proceeding (arbitration)	Amount subject to the litigation (arbitration)	Provisions and relevant amount of the litigation (arbitration)	Progress of the litigation (arbitration)	Ruling and implication of the litigation (arbitration)	Implementation of ruling of the litigation (arbitration)
USTB Hengxing High-Tech Co., Ltd. (北京科大恒興高技術有限公司)	Chongqing Iron & Steel Company Limited		Litigation	Dispute over purchase and sale contract	2,145,5548	Other than the principal, the Company shall assume the interest, litigation fees and execution fee		Judgement was made	Under procedure of execution
Chongqing Maikai Transmission Equipment Co., Ltd. (重慶邁凱傳動設備有限公司)	Chongqing Iron & Steel Company Limited		Litigation	Dispute over purchase and sale contract	1,450,888	Other than the principal, the Company shall assume the interest, litigation fees and execution fee		Judgement was made	Under procedure of execution
Shanxi Poly Tongda Coal Transport and Sales Co., Ltd. (山西保利通達煤炭運銷有限公司)	Chongqing Iron & Steel Company Limited		Litigation	Dispute over purchase and sale contract	3,730,726385	Other than the principal, the Company shall assume the interest, litigation fees and execution fee		Judgement was made	Under procedure of execution
Beijing Shougang Ferroalloy Co., Ltd. (北京首鋼鐵合金有限公司)	Chongqing Iron & Steel Company Limited		Litigation	Dispute over purchase and sale contract	1,841,281082	Other than the principal, the Company shall assume the interest, litigation fees and execution fee		Judgement was made	Under procedure of execution

Section V Significant Events (Continued)

X. MATERIAL LITIGATION AND ARBITRATION (CONTINUED)

(II) Litigation and arbitration which have not been disclosed in announcement or might have had subsequent progress (Continued)

Suitor (sue)	Defendant (being sued)	Jointly and severally liable parties	Category of the litigation and arbitration	Basic information of proceeding (arbitration)	Amount subject to the litigation (arbitration)	Provisions and relevant amount of the litigation (arbitration)	Progress of the litigation (arbitration)	Ruling and implication of the litigation (arbitration)	Implementation of ruling of the litigation (arbitration)
Beijing Branch Shanghai Pudong Development Bank Co.,LTD. (The Third defendant)	Chongqing Iron & Steel Company Limited	Beijing Shuoren Hitech Energy Technology Co., Ltd. (北京碩人海泰能源科技有限公司), Nie Hailiang (聶海亮), Jiangsu Yonggang Group Co., Ltd. (江蘇永鋼集團有限公司), Gao Ning (高寧)	Litigation	disputes over financial borrowing contract	1,480.342875		Being processed	No definitive implication	
implication Liaoning Qinghua Refractory Materials Co., Ltd (遼寧青花耐火材料股份有限公司)	Chongqing Iron & Steel Company Limited		Litigation	Execute the contract disputes	5,379.60683		Being processed	No definitive implication	
Huanggang Chuhe Metal Material Co., Ltd. (黃岡楚和金屬材料有限公司)	Chongqing Iron & Steel Company Limited		Litigation	Dispute over purchase and sale contract	7,255.906449		Being processed	No definitive implication	

Section V Significant Events (Continued)

X. MATERIAL LITIGATION AND ARBITRATION (CONTINUED)

(II) Litigation and arbitration which have not been disclosed in announcement or might have had subsequent progress (Continued)

Suitor (sue)	Defendant (being sued)	Jointly and severally liable parties	Category of the litigation and arbitration	Basic information of proceeding (arbitration)	Amount subject to the litigation (arbitration)	Provisions and relevant amount of the litigation (arbitration)	Progress of the litigation (arbitration)	Ruling and implication of the litigation (arbitration)	Implementation of ruling of the litigation (arbitration)
Beijing Shougang International Engineering and Technology Co., Ltd. (北京首鋼國際工程技術有限公司), Beijing JC Energy & Environment Engineering Co., Ltd. (北京中日聯節環保工程技術有限公司)	Chongqing Iron & Steel Company Limited		Litigation	Dispute over construction work contract	5,541.750408		Being processed	No definitive implication	
Chongqing Weijin Environment Protection Technology Co., Ltd. (重慶偉晉環保科技有限公司)	Chongqing Iron & Steel Company Limited		Litigation	Disputes over processing contract	21,004.85264		Being processed	No definitive implication	
CECIC Chongqing Industry Co., Ltd	Chongqing Iron & Steel Company Limited	Chongqing Iron & Steel (Group) Co., Ltd.	Litigation	Disputes over power supply contract	193,036.2063		Being processed	No definitive implication	
China Metallurgical Construction Engineering Group Co., Ltd. (中冶建工集團有限公司)	Chongqing Iron & Steel Company Limited		Arbitration	Dispute over construction work contract	1,805.58934		Being processed	No definitive implication	
Wuhan Iron Engineering and Technology Group Co., Ltd. (武漢鋼鐵工程技術集團有限公司)	Chongqing Iron & Steel Company Limited		Arbitration	Dispute over construction work contract	1,875.202719		Being processed	No definitive implication	
Chongqing Iron & Steel Company Limited	Jiangsu Hetuo International Trade Co., Ltd. (江蘇和拓國際貿易有限公司)		Litigation	Dispute over purchase and sale contract	1,283.9597		Being processed	No definitive implication	

Section V Significant Events (Continued)

X. MATERIAL LITIGATION AND ARBITRATION (CONTINUED)

(III) Other explanations

Applicable Not applicable

As at 31 December 2016, the Company was involved in a total of 250 litigations involving a total amount of approximately RMB3,800 million, of which: The arbitration cases by the Company in 2016 totaled at 4, involving an amount of approximately RMB28 million; the arbitration cases against the Company in 2016 totaled at 169, involving an amount of approximately RMB2,942 million; the pending case against the Company in 2016 totaled at 50, involving an amount of approximately RMB766 million; the closed case (satisfied, settled/withdrawn) totaled at 27, involving an amount of approximately RMB58 million.

The Company published the Major Lawsuit Announcement (No. 2016-073) on 29 November 2016. It basically specifies that the Company has received (2016) YMZ No. 591 Notice of Response to Action from Chongqing Higher People's Court and informed of acceptance of the case relating disputes on the power supply contract entered into by the plaintiff Chongqing CECEP Sanfeng Power Co., Ltd. ("CECEP Sanfeng") and the defendant Chongqing Iron & steel Company Limited.

Though under financial difficulties, the Company has made a one-time payment of RMB140,000,000.00 as electric charge for processing to CECEP Sanfeng, reflecting the Company's sincerity to settle arrears and this case by the way of conciliation. On 29 March 2017, both parties reached consensus and signed an agreement, according to which CECEP Sanfeng agreed to accept RMB642 million owed by the Company and apply to withdraw this lawsuit as long as the Company fulfilled the agreed payment obligation.

Section V Significant Events (Continued)

XI. PENISHMENT ON THE COMPANY AND ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, CONTROLLING SHAREHOLDER, DE FACTO CONTROLLER AND ACQUIRER AND RECTIFICATION MEASURES

Applicable Not applicable

On 2 November 2016, the Company received the Disciplinary Action Decision Notice [2016] No. 47 from the Discipline Office of Shanghai Stock Exchange (SSE): Circularized Criticism Decision for Chongqing Iron & Steel Company Limited and Related Responsible Persons. The Company and its Chairman Liu Da Wei, Vice Chairman and Chief Finance Officer Tu De Ling, Director and General Manager Li Ren Sheng and Secretary to the Board You Xiao An were given circularized criticism.

Upon learning a lesson from this, the Company will standardize operation and conscientiously perform information disclosure obligations in strict accordance with the laws, regulations and provisions in the Listing Rules; require its Directors, supervisors and senior management to bear the obligations of fidelity and diligence, thus advancing standard operation as well as ensuring timely, fair, true, accurate and complete disclosure of all material information.

XII. INTEGRITY OF THE COMPANY AND ITS CONTROLLING SHAREHOLDER AND FACTO CONTROLLER

Applicable Not applicable

There existed neither court judgment in force remaining unimplemented nor big outstanding liabilities due with the Company, its controlling shareholder and de facto controller during the reporting period.

Section V Significant Events (Continued)

XIII. EQUITY INCENTIVE PLAN, EMPLOYEE STOCK OWNERSHIP PLAN OR OTHER EMPLOYEE INCENTIVES AND EFFECTS THEREOF

- (I) Relevant incentive events disclosed in extraordinary announcements but without subsequent development or changes during implementation

Applicable Not applicable

- (II) Incentive events not disclosed in extraordinary announcements or with subsequent development

Equity incentive

Applicable Not applicable

Other explanations

Applicable Not applicable

Employee stock ownership plan

Applicable Not applicable

Other incentive measures

Applicable Not applicable

XIV. MATERIAL RELATED PARTY TRANSACTIONS

- (I) Related party transaction related to day-to-day operation

1. *Matters disclosed in extraordinary announcements but without developments or changes in subsequent implementation*

Applicable Not applicable

2. *Matters disclosed in extraordinary announcements with subsequent development or changes during implementation*

Applicable Not applicable

Section V Significant Events (Continued)

XIV. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(I) Related party transaction related to day-to-day operation (Continued)

2. *Matters disclosed in extraordinary announcements with subsequent development or changes during implementation (Continued)*

On 19 March 2014, the Company and the Parent Company entered into the Service and Supply Agreement between Chongqing Iron & Steel Company (Group) Limited and Chongqing Iron & Steel Company Limited (“Service and Supply Agreement”) with a term of three years from 1 January 2014 to 31 December 2016. (Refer to the announcement of the Company dated 20 March 2014 for details).

- 1) Pursuant to the Service and Supply Agreement, the Company agreed to provide products and services to the Parent Group as summarized as follows:
 - (1) production materials such as water, electricity, natural gas, steel billets, steel products and ancillary products (including cement, hardware, timber, etc);
 - (2) transportation, technical services (software development services) and other services.
- 2) Pursuant to the Service and Supply Agreement, the Parent Group agreed to provide products and services to the Company in summary as follows:
 - (1) raw materials such as pig iron, iron ore, coal, scrap steel, refractory materials and ancillary products (including dolomite and limestone);
 - (2) water and road transportation and technical services (including construction, design and supervision, and labour services etc);
 - (3) electricity, water, industrial gas, equipment and spare parts;
 - (4) social welfare services (including mainly medical insurance and pensions funds management services etc), the fees in respect of which were paid by the Company through Parent Company but no fees was charged by Parent Company for managing such social welfare services of the Company’s employees.
- 3) Pursuant to the Service and Supply Agreement, the Company and the Parent Group will allow each other to use and occupy their respective factory premises.

Section V Significant Events (Continued)

XIV. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(I) Related party transaction related to day-to-day operation (Continued)

2. *Matters disclosed in extraordinary announcements with subsequent development or changes during implementation (Continued)*

4) Pricing basis and of Service and Supply Agreement:

- (1) according to the price set by the PRC Government (including the municipal government and other regulatory bodies which govern such transactions);
- (2) if no such price is set by the PRC Government, not lower than the guide prices set by the PRC Government for such transactions;
- (3) if there is no set price and no guide prices set by the PRC Government, the applicable methods as follows will be chosen according to the circumstances:
 - a) for products and services provided by the Parent Company to the Company, not higher than such open market price of independent parties on normal commercial terms in the comparable market;
 - b) for products and services provided to the Parent Company by the Company, not lower than such open market price of independent parties on normal commercial terms in the comparable market.
- (4) if there are no comparable market prices, the applicable methods as follows, will be chosen according to the circumstances:
 - a) for products and services provided by the Parent Company to the Company, not higher than such open market price of independent parties on normal commercial terms in the PRC generally;
 - b) for products and services provided to the Parent Company by the Company, not lower than such open market price of independent parties on normal commercial terms in the PRC generally.

Section V Significant Events (Continued)

XIV. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(I) Related party transaction related to day-to-day operation (Continued)

2. *Matters disclosed in extraordinary announcements with subsequent development or changes during implementation (Continued)*

- (5) if there is no set price and no guide prices set by the PRC Government and there is no open market price for such transactions, the parties are to negotiate on normal commercial terms for the supply of such transactions based on the actual or reasonable costs of such transactions (whichever is lower) together with a reasonable profit.
- 6) the Company's independent non-executive Directors reviewed the above related party transactions, and confirmed in the annual report, that the transactions were:
 - (1) entered into in the ordinary course of business of the Company;
 - (2) carried out in accordance with normal commercial terms; and
 - (3) carried out pursuant to the agreements of relevant transactions, the terms of which are fair and reasonable, and in the interests of shareholders of the Company as a whole.

Section V Significant Events (Continued)

XIV. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(I) Related party transaction related to day-to-day operation (Continued)

3. Matters not disclosed in extraordinary announcements

Applicable Not applicable

Unit: RMB'000

Party to related-party transaction	Connected relationship	Type of related-party transaction	Content of related-party transaction	Pricing principle of related-party transaction	Price of related-party transaction	Amount of related-party transaction	As a percentage of the total amount of similar transactions (%)	Payment method for related-party transaction	Market price	Reason for the big difference between transaction price and reference market price
Chongqing Iron & Steel Group Mining Company Limited	Controlled subsidiary of the Parent Company	Purchase of products	Procurement of products and acceptance of services	With reference to market price		349,088	11.97%			
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Controlled subsidiary of the Parent Company	Purchase of products	Procurement of products and acceptance of services	With reference to market price		263,685	9.04%			
Chongqing Iron & Steel (Hong Kong) Company Limited	Wholly-owned subsidiaries of the Parent Company	Purchase of products	Procurement of products	With reference to market price		236,510	8.11%			
Chongqing CECEP Sanfeng Energy Company Limited	Controlled subsidiary of the Parent Company	Purchase of products	Procurement of products	With reference to market price		153,878	5.28%			
Chongqing Iron & Steel Group Industrial Company Limited	Wholly-owned subsidiaries of the Parent Company	Purchase of products	Procurement of products and acceptance of services	With reference to market price		112,120	3.41%			
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Wholly-owned subsidiaries of the Parent Company	Purchase of products	Procurement of products and acceptance of services	With reference to market price		100,204	3.05%			
Chongqing Iron & Steel Group Electronics Company Limited	Wholly-owned subsidiaries of the Parent Company	Purchase of products	Procurement of products and acceptance of services	With reference to market price		93,547	2.84%			

Section V Significant Events (Continued)

XIV. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(I) Related party transaction related to day-to-day operation (Continued)

Party to related-party transaction	Connected relationship	Type of related-party transaction	Content of related-party transaction	Pricing principle of related-party transaction	Price of related-party transaction	Amount of related-party transaction	As a percentage of the total amount of similar transactions (%)	Payment method for related-party transaction	Market price	Reason for the big difference between transaction price and reference market price
Chongqing Iron & Steel (Group) Co Transportation Company Limited	Wholly-owned subsidiaries of the Parent Company	Purchase of products	Procurement of products and acceptance of services	With reference to market price		59,838	1.82%			
Chongqing Iron & Steel Group San Feng Industrial Company Limited	Wholly-owned subsidiaries of the Parent Company	Purchase of products	Procurement of products and acceptance of services	With reference to market price		46,202	1.40%			
Chongqing Iron & Steel Group Design and Research Institute	Wholly-owned subsidiaries of the Parent Company	Purchase of products	Procurement of products and acceptance of services	With reference to market price		23,709	0.72%			
Chongqing Xin Gang Chang Long Logistics Company Limited	Controlled subsidiary of the Parent Company	Purchase of products	Acceptance of services	With reference to market price		14,913	4.00%			
Chongqing Sanhuan Construct Supervision Consultant Company Limited	Wholly-owned subsidiaries of the Parent Company	Purchase of products	Procurement of products and acceptance of services	With reference to market price		8,233	0.25%			
Others		Purchase of products				17,812				
Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Controlled subsidiary of the Parent Company	Sale of products	Sale of energy and rendering of services	With reference to market price		200,675	74.11%			
Chongqing Iron & Steel Group Industrial Company Limited	Wholly-owned subsidiaries of the Parent Company	Sale of products	Sale of energy and etc	With reference to market price		137,660	50.94%			
Chongqing Iron & Steel Group Steelwork Company Limited	Controlled subsidiary of the Parent Company	Sale of products	Sale of steel	With reference to market price		50,501	1.84%			

Section V Significant Events (Continued)

XIV. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(I) Related party transaction related to day-to-day operation (Continued)

Party to related-party transaction	Connected relationship	Type of related-party transaction	Content of related-party transaction	Pricing principle of related-party transaction	Price of related-party transaction	Amount of related-party transaction	As a percentage of the total amount of similar transactions (%)	Payment method for related-party transaction	Market price	Reason for the big difference between transaction price and reference market price
Chongqing Iron & Steel Group Mining Company Limited	Wholly-owned subsidiaries of the Parent Company	Sale of products	Sale of energy and etc	With reference to market price		30,885	11.43%			
Chongqing CECEP Sanfeng Energy Company Limited	Controlled subsidiary of the Parent Company	Sale of products	Sale of energy and etc	With reference to market price		8,752	3.24%			
Chongqing Iron & Steel Group Construction and Engineering Company Limited	Wholly-owned subsidiaries of the Parent Company	Sale of products	Sale of steel and energy	With reference to market price		7,360	0.24%			
Chongqing Iron & Steel Group Steel Pipe Company Limited	Wholly-owned subsidiaries of the Parent Company	Sale of products	Sale of steel	With reference to market price		4,659	0.17%			
Others		Sale of products		With reference to market price		6,943				
Total				/	/	1,927,174		/	/	/

Particulars of substantial sales return Nil

Descriptions of the related party transactions They enabled the Company to obtain stable and reliable service supply at reasonable price, which is vital to the Company to keep stable production, improve production efficiency and increase production output

(II) Related party transaction related to acquisition and disposal of assets and equity interests

- Events disclosed in extraordinary announcements without subsequent development or changes during implementation

Applicable Not applicable

Section V Significant Events (Continued)

XIV. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(II) Related party transaction related to acquisition and disposal of assets and equity interests (Continued)

2. *Events disclosed in extraordinary announcements with subsequent development or changes during implementation*

Applicable Not applicable

3. *Events not disclosed in extraordinary announcements*

Applicable Not applicable

4. *Disclosure of the performance of the results relating to the results agreement during the reporting period*

Applicable Not applicable

(III) Material related party transactions related to joint external investment

1. *Events disclosed in extraordinary announcements without subsequent development or changes during implementation*

Applicable Not applicable

2. *Events disclosed in extraordinary announcements with subsequent development or changes during implementation*

Applicable Not applicable

3. *Events not disclosed in extraordinary announcements*

Applicable Not applicable

Section V Significant Events (Continued)

XIV. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(IV) Amounts due to or from related parties

- 1 *Events disclosed in extraordinary announcements without subsequent development or changes during implementation*

Applicable Not applicable

Overview of events	Search index
Receipt of RMB200 million of financial assistance from the Parent Company. In 2016, the Company had received RMB586 million of financial assistance (including those provided this time) on accumulative basis from the Parent Company.	The Announcement on Receipt of Financial Assistance from the Controlling Shareholder 《關於接受控股股東財務資助的公告》(2016-072) published on the website of Shanghai Stock Exchange at http://www.sse.com.cn as well as on the China Securities Journal, Shanghai Securities News, Securities Daily and Securities Times on 24 November 2016
Receipt of RMB100 million of financial assistance from the Parent Company. In 2016, the Company had received RMB686 million of financial assistance (including those provided this time) on accumulative basis from the Parent Company.	The Announcement on Receipt of Financial Assistance from the Controlling Shareholder 《關於接受控股股東財務資助的公告》(2016-075) published on the website of Shanghai Stock Exchange at http://www.sse.com.cn as well as on the China Securities Journal, Shanghai Securities News, Securities Daily and Securities Times on 30 November 2016
Receipt of RMB130 million of financial assistance from the Parent Company. In 2016, the Company had received RMB816 million of financial assistance (including those provided this time) on accumulative basis from the Parent Company.	The Announcement on Receipt of Financial Assistance from the Controlling Shareholder 《關於接受控股股東財務資助的公告》(2016-078) published on the website of Shanghai Stock Exchange at http://www.sse.com.cn as well as on the China Securities Journal, Shanghai Securities News, Securities Daily and Securities Times on 8 December 2016

Section V Significant Events (Continued)

XIV. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(IV) Amounts due to or from related parties (Continued)

1 *Events disclosed in extraordinary announcements without subsequent development or changes during implementation (Continued)*

Overview of events	Search index
Receipt of financial assistance in kind from Chongqing Iron & Steel Group Iron Company Limited and Chongqing Iron & Steel Group Doorlead Realty Co., Ltd. to repay the project payment due to Sinosteel Engineering & Technology Co., Ltd amounting to RMB261.0725 million. In 2016, the Company had received RMB1.076 billion of financial assistance (including those provided this time) on accumulative basis from the Parent Company.	The Announcement on Receipt of Financial Assistance from Related Subsidiaries 《關於接受關聯子公司財務資助的公告》(2016-085) published on the website of Shanghai Stock Exchange at http://www.sse.com.cn as well as on the China Securities Journal, Shanghai Securities News, Securities Daily and Securities Times on 30 December 2016
Receipt of RMB162 million of financial assistance from the Parent Company. In 2016, the Company had received RMB1.238 billion of financial assistance (including those provided this time) on accumulative basis from the Parent Company.	The Announcement on Receipt of Financial Assistance from the Controlling Shareholder 《關於接受控股股東財務資助的公告》(2017-004) published on the website of Shanghai Stock Exchange at http://www.sse.com.cn as well as on the China Securities Journal, Shanghai Securities News, Securities Daily and Securities Times on 4 January 2017

2. *Events disclosed in extraordinary announcements with subsequent development or changes during implementation*

Applicable Not applicable

Section V Significant Events (Continued)

XIV. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(IV) Amounts due to or from related parties (Continued)

3. *Events not disclosed in extraordinary announcements*

Applicable Not applicable

Unit: RMB'000

Connected parties	Connected relationship	Provision of funds to connected parties			Provision of funds to the Company by connected parties			
		Opening balance	Amount of the transaction	Closing balance	Opening balance	Amount of the transaction	Closing balance	
Chongqing Iron & Steel Group Doorlead Realty Co., Ltd.	Controlled subsidiary of the Parent Company				0	186,000	0	
Chongqing Iron & Steel (Group) Co., Ltd.	Parent Company					200,000	0	
Total						0	386,000	0

Reason of creditor's rights and debts

Financial aid.

Influence of creditor's rights and debts on the Company

Supplement working capital for the Company and maintain capital turnover for normal production and operation.

(V) Others

Applicable Not applicable

Section V Significant Events (Continued)

XV. MATERIAL CONTRACTS AND THE IMPLEMENTATION

(I) Trust, contracted businesses and leasing affairs

1. Trust

Applicable Not applicable

2. Contracted businesses

Applicable Not applicable

3. Leasing affairs

Applicable Not applicable

Unit: RMB'000

Name of lessor	Name of lessee	Status of leased assets	Amount of leased assets	Date of commencement of lease	Expiry date of lease	Gain on lease	Basis of determination of such gain	Effect of gain on lease on the Company	Whether a related party transaction	Connected relations
Chongqing Iron & Steel Company Limited	Chongqing Iron & Steel (Group) Transportation Company Limited	Normal	825	2016.1.1	2016.12.30	83	Bank deposits records	Contributing to other business income	Yes	Wholly-owned subsidiaries of the Parent Company
Chongqing Iron & Steel Company Limited	Chongqing Iron & Steel Group San Feng Industrial Company Limited	Normal	437	2016.1.1	2016.12.30	44	Bank deposits records	Contributing to other business income	Yes	Wholly-owned subsidiaries of the Parent Company
Chongqing Iron & Steel Company Limited	Chongqing Xin Gang Chang Long Logistics Company Limited	Normal	699	2016.1.1	2016.12.30	70	Bank deposits records	Contributing to other business income	Yes	Controlled subsidiaries of the Parent Company
Chongqing Iron & Steel Company Limited	Chongqing Iron & Steel Group Mining Dabaopo Mine Company Limited (重鋼礦業大寶坡礦)	Normal	699	2016.1.1	2016.12.30	70	Bank deposits records	Contributing to other business income	Yes	Controlled subsidiaries of the Parent Company
Chongqing Iron & Steel Company Limited	Chaoyang Company Changshou Branch (朝陽公司長壽分公司)	Normal	1,398	2016.1.1	2016.12.30	141	Bank deposits records	Contributing to other business income	Yes	Controlled subsidiaries of the Parent Company

Section V Significant Events (Continued)

XV. MATERIAL CONTRACTS AND THE IMPLEMENTATION (CONTINUED)

(I) Trust, contracted businesses and leasing affairs (Continued)

Name of lessor	Name of lessee	Status of leased assets	Amount of leased assets	Date of commencement of lease	Expiry date of lease	Gain on lease	Basis of determination of such gain	Effect of gain on lease on the Company	Whether a related party transaction	Connected relations
Chongqing Iron & Steel Company Limited	CECEP Sanfeng Co., Ltd.	Normal	786	2016.1.1	2016.12.30	79	Bank deposits records	Contributing to other business income	Yes	Controlled subsidiaries of the Parent Company
Chongqing Iron & Steel Company Limited	Chongqing Iron & Steel Group Industrial Company Limited	Normal	3,800	2016.1.1	2016.12.30	382	Bank deposits records	Contributing to other business income	Yes	Controlled subsidiaries of the Parent Company
Chongqing Iron & Steel Company Limited	Changshou District FRJ Non-Staple Food Outlet	Normal	351	2016.1.1	2016.12.30	59	Bank deposits records	Contributing to other business income	No	Others
Chongqing Iron & Steel Company Limited	Chongqing Gangcheng Cleaning Service Co., Ltd.	Normal	458	2016.1.1	2016.12.30	77	Bank deposits records	Contributing to other business income	No	Others
Chongqing Iron & Steel Company Limited	Changshou District Fengcheng Neighborhood Gangcheng Washing Service Center	Normal	443	2016.1.1	2016.12.30	60	Bank deposits records	Contributing to other business income	No	Others

Section V Significant Events (Continued)

XV. MATERIAL CONTRACTS AND THE IMPLEMENTATION (CONTINUED)

(II) Guarantee

Applicable Not applicable

Unit: RMB'000

External Guarantees provided by the Company (excluding those for subsidiaries)

Guarantor	Relationship with the Company	Guaranteed Party	Amount of Guarantee	Date of occurrence of guarantee (signature date of agreement)	Date of commencement of guarantee	Expiry date of guarantee	Guarantee type	Completed or not	Overdue or not	Amount over due	Antiguarantee or not	Connected parties guarantee or not	Connected relations
The Company	Head office	San Feng Jingjiang Port Logistics Company Limited	900,000	2012-4-17	2012-4-17	2024-8-30	Credit guarantee	No	No		Yes	Yes	Controlled subsidiary of the Parent Company

Total guarantees during the Reporting Period(excluding those for subsidiaries)

Total guarantee balance at the end of Reporting Period (A) (excluding those for subsidiaries) 759,294

Guarantees provided by the Company and its subsidiaries for subsidiaries

Total guarantees for subsidiaries during the Reporting Period

Total guarantee balance for subsidiaries at the end of Reporting Period (B)

Total amount of guarantees provided by the Company (including those for subsidiaries)

Total amount of guarantees (A+B) 759,294

Total amount of guarantees over the net assets of the Company (%)

Including:

Amount of guarantees provided to shareholders, de facto controllers and their related parties (C) 759,294

Amount of debt guarantees directly or indirectly provided for guaranteed parties with the gearing ratio exceeding 70% (D)

Amount of the total guarantees exceeding 50% of net assets (E)

Total amount of above three guarantees (C+D+E) 759,294

Section V Significant Events (Continued)

XV. MATERIAL CONTRACTS AND THE IMPLEMENTATION (CONTINUED)

(II) Guarantee (Continued)

Explanations on outstanding guarantee under which joint liability for satisfaction may be undertaken

Explanations on guarantee

In 2016, the Company did not offer external guarantees but provided guarantee for San Feng Jingjiang Port Logistics Company Limited, a former associated company of the Company. The aforesaid guarantee had been approved at the Board meeting of the Company (some of them were approved at the general meeting). The Company performed its information disclosure obligation. As at the end of the Reporting Period, the balance of such guarantee of the Company was RMB759 million.

(III) Entrusted cash assets management

1. *Entrusted wealth management*

Applicable Not applicable

2. *Entrusted loan*

Applicable Not applicable

3. *Other investment and wealth management and derivative investment*

Applicable Not applicable

(IV) Other significant contracts

Applicable Not applicable

Section V Significant Events (Continued)

XVI. EXPLANATION OF OTHER SIGNIFICANT EVENTS

Applicable Not applicable

1. Non-public issuance of shares

The Board adopted the Proposal on Non-Public Issuance of Shares to Specific Target Investors and other relevant proposals on 9 September 2015. According to the Proposal, the Company intended to issue at most 1,285,388,601 shares to eight subscribers including Chongqing Yufu Assets Management Co., Ltd. and Chongqing Municipal Energy Investment Group Co., Ltd. in the form of non-public issuance. CSRC received our application for non-public issuance of A shares on 30 November 2015. Subsequently, the Company submitted its reply to CRSC feedback and its 2015 Annual Report to CRSC.

The trading of the Company's A shares was suspended for material assets reorganisation since 2 June 2016. Such matter would result in non-compliance of this non-public issuance with conditions and requirements for a listed company's non-public issuance of shares stipulated in laws and regulations.

According to the above, the Board decided to terminate the non-public issuance of A shares on 3 August 2016, and applied to CRSC for stopping the review of the Company's application for non-public issuance of A shares submitted in 2015.

2. Major investment

The Company and POSCO Corporation (hereinafter referred to as "POSCO") signed the Cold-Rolled and Galvanized Steel Joint Venture Cooperation Agreement for CISL-POSCO Cold-Rolled Plate Project and CISL-POSCO Galvanized Plate Project in Chongqing on 6 August 2015.

The Company and POSCO signed the joint venture agreement in relation to Chongqing Chonggang High Intensity Cold-Rolled Plate Co., Ltd between CISL and POSCO and the joint venture agreement in relation to Chongqing POSCO Chonggang Automotive Steel Co., Ltd between CISL and POSCO on 6 April 2016. Both parties have set up a joint venture in Chongqing, China in accordance with the terms and conditions of such contracts.

XVI. EXPLANATION OF OTHER SIGNIFICANT EVENTS (CONTINUED)

3. Material Assets Reorganisation

The Company published the announcement on suspension of trading of A shares regarding the plan for significant matter (announcement no.: 2016-025) on 2 June 2016 and announcement on suspension of trading of shares for material assets reorganisation (announcement no.: 2016-026) on 4 June 2016. Since the material assets reorganisation involves a large scale of assets and the demonstration of the plan is complicated, the Company is required to further communicate and negotiate with the parties concerned on the matters related to the material assets reorganisation. Various works are currently in progress and not finished yet. On 22 August 2016, the Resolution on Continuing Suspension of Trading of A Shares regarding Material Assets Reorganisation of the Company (《關於公司重大資產重組A股股票繼續停牌的議案》) has been considered and approved by the 61st written resolution of the seventh session of the Board of the Company, and will be submitted to the 2016 second extraordinary general meeting of the Company to be held on 11 October 2016 for consideration and approval. To prevent unusual fluctuation in the stock price of the Company due to uncertain information, the Company intended to apply for continuing suspension of trading of A shares commencing on 2 September 2016. It is expected that the trading of shares will be suspended for not more than 2 months. As an unprecedented significant event, the reorganisation may involve a large scale of the assets and complex project demonstration. The Company was consulting with relevant regulatory authorities about specific issues and this project should be implemented with approval and authorization of some regulatory authorities. Therefore, it was not expected that the trading of shares of the Company would be resume on 2 November 2016. To prevent abnormal fluctuations in the Company's share price, safeguard the interests of investors, ensure to further segment this restructuring scheme as well as further implement the related issues and smoothly advance this major asset restructuring, the Company continued to suspend trading from 2 November 2016 upon application to the Shanghai Stock Exchange.

4. Purchase, Sale and Redemption of Listed Securities of the Company

None of the Company and its subsidiaries purchased, sold or redeemed any listed securities of the Company in the Reporting Period.

5. Major acquisition and disposal of subsidiaries and affiliates

No major acquisition and disposal of subsidiaries and affiliates occurred during the Reporting Period.

Section V Significant Events (Continued)

XVII. ACTIVE FULFILMENT OF SOCIAL RESPONSIBILITIES

(I) Poverty Alleviation by the Listed Company

Applicable Not applicable

1. Targeted Poverty Alleviation Planning

The Company carried out targeted poverty alleviation under the guidance of its superior departments and the Parent Company to help registered poor employees with financial difficulties to cast off poverty step by step.

2. Summary of Annual Targeted Poverty Alleviation

According to the poverty alleviation work arranged by the Parent Company, the Company mainly targeted on poor employees in the list of Department of the Construction of Primary-level Organizations, the All-China Federation of Trade Unions and poor employees in subsidiaries of the Parent Company.

3. Statistical Table of 2016 Targeted Poverty Alleviation by the Listed Company

Unit: RMB0'000

Index

Number and implementation information

I. General information

The Company funded high school education with RMB162,000 for 155 employees' children; encouraged employees to fund the employees suffering from financial difficulties or diseases with RMB63,800; provided RMB70,000 as support fund to support stations.

Including: 1. Fund

22.5

2. Number of poor people helped to be removed from administrative record for poverty registering (*Person*)

7

Section V Significant Events (Continued)

XVII. ACTIVE FULFILMENT OF SOCIAL RESPONSIBILITIES (CONTINUED)

(I) Poverty Alleviation by the Listed Company (Continued)

3. Statistical Table of 2016 Targeted Poverty Alleviation by the Listed Company (Continued)

II. Itemized input

1. Poverty alleviation through industrial development

Including: 1.1 Type of industrial poverty alleviation projects

- Poverty alleviation through agriculture and forestry
- Poverty alleviation through tourism
- Poverty alleviation through E-commerce
- Poverty alleviation through assets income
- Poverty alleviation through science and technology
- Others

4. Poverty alleviation through education

The Company funded high school education with RMB162,000 for 155 employees' children

Including: 4.1 Amount invested for poor students

16.2

4.2 Number of poor students funded (Person)

155

4. Follow-Up Targeted Poverty Alleviation Planning

The Company will continue to properly implement the poverty alleviation plan from aspects including human financial and material resources.

(II) Social responsibility

Applicable Not applicable

For details, please refer to the 2016 Social, Environmental and Governance Report of Chongqing Iron & Steel Company Limited as published on the websites of Shanghai Stock Exchange on 30 March 2017 and "Section XII" in this report.

Section V Significant Events (Continued)

XVII. ACTIVE FULFILMENT OF SOCIAL RESPONSIBILITIES (CONTINUED)

- (III) Explanation on the performance of environmental protection of companies and its subsidiaries under the classification of key pollutant discharging entity as published by the environmental protection department

Applicable Not applicable

The Company strictly abided by environmental laws and regulations, developed environmental protection responsibility system, and further defined the principle of “One Post Responsible for Business Development and Party Conduct Construction”, which made management at various levels perform their own functions and takes their own responsibility. The Company also stipulated annual environmental protection target and implemented the same in each unit, signed environmental protection responsibility statement to ensure the completion of the target, developed and completed a self-monitoring program throughout the year, and regularly released monitoring data on the website of Environmental Protection Agency. Major pollutants of the Company met national standards and permit emission requirements. The Company realized the target of clean production through the review of cleaner production audit by Chongqing Environmental Protection Bureau.

- (IV) Other Explanation

Applicable Not applicable

XVIII. PARTICULARS OF CONVERTIBLE BOND OF THE COMPANY

- (I) Issue of convertible bonds

Applicable Not applicable

- (II) Convertible bondholders and guarantors during the Reporting Period

Applicable Not applicable

Section V Significant Events (Continued)

XVIII. PARTICULARS OF CONVERTIBLE BOND OF THE COMPANY (CONTINUED)

(III) Changes in convertible bonds during the Reporting Period

Applicable Not applicable

Accumulated conversion of Convertible Bonds during the Reporting Period

Applicable Not applicable

(IV) Previous adjustments of conversion price

Applicable Not applicable

(V) The Company's outstanding debts, creditworthiness and availability of cash for repayment of debts in future years

Applicable Not applicable

(VI) Other explanation of convertible bonds

Applicable Not applicable

Section VI Movement of Ordinary Shares and the Particulars of Shareholders

I. CHANGES IN SHARE CAPITAL OF ORDINARY SHARES

(I) Statements of movement of ordinary shares

1. *Statements of movement of ordinary Shares*

During the Reporting Period, there was no change in the total number of Shares and share capital structure of the Company.

2. *Explanation on movement of ordinary shares*

Applicable Not applicable

3. *Impact on financial indicators such as earnings per share and net assets per share from change in ordinary shares within the latest year and latest period (if applicable)*

Applicable Not applicable

4. *Other information considered necessary by the Company or required by regulators to be disclosed*

Applicable Not applicable

Relevant disclosure made according to the rules governing the listing of securities on the Hong Kong Stock Exchange

(I) Interests or Short Positions

As at 31 December 2016 the Board was not aware of any person or its associates whose interests or short positions in the shares or underlying shares of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance (“SFO”).

(II) Pre-emptive Rights

According to the Articles of Association of the Company and the laws of the PRC, there are no pre-emptive rights which would require the Company to issue new shares to its existing shareholders on a pro-rata basis.

I. CHANGES IN SHARE CAPITAL OF ORDINARY SHARES (CONTINUED)

(I) Statements of movement of ordinary shares (Continued)

4. *Other information considered necessary by the Company or required by regulators to be disclosed (Continued)*

(III) Purchase, Sale and Redemption of Listed Shares

During the year ended 31 December 2016, the Company did not redeem any of its issued securities, nor purchase or sell any of its listed securities.

(IV) Public float of H shares

As at the date hereof, to the best knowledge of the Directors, the Company has maintained sufficient public float as required by the Listing Rules of the Stock Exchange.

(V) Circulating Market Capitalisation

Based on the publicly available information, as at 31 December 2016 the circulating market capitalisation of H Shares of the Company (circulating H Share capital x closing price of H Shares (HK\$2.26)) was HK\$1,216 million and the circulating market capitalization of A Shares of the Company (circulating A Share capital x closing price of A Shares (RMB2.52)) was RMB9,823 billion.

(VI) Final Dividend

As audited by Pan-China Certified Public Accountants (special general partnership), the net profit attributable to shareholders of the Company recorded in the 2016 annual consolidated statements of the Company was negative. In 2016, the Company suffered losses, and accumulated undistributed profit was negative, the Board proposed that the Company should not make any distribution of profits, or transfer capital reserve into equity for the year of 2016.

Section VI Movement of Ordinary Shares and the Particulars of Shareholders (Continued)

I. CHANGES IN SHARE CAPITAL OF ORDINARY SHARES (CONTINUED)

(II) Changes in Shares subject to trading moratorium

Applicable Not applicable

Unit: share

Name of shareholder	Number of Shares subject to trading moratorium as at the beginning of the year	Number of shares released from trading moratorium over the year	Increase in numbers of		Reason of trading moratorium	Date of release of trading moratorium	Type of shareholder
			Shares subject to trading moratorium over the year	Numbers of Shares subject to trading moratorium as at the end of the year			
Chongqing Iron & Steel (Group) Co., Ltd.	1,996,181,600	1,996,181,600	0	0	New shares resulting from Material Assets Reorganisation for acquisition of assets, with trading moratorium term of 36 months	25 November 2016	
Total	1,996,181,600	1,996,181,600	0	0	/	/	

II. ISSUE AND LISTING OF SECURITIES

(I) Issue of securities during the Reporting Period

Applicable Not applicable

Details for the issue of securities during the Reporting Period (details of bonds with different interest rates within the duration to be specified separately):

Applicable Not applicable

(II) Change in the total number of ordinary shares, shareholding structure and the structure of assets and liabilities of the Company

Applicable Not applicable

(III) Shareholdings held by employees

Applicable Not applicable

III. PARTICULARS OF SHAREHOLDERS AND DE FACTO CONTROLLERS

(I) Number of shareholders

Total number of ordinary shareholders as at the end of the Reporting Period	177,099
Total number of ordinary shareholders on the close of the end of month before the disclosure of the Annual Report	174,020
Total number of holders of preference shares with restored voting rights as at the end of the Reporting Period	0
Total number of holders of preference shares with restored voting rights on the close of the end of month before the disclosure of annual report	0

Section VI Movement of Ordinary Shares and the Particulars of Shareholders (Continued)

III. PARTICULARS OF SHAREHOLDERS AND DE FACTO CONTROLLERS (CONTINUED)

- (II) Table of shareholdings of the top ten shareholders and the top ten shareholders holding circulating shares (shares not subject to trading moratorium) as at the end of the Reporting Period

Unit: share

Shareholdings of the top ten shareholders

Name of shareholder (Full name)	Increase/ Decrease in the Reporting Period	Number of shares held as at the end of the Reporting Period	Percentage (%)	Number of Shares held subject to trading moratorium	Status of shares	Number of shares pledged or frozen	
						Number	Type of shareholder
Chongqing Iron & Steel (Group) Co., Ltd.	0	2,096,981,600	47.27	0	Pledged	1,009,700,000	State-owned corporation
HKSCC NOMINEES LIMITED	+589,570	530,713,540	11.96	0	Unknown		Foreign legal persons
Central Huijin Assets Management, LLC (中央匯金資產管理有限責任公司)	0	93,284,800	2.1	0	Unknown		Unknown
China Securities Finance Corporation Limited (中國證券金融股份有限公司)	0	39,352,886	0.89	0	Unknown		Unknown
WU Zhaomei	+29,336,217	29,336,217	0.66	0	Unknown		Domestic legal person
Bosera Funds – ABC – Bosera China Securities Financial Assets Management Plan (博時基金－農業銀行－博時中證金 融資產管理計劃)	0	23,900,800	0.54	0	Unknown		Unknown
Dacheng Funds – ABC – Dacheng China Securities Financial Assets Management Plan (大成基金－農業銀行－大成中證金 融資產管理計劃)	0	23,900,800	0.54	0	Unknown		Unknown

Section VI Movement of Ordinary Shares and the Particulars of Shareholders (Continued)

III. PARTICULARS OF SHAREHOLDERS AND DE FACTO CONTROLLERS (CONTINUED)

(II) Table of shareholdings of the top ten shareholders and the top ten shareholders holding circulating shares (shares not subject to trading moratorium) as at the end of the Reporting Period (Continued)

Name of shareholder (Full name)	Increase/ Decrease in the Reporting Period	Number of shares held as at the end of the Reporting Period	Percentage (%)	Number of Shares held subject to trading moratorium	Status of shares	Number of shares pledged or frozen	
						Number	Type of shareholder
ICBCCS Funds – ABC – ICBCCS China Securities Financial Assets Management Plan (工銀瑞信基金-農業銀行-工銀瑞信 中證金融資產管理計劃)	0	23,900,800	0.54	0	Unknown		Unknown
GF Funds – ABC – GF China Securities Financial Assets Management Plan (廣發基金-農業銀行-廣發中證金融資 產管理計劃)	0	23,900,800	0.54	0	Unknown		Unknown
Huaxia Funds – ABC – Huaxia China Securities Financial Assets Management Plan (華夏基金-農業銀行-華夏中證金融 資產管理計劃)	0	23,900,800	0.54	0	Unknown		Unknown

Section VI Movement of Ordinary Shares and the Particulars of Shareholders (Continued)

III. PARTICULARS OF SHAREHOLDERS AND DE FACTO CONTROLLERS (CONTINUED)

(II) Table of shareholdings of the top ten shareholders and the top ten shareholders holding circulating shares (shares not subject to trading moratorium) as at the end of the Reporting Period (Continued)

Shareholdings of Top Ten Shareholders Without Trading Limitations

Name of shareholder	Shareholdings of tradable shares without trading limitations	Type and number of shares	
		Type	Number
Chongqing Iron & Steel (Group) Co., Ltd	2,096,981,600	RMB denominated ordinary shares	2,096,981,600
HKSCC NOMINEES LIMITED	530,713,540	Overseas listed foreign shares	530,713,540
Central Huijin Assets Management, LLC	93,284,800	RMB denominated ordinary shares	93,284,800
China Securities Finance Corporation Limited	39,352,886	RMB denominated ordinary shares	39,352,886
WU Zhaomei	29,336,217	RMB denominated ordinary shares	29,336,217
Bosera Funds – ABC – Bosera China Securities Financial Assets Management Plan	23,900,800	RMB denominated ordinary shares	23,900,800
Dacheng Funds – ABC – Dacheng China Securities Financial Assets Management Plan	23,900,800	RMB denominated ordinary shares	23,900,800
ICBCCS Funds – ABC – ICBCCS China Securities Financial Assets Management Plan	23,900,800	RMB denominated ordinary shares	23,900,800
GF Funds – ABC – GF China Securities Financial Assets Management Plan	23,900,800	RMB denominated ordinary shares	23,900,800
Huaxia Funds – ABC – Huaxia China Securities Financial Assets Management Plan	23,900,800	RMB denominated ordinary shares	23,900,800

III. PARTICULARS OF SHAREHOLDERS AND DE FACTO CONTROLLERS (CONTINUED)

(II) Table of shareholdings of the top ten shareholders and the top ten shareholders holding circulating shares (shares not subject to trading moratorium) as at the end of the Reporting Period (Continued)

Shareholdings of Top Ten Shareholders Without Trading Limitations (Continued)

Name of shareholder	Shareholdings of tradable shares without trading limitations	Type and number of shares	
		Type	Number
Description on the related relationship or acts in concert of the above shareholders	Chongqing Iron & Steel (Group) Co., Ltd. is the controlling shareholder of the Company and has no related relationship with the other 9 shareholders and they are not parties acting in concert as stipulated in Administrative Measures for Management of Information Disclosure of Changes in Shareholdings of Shareholders of Listed Companies. The Company is also not aware of whether there is any related relationship among the other 9 shareholders or whether they are parties acting in concert.		
Descriptions on the preferential shareholders with resumed voting rights and shareholding	Nil		

Shareholdings and Trading Limitations of Top Ten Shareholders with Trading Limitations

Applicable Not applicable

(III) Strategic investors or ordinary legal persons who became top ten shareholders due to placing of new shares

Applicable Not applicable

IV. CONTROLLING SHAREHOLDER AND DE FACTO CONTROLLER

(I) Controlling Shareholder

1. *Legal person*

Applicable Not applicable

Name	Chongqing Iron & Steel (Group) Co., Ltd.
Principal or Legal representative	Liu Jiakai
Date of incorporation	19 January 1982
Principal operations	Assets operation, investment and property right trading within the authorized scope, manufacture and sale of metal materials, machinery products, casting and forging products and general spare parts, home appliances, computers and parts, electronic devices and components, instruments and meters, measuring instruments, textile products, apparels, timber products, refractory materials, chemical products (excluding dangerous chemicals).
Equity interests in other controlled and invested domestic and foreign listed companies during the Reporting Period	Controlling shareholder did not control or invest in domestic and foreign listed companies during the Reporting Period.
Other explanation	Nil

IV. CONTROLLING SHAREHOLDER AND DE FACTO CONTROLLER (CONTINUED)

(I) Controlling Shareholder (Continued)

2. *Natural persons*

Applicable Not applicable

3. *No special explanation regarding the controlling shareholder*

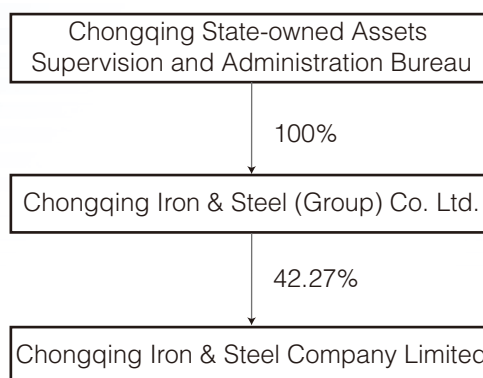
Applicable Not applicable

4. *Index and date of changes in controlling shareholder during the Reporting Period*

Applicable Not applicable

5. *The ownership and control relationship between the Company and its controlling shareholder*

Applicable Not applicable



IV. CONTROLLING SHAREHOLDER AND DE FACTO CONTROLLER (CONTINUED)

(II) De facto controller

1 *Legal person*

Applicable Not applicable

Name	Chongqing Iron & Steel (Group) Co., Ltd.
Principal or Legal representative	Liu Jiakai
Date of incorporation	19 January 1982
Principal operations	Assets operation, investment and property right trading within the authorized scope, manufacture and sale of metal materials, machinery products, casting and forging products and general spare parts, home appliances, computers and parts, electronic devices and components, instruments and meters, measuring instruments, textile products, apparels, timber products, refractory materials, chemical products (excluding dangerous chemicals).
Equity interests in other controlled and invested domestic and foreign listed companies during the Reporting Period	Controlling shareholder did not control or invest in domestic and foreign listed companies during the Reporting Period.
Other explanation	Nil

2 *Natural persons*

Applicable Not applicable

3 *No special explanation regarding the controlling shareholder*

Applicable Not applicable

4 *Index and date of changes in de facto controller during the Reporting Period*

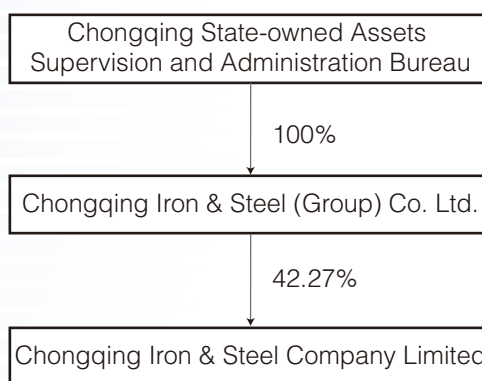
Applicable Not applicable

IV. CONTROLLING SHAREHOLDER AND DE FACTO CONTROLLER (CONTINUED)

(II) De facto controller (Continued)

5 *The ownership and control relationship between the Company and its de facto controller*

Applicable Not applicable



6 *Control of the Company by de facto controllers by way of trust or other means of asset management*

Applicable Not applicable

(III) Other explanation regarding the controlling shareholder and the de facto controller

Applicable Not applicable

V. OTHER CORPORATE SHAREHOLDERS WITH A SHAREHOLDING OF 10% OR ABOVE

Applicable Not applicable

VI. EXPLANATION ON REDUCED SHAREHOLDING

Applicable Not applicable

Section VII Related Information of Preferred Stock

Applicable

Not applicable

Section VIII Directors, Supervisors, Senior Management and Staff

(1) CHANGES IN SHAREHOLDING AND REMUNERATION

(I) Changes in shareholding and remuneration of current Directors, supervisors, senior management and those who resigned during the Reporting Period

Applicable Not applicable

Unit: Share

Name	Title (Note)	Gender	Age	Starting date of the tenure	Ending date of the tenure	Shareholding at the beginning of the year	Shareholding at the end of the year	Increase/Decrease in shareholding during the year	Reason for change in shareholding	Total remuneration before tax received from the Company during the Reporting Period (RMB'000)	Whether received remuneration from the related parties of the Company
Liu Da Wei	Chairman	M	54	23 December 2015	/	0	0	0	/	0	Yes
Zhou Hong	Director Vice Chairman, Financial	M	55	16 May 2014	/	0	0	0	/	0	Yes
Tu De Ling	Controller	M	54	23 December 2015	/	0	0	0	/	18.22	No
Li Ren Sheng	Director, General Manager Director, Deputy General Manager	M	52	1 June 2009	/	0	0	0	/	22.65	No
Zhang Li Quan	Director, Deputy General Manager	M	54	16 May 2014	/	0	0	0	/	20.44	No
Yao Xiao Hu	Manager	M	51	4 December 2014	/	0	0	0	/	20.41	No
Xu Yi Xiang	Director (Independent)	M	43	4 December 2014	/	0	0	0	/	7.36	No
Xin Qing Quan	Director (Independent)	M	42	4 December 2014	/	0	0	0	/	7.36	No
Wong Chun Wa	Director (Independent)	M	43	4 June 2015	/	0	0	0	/	7.36	No
Xia Tong	Supervisor	M	51	13 June 2013	/	0	0	0	/	22.63	No
Li Zheng	Supervisor	M	54	18 August 2010	/	0	0	0	/	0	Yes
Xie Chuan Xin	Supervisor	M	47	13 December 2015	/	0	0	0	/	0	Yes
Chen Hong	Supervisor Representing staff	F	52	1 June 2009	/	0	0	0	/	18.49	No
Xu Chun	Supervisor Representing staff	M	43	1 November 2016	/	0	0	0	/	3.21	No
Zeng Jing	Deputy General Manager	M	54	19 March 2014	/	0	0	0	/	20.39	No
You Xiao An	Secretary to the Board	M	52	23 January 2001	/	0	0	0	/	19.28	No
Dou Hui	Supervisor Representing staff	M	53	25 July 2011	28 October 2016	0	0	0	/	14.71	No
Total	/	/	/	/	/	0	0	0	/	202.51	/

I. CHANGES IN SHAREHOLDING AND REMUNERATION (CONTINUED)

(I) Changes in shareholding and remuneration of current Directors, supervisors, senior management and those who resigned during the Reporting Period (Continued)

Name	Major Working Experience
Liu Da Wei	Is the Chairman of the Company and the general manager, deputy secretary to the party committee and a director of Chongqing Iron & Steel Group Company Limited (the “Parent Company” or “Chongqing Iron & Steel Group”). Mr. Liu graduated from South-western University of Finance and Economics, majoring in political economy, with a PhD in economics. Mr. Liu joined the Parent Company in 1987 and served as the leader of restructuring office of the Company, director assistant of the general manager office of Chongqing Iron & Steel Group, deputy head of the financial division of Chongqing Iron & Steel Group Industrial Company Limited (重鋼集團產業公司), director of Beijing Office of Chongqing Iron & Steel Group, secretary to the Board of the Company. Since 2000, Mr. Lin acted as the head of the enterprise guidance division of Chongqing Economic and Information Commission (重慶市經濟委員會企業指導處), leader of the restructuring team of Chongqing State-owned Enterprises Reform Office (重慶市國企辦改制組), head of the enterprise reform division of Chongqing State-owned Assets Supervision and Administration Commission (重慶市國資委企業改革處), deputy mayor of Jiangjin Municipal Government, Chongqing, member of the standing committee of district party committee and deputy head of Jiangjin District, Chongqing, and deputy director and a member of the party committee of Chongqing Finance Bureau. Mr. Liu was elected as a Director of the Company at the 2015 second extraordinary general meeting and concurrently appointed as the Chairman of the Company by the Board.

I. CHANGES IN SHAREHOLDING AND REMUNERATION (CONTINUED)

(I) Changes in shareholding and remuneration of current Directors, supervisors, senior management and those who resigned during the Reporting Period (Continued)

Name	Major Working Experience
Zhou Hong	is a Director of the Company and the deputy general manager of the Parent Company, a member of the standing committee of the communist party committee, the chief engineer and the head of technology center of Chongqing Iron & Steel (Group) Co., Ltd. and the head of Chonggang Post doctoral Research Station (重鋼博士後科研工作站). Mr. Zhou graduated from the University of Science and Technology Beijing with a master's degree in iron and steel metallurgy and is a senior engineer. Mr. Zhou joined the Parent Company in 1983, and has served as the manager of the smelting plant of the Company, the vice chief engineer of Chonggang Holding as well as the chairman of Chongqing Xingang Handling and Transportation Company Limited, Xin Gang Chang Long Logistics Company Limited and Chongqing Iron & Steel (Group) Transportation Company Limited. Mr. Zhou was elected as a Director of the Company at the 2014 annual general meeting.
Tu De Ling	is the chairman and the financial controller of the Company. Mr. Tu graduated from the Department of Accounting of the South-western University of Finance and Economics in 1984 with a bachelor's degree in economics. Mr. Tu joined the Parent Company 1988 and served as the deputy head of the financial division of Chongqing Iron & Steel Group, head of financial division and chief accountant of the Company, chairman of Chongqing Iron & Steel Electronic Company (重鋼電子公司), and the commander of the environmental relocation headquarters and director of the finance department of Chongqing Iron & Steel Group, the chairman of Chongqing Xin Gang Chang Long Logistics Company Limited (重慶新港長龍物流有限責任公司). Mr. Tu was elected as the Director of the Company in the 2015 second extraordinary general meeting and concurrently elected as the vice chairman of the Company by the Board.

I. CHANGES IN SHAREHOLDING AND REMUNERATION (CONTINUED)

(I) Changes in shareholding and remuneration of current Directors, supervisors, senior management and those who resigned during the Reporting Period (Continued)

Name	Major Working Experience
Li Ren Sheng	is a Director and the General Manager of the Company. Graduated in the Faculty of Chemical Metallurgy of Chongqing University, Mr. Li possesses a bachelor's degree and is a senior engineer. He joined the Parent Company in 1987, and had been the deputy head of No. 4 Blast Furnace Workshop, the assistant to plant director and deputy plant director of Smelting Plant of the Parent Company, deputy head of the smelting plant of the Company, the manager and Chairman of Chongqing Iron & Steel Group Iron Company Limited and head of the Raw Materials Department of the Company. Mr. Li was re-elected as a Director of the Company at the 2011 annual general meeting.
Zhang Li Quan	is a Director and the deputy general manager of the Company. Mr. Zhang graduated from Kunming Institute of Technology majoring in nonferrous metallurgy and Chongqing University majoring in non-ferrous metal metallurgy. He holds Master's Degree and is a senior engineer. Mr. Zhang joined the Parent Company in 1987 served from time to time as the Deputy head, Head and the director of the Production and Direction Center of the Sintering Plant of the Company. Mr. Zhang was elected as a Director of the Company at the 2014 annual general meeting.
Yao Xiao Hu	is the director and the deputy general manager of the Company. Mr. Yao graduated from the School of Automation in Chongqing University, majored in control engineering and obtained a master's degree in engineering. He is a senior engineer. Mr. Yao joined the Parent Company in 1987, and has successively served as the head of mechanics division and the deputy manager of the coking plant, the deputy chief and chief of mechanics division of the Company. Mr. Yao was elected as a director of the Company at the 2014 annual general meeting.

I. CHANGES IN SHAREHOLDING AND REMUNERATION (CONTINUED)

(I) Changes in shareholding and remuneration of current Directors, supervisors, senior management and those who resigned during the Reporting Period (Continued)

Name	Major Working Experience
Xu Yi Xiang	<p>is an Independent Non-executive Director of the Company and a professor and doctorate tutor in the School of Economics of Southwest University of Political Science and Law. He is the deputy director of the Research Centre of the Law of Mineral and Resources (礦產資源法研究中心) of Southwest University of Political Science and Law, and concurrently serves as a part-time lawyer in Chongqing Damei Law Firm (重慶達美律師事務所) as well as an arbitrator of Hainan Arbitration Commission. Mr. Xu graduated from The Eberhard Karls Universitat Tubingen of Germany, and obtained a PhD in Law. He is engaged in the research and practical works of the economic and environmental protection laws and policies for a long time, and has hosted various national and other level research projects. His academic papers have been published in several domestic and foreign renowned academic journals. Mr. Xu has extensive experience in corporation, security laws and practical operations. Mr. Xu was elected as an Independent Non-executive Director of the Company at the 2014 first extraordinary general meeting.</p>
Xin Qing Quan	<p>is an Independent Non-executive Director of the Company, a professor of accounting and a doctoral tutor in the School of Economics and Business Administration of Chongqing University, a special researcher of Chinese Government Auditing Research Center (中國政府審計研究中心), a senior assistant researcher in the Department of Finance and Insurance of Lingnan University in Hong Kong and an external director of Chongqing International Consultation Investment Group (重慶國際諮詢投資集團). Mr. Xin graduated from Zhongshan University with a doctoral degree in accounting. He is mainly engaged in the research of financial accounting and corporate management. Mr. Xin was elected as an Independent Non-executive Director of the Company at the 2014 first extraordinary general meeting.</p>

I. CHANGES IN SHAREHOLDING AND REMUNERATION (CONTINUED)

(I) Changes in shareholding and remuneration of current Directors, supervisors, senior management and those who resigned during the Reporting Period (Continued)

Name	Major Working Experience
Wong Chun Wa	is an Independent Non-executive Director of the Company, a director of ACT Business Consultants Ltd. and RIW C.P.A. Limited, a supervisor of Maanshan Iron & Steel Company Limited (stock code of shares listed in Hong Kong: 323) and an independent non-executive director of China Zhongwang Holdings Limited (stock code of shares listed in Hong Kong: 1333). Mr. Wang received a bachelor's degree in accounting from the Hong Kong Polytechnic University in 1996. Mr. Wong is a certified public accountant in Hong Kong and a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Mr. Wang once worked at KPMG and Ernst & Young, and was an independent non-executive director of Maanshan Iron & Steel Company Limited. Mr. Wong was elected as an Independent Non-executive Director of the Company at the 2014 annual general meeting.
Xia Tong	is the Chairman of the supervisory committee, Party Secretary, Secretary of the disciplinary committee, and Chairman of the labour union of the Company. Mr. Xia graduated from Chongqing University and holds Master's Degree in Engineering. Mr. Xia is a senior engineer. Mr. Xia joined the Parent Company in July 1987, and has successively served as director of the Party and Administration Office of the Parent Company's Medium Plate Plant, party secretary, secretary of the disciplinary committee, and chairman of the labour union of the Parent Company's Medium Plate Plant, secretary to the Board and head of the Managerial Office (Office of the Board of Directors) of the Parent Company, party secretary of the Environmental Relocation Headquarters of the Parent Company. Mr. Xia was re-elected as a Director of the Company at the 2011 annual general meeting held on 31 May 2012 and resigned as a Director of the Company due to work adjustment with effect from 2 April 2013. He was elected as a Shareholder Representative Supervisor of the Company at the 2012 annual general meeting.

I. CHANGES IN SHAREHOLDING AND REMUNERATION (CONTINUED)

(I) Changes in shareholding and remuneration of current Directors, supervisors, senior management and those who resigned during the Reporting Period (Continued)

Name	Major Working Experience
Li Zheng	<p>is a Supervisor of the Company and the director of office of the supervisory committee and the head of audit department of the Parent Company. Mr. Li graduated from Sichuan Second Communist Party School by distance learning with a bachelor's degree in economics and trade (四川省二黨校函授經貿專業). He is a senior accountant. Mr. Li joined the Parent Company in 1980 and acted as the head of audit department of the Parent Company in May 2010, and served as the director of office of the supervisory committee at the Parent Company in November 2011. He held positions as the assistant to the head of the Finance Office of the Parent Company, the chief accountant of Chongqing Building Materials and Industry Co., Ltd. (重慶建材實業有限公司), the deputy head of the sales department and the secretary to the Chief Party Committee of the sales department of the Company as well as the deputy general manager of Chongqing Iron & Steel Mining Company (重慶集團礦業公司). Mr. Li was re-elected as a shareholder representative supervisor of the Company at the 2011 annual general meeting.</p>
Xie Chuan Xin	<p>is a Supervisor of the Company and the deputy secretary of the disciplinary committee and head of the supervision department of the Parent Company. Mr. Xie graduated from the Department of Urban Construction of Chongqing Construction School (重慶建築工程學院), majoring in urban gas engineering with a master's degree in engineering. Mr. Xie joined the Parent Company in 1992 and has successively served as the deputy secretary to the party committee, secretary to the disciplinary committee and chairman of the labour union of the power plant and thermal plant of the Company; head of organization division and deputy secretary to the disciplinary committee of the Company; secretary to the party committee, secretary to the disciplinary committee and chairman of the labour union of Chongqing Iron & Steel Group San Gang (Zhongxing) Company (重鋼集團三鋼(中興)公司) and Steel Pipe Company (鋼管公司); and deputy secretary to the disciplinary committee and head of the supervision division of Chongqing Iron & Steel Group. He concurrently serves as the chairman of the supervisory committee of the Construction Company (建設公司) and Chaoyang Company (朝陽公司) and a supervisor of No.4 Steel Company (四鋼公司). Mr. Xie was elected as a shareholder representative supervisor of the Company at the 2015 second extraordinary general meeting.</p>

I. CHANGES IN SHAREHOLDING AND REMUNERATION (CONTINUED)

(I) Changes in shareholding and remuneration of current Directors, supervisors, senior management and those who resigned during the Reporting Period (Continued)

Name	Major Working Experience
Chen Hong	is a Supervisor and the head of the Logistics Management Department of the Company. Ms. Chen obtained a university diploma from the Logistical Engineering University of the Chinese People's Liberation Army. Ms. Chen joined the Parent Company in 1984. Ms. Chen had been the deputy head and then the head of Design Office of the Design Institute, chief officer of Production and Operation Department of the Parent Company and deputy head of the managerial office of the Company. Ms. Chen was re-elected as a Staff Representative Supervisor of the seventh session of the Supervisory Committee of the Company at the 22nd meeting of the third staff representative meeting for its group leaders of the Company.
Xu Chun	is a Supervisor of the Company, the secretary to the party committee, secretary to the disciplinary committee and chairman of the labour union of the Smelting Plant of the Company. Mr. Xu graduated from the College of Materials Science and Engineering of Chongqing University, majoring in metallurgy engineering with a master's degree in engineering. He holds the title of engineer. Mr. Xu was re-elected as a Staff Representative Supervisor of the seventh session of the Supervisory Committee of the Company at the 35th meeting of the third staff representative meeting for its group leaders of the Company.
Zeng Jing	is the Deputy General Manager of the Company and the deputy head of the technology center of the Parent Company. Mr. Zeng graduated from the Faculty of Metallic Materials of Chongqing University with a bachelor's degree. He is also a holder of master's degree in engineering and a senior engineer. Mr. Zeng joined the Parent Company in 1985, and has served as the deputy director of the management division of the steel research institute under the Parent Company, the head of the technology and trade management department, the director assistant and the deputy director of the steel research institute under the Company. Mr. Zeng was appointed as the Deputy General Manager of the Company as resolved at the eighth meeting of the sixth session of the Board.

Section VIII Directors, Supervisors, Senior Management and Staff (Continued)

I. CHANGES IN SHAREHOLDING AND REMUNERATION (CONTINUED)

(I) Changes in shareholding and remuneration of current Directors, supervisors, senior management and those who resigned during the Reporting Period (Continued)

Name	Major Working Experience
You Xiao An	is the Secretary to the Board, and the head of manager's office of the Company. Mr. You graduated from the Metallurgy and Materials Engineering Faculty of Chongqing University with major in chemistry and metallurgy. He has a bachelor degree in engineering and is now attending postgraduate courses in business management in Chongqing University. He holds the title of engineer. Mr. You joined the Parent Company in 1985 and had worked as the head of the production section and the head of the General Office of Hengda and assistant to the head and the deputy head of the General Office of the Company.
Dou Hui	was a Supervisor of the Company and is currently the head of the General Office (Community Union Working Department Office of the Board of Directors) of the Company. He is holder of a bachelor's degree, and a senior political worker (高級政工師). Mr. Dou joined the Parent Company in August 1982. He has served as the director of the office of the labor Union, organization department chief of the labor union of the Parent Company, as well as secretary to the Party Committee, secretary to the Discipline Inspection Committee and chairman of the labor union of the Sintering Plant and the Smelting Plant of the Company. Mr. Dou resigned as a Supervisor of the Company due to work adjustment with effect from 28 October 2016.

Other explanations

Applicable Not applicable

(II) Share option granted to Director and senior management during the Reporting Period

Applicable Not applicable

II. POSITIONS HELD BY CURRENT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND THOSE WHO RESIGNED DURING THE REPORTING PERIOD

(I) Positions held at shareholders

Applicable Not applicable

Name	Name of shareholders	Position held at the shareholders	Starting date of the tenure	Ending date of the tenure
Liu Da Wei	Chongqing Iron & Steel (Group) Co., Ltd.	Director, General manager, Deputy Secretary to the Communist Party Committee	July 2015	/
Zhou Hong	Chongqing Iron & Steel (Group) Co., Ltd.	Deputy general manager, Chief Engineer	September 2011	/
Li Zheng	Chongqing Iron & Steel (Group) Co., Ltd.	Office Director of the Supervisory Committee and the Head of Audit Department	May 2010	/
Xie Chuan Xin	Chongqing Iron & Steel (Group) Co., Ltd.	Deputy Secretary to the Disciplinary Committee and the Head of Supervisory Department	July 2012	/
Explanation of positions held at shareholders	Nil			

Section VIII Directors, Supervisors, Senior Management and Staff (Continued)

II. POSITIONS HELD BY CURRENT DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND THOSE WHO RESIGNED DURING THE REPORTING PERIOD (CONTINUED)

(II) Positions held at other entities

Applicable Not applicable

Name	Name of other entities	Positions held at other entities	Starting date of the tenure	Ending date of the tenure
Xu Yi Xiang	Southwest University of Political Science and Law, Chongqing Damei Law Firm (重慶達美律師事務所) and Hainan Arbitration Commission	Professor and doctorate tutor in the School of Economics of Southwest University of Political Science and Law, deputy director of the Research Centre of the Law of Mineral and Resources (礦產資源法研究中心) of Southwest University of Political Science and Law, part-time lawyer in Chongqing Damei Law Firm (重慶達美律師事務所) and arbitrator of Hainan Arbitration Commission	/	/
Xin Qing Quan	Chongqing University, Lingnan University in Hong Kong and Chongqing International Consultation Investment Group (重慶國際諮詢投資集團)	Professor of accounting and doctoral tutor in the School of Economics and Business Administration of Chongqing University, special researcher of Chinese Government Auditing Research Center (中國政府審計研究中心), senior assistant researcher in the Department of Finance and Insurance of Lingnan University in Hong Kong and external director of Chongqing International Consultation Investment Group (重慶國際諮詢投資集團)	/	/
Wong Chun Wa	ACT Business Consultants Ltd., RIW C.P.A. Limited, Maanshan Iron & Steel Company Limited and China Zhongwang Holdings Limited	Director of ACT Business Consultants Ltd. and RIW C.P.A. Limited, supervisor of Maanshan Iron & Steel Company Limited and independent non-executive director of China Zhongwang Holdings Limited	/	/
Explanation of positions held in other entities	Nil			

III. REMUNERATIONS OF DIRECTORS, SUPERVISOR AND SENIOR MANAGEMENT

Applicable Not applicable

<p>Procedure for determining remunerations of Directors, Supervisors and senior management</p>	<p>The Remuneration Committee decides the remuneration plan for Directors, Supervisors and senior management for the next year.</p>
<p>Basis for determining remunerations of Directors, Supervisors and senior management</p>	<p>Remuneration for the Company's executive Directors, the management and other senior management members is designed to be 4 to 10 times of the average salary of the employees, which have 0.7 to 1.0 times of difference for different persons. Remuneration for Supervisors is 3 to 8 times of the average salary of the employees, which have 0.8 to 1.0 times of difference for different persons. The remuneration of the above persons is determined based on basic salary and annual performance bonus and is paid strictly based on performance evaluation according to the Company's regulations.</p>
<p>Remunerations payable to Directors, Supervisors and senior management</p>	<p>RMB2,025,100</p>
<p>Total remunerations actually received by all Directors, Supervisors and senior management at the end of the Reporting Period</p>	<p>RMB2,025,100</p>

IV. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Applicable Not applicable

Name	Position	Change	Reason for change
Xu Chun	Supervisor	Election	Election
Dou Hui	Supervisor	Resigned	Work adjustment

V. PUNISHMENTS IMPOSED BY SECURITIES REGULATORY AUTHORITIES IN THE LAST THREE YEARS

Applicable Not applicable

On 30 January 2016, the Company disclosed a profit warning announcement for the results of 2015, which expected 2015 operating results would suffer losses and the net profit attributable to shareholders of the Listed Company was approximately RMB-3.9 billion. The amount was revised into RMB-5.98 billion in the clarification announcement disclosed on 26 March 2016. This is because the Company did not properly estimate the accrued inventory falling price loss at the early period and found that the provision for impairment in inventory after clean-up exerted a great impact on the financial report. On 31 March 2016, the Company disclosed the 2015 annual report, in which the net profit was RMB-5.987 billion.

The Shanghai Stock Exchange holds that a company's annual performance is a main concern for investors, which may have a significant impact on the company's share price and decisions made by investors. The expected loss in performance announcement disclosed earlier was around RMB3.9 billion while the actual loss was RMB5.987 billion, such a great difference of RMB2.087 billion was severe and may greatly mislead investors. The Company stated on 26 March 2016 that it did not reasonably expect the accrued inventory falling price loss at the early period, but this was not a sudden event. It should make full accounting estimates based upon accounting standards to form accounting treatment conclusions and fully reveal the risks on 30 January 2016 when disclosed the performance preannouncement. In addition, the Company did not revise it until 26 March 2016, showing the late information disclosure and serious lag.

In summary, the Company failed to disclose the performance preannouncement carefully and accurately and announce risks fully as well as failed to disclose clarification announcement timely, which violated provisions including Rules 2.1, 2.6 and 11.3.3 of Stock Listing Rules of the Shanghai Stock Exchange (hereafter referred to as the "Stock Listing Rules"). The President Liu Da Wei, Vice President and Finance Director Tu De Ling, Director and General Manager Li Ren Sheng and Secretary to the Board You Xiao An failed to be diligent and responsible and were liable for the Company's action in violation. They violated Rules 2.2, 3.1.4, 3.1.5 and 3.2.2 of the Stock Listing Rules and commitment made in the Declaration and Undertaking of Directors (Supervisors or senior management).

Based on above violation facts and circumstances, upon approval of Discipline Committee, the Shanghai Stock Exchange decided to circulate a notice of criticism to the Company and President Liu Da Wei, Vice President and Finance Director Tu De Ling, Director and General Manager Li Ren Sheng and Secretary to the Board You Xiao An in line with Rules 17.2, 17.3 and 17.4 in the Stock Listing Rules and Implementing Rules of Shanghai Stock Exchange for Disciplinary Punishment and other regulations.

VI. EMPLOYEES OF THE PARENT COMPANY AND MAJOR SUBSIDIARIES

(I) Employees

Number of in-service employees of the Parent Company	8,086
Number of in-service employees of major subsidiaries	0
Total number of in-service employees	8,086
Number of retired employees for whom the Parent Company and major subsidiaries need to bear certain expenses	0

Structure of profession

Type of profession	Number of people
Production staff	6,492
Sales staff	130
Technical staff	479
Finance staff	68
Administrative staff	917
Total	8,086

Education background

Education level	Number of people
Doctor's degree	3
Master's degree	176
Undergraduate	1,127
Associate degree	2,476
Below associate degree	4,304
Total	8,086

VI. EMPLOYEES OF THE PARENT COMPANY AND MAJOR SUBSIDIARIES (CONTINUED)

(II) Remuneration policy

Applicable Not applicable

Employees' remuneration refers to payments the Company makes to employees in cash for their work. Currently, employees' remuneration mainly comprises base salary or documentary salary, post salary, bonus, overtime wages and various types of allowances (including middle-and night-shift allowances, book and newspaper perks, and senior technician allowance).

The Company determines the system, method and level of salary payment within the approved total amount of salary based on the Company's economic benefits and status as well as appraisal results through collective negotiation or upon consideration and approval at the staff representative congress. The Company adopts a salary payment system which features a structured salary, and bases its salary payment on the following factors:

Economic benefits. The level of employees' salary is linked with and determined by and adjusted according to the Company's economic benefits.

Efficiency. The growth of salary is controlled based on the principle that "the growth of total salary should be slower than the growth of the Company's economic benefit and the growth of employees' average salary should be slower than the growth of the Company's labor productivity".

Contribution. The difference in salary should be based on each entity's fulfillment of production and operation indicators and the level of salary is determined by each employee's post and contribution.

Fairness. The Company adheres to a policy of equal pay for equal work under the same salary system, giving the same pay to employees in the same working areas, of the same posts, under the same working conditions, with the same educational backgrounds, the same skills, contributions and performance.

The Company implements a minimum salary system, requiring all of its entities to provide a salary of not lower than the minimum salary standard prescribed by the local government for employees who offer normal labor in legitimate working time (including the trial period, probationary period, learning period and inspection period). The minimum salary does not include overtime wages and middle-and night-shift allowances.

**VI. EMPLOYEES OF THE PARENT COMPANY AND MAJOR SUBSIDIARIES
(CONTINUED)**

(III) Training program

Applicable Not applicable

The Company has put in place a multi-level and multi-type training system, providing internal and external staff training according to development needs to enhance employees' skills and business capability, which in turn will help the Company to improve production efficiency and optimize human resource structure. The Company's efforts for wide and in-depth staff education and training aim to create a learning enterprise and build up a team of high-caliber and innovative talents with an optimized structure and the ability to meet the Company's demand, which will ensure employees' career development and the Company's sustainable development.

(IV) Outsourcing

Applicable Not applicable

VII. OTHERS

Applicable Not applicable

Section IX Corporate Governance

I. EXPLANATION FOR ISSUES RELATED TO CORPORATE GOVERNANCE

Applicable Not applicable

The Company established a comprehensive legal person governance system and operated an effective internal control system in strict compliance with the relevant requirements of the Companies Law, Securities Law and relevant requirements of CSRC and the required regulatory standards as required by the regulatory documents such as the Listing Rules of the Stock Exchange.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 of the Listing Rules as the code for trading of the Company’s securities by Directors. All Directors of the Company confirmed upon specific enquiries that they had complied with the required standards as set out in the Model Code for the six months ended 30 June 2016.

To the best of knowledge of the Board, the Company had complied with the requirements of the “Corporate Governance Code”, Appendix 14 of the Rules Governing the Listing of Shares of the Hong Kong Stock Exchange during the Reporting Period, and no deviation from the Code has been identified.

As the Company was listed on the Shanghai Stock Exchange and the Stock Exchange of Hong Kong Limited (the “Stock Exchange”), it shall comply with the requirements of the Code of Corporate Governance for Listed Companies of CSRC and the Corporate Governance Code of the Stock Exchange in respect of corporate governance practices besides applicable laws and regulations.

The Company firmly believes that the adherence to good corporate governance principles, the enhancement of the transparency and independence of operations and the establishment of an effective accountability system will help ensure the Company’s steady development and increase of shareholders’ value. During the Reporting Period, the Company’s actual governance status had no difference from the requirements of the Code of Corporate Governance for Listed Companies.

Section IX Corporate Governance (Continued)

I. EXPLANATION FOR ISSUES RELATED TO CORPORATE GOVERNANCE (CONTINUED)

1. Shareholders and shareholders' general meeting: The Company convenes, gives notices of and holds general meetings in strict compliance with the relevant requirements of the Company Law, the Articles of Association and the Rules of Procedure for General Meetings. The Company retains lawyers to witness the meetings and issue legal opinion, listens to shareholders' opinions and suggestions to ensure that shareholders, minority shareholders in particular, have equal status and that shareholders have and exercise lawful rights conferred by laws, regulations and the Articles of Association. During the Reporting Period, the Company held the 2015 annual general meeting and the first and second extraordinary general meetings for 2016. On-site and online voting was adopted for the general meetings. The 2015 annual report, re-election of the Board, the Material Assets Reorganisation and other matters were considered and approved at the general meetings with a view to protecting the lawful rights and interests of all shareholders.
2. Controlling Shareholder and the listed company: The Company is completely separate from the Controlling Shareholder in terms of business, staff, organization and finance. The Company is a self-sustaining entity operating independently. The Company's Controlling Shareholder exercises shareholder's rights in strict compliance with the relevant requirement of the Company Law and the Articles of Association without overriding the general meetings or directly intervening in the Company's production and operation and important decision-making. At the end of the Reporting Period, none of the Company's capital and assets was appropriated by its substantial shareholders.
3. Directors and the Board: The Company has established systems including the Rules of Procedure for the Board and the Working Rules for Special Committees of the Board according to the relevant laws, regulations and the Articles of Association. The Board of the Company strictly follows the review process for significant events within its authority pursuant to the relevant requirements and earnestly executes the resolution of general meetings. Special committees separately convened meetings in light of their respective responsibilities, putting forward advice and recommendations regarding the Company's development strategy, material capital operation, remuneration and appraisal of senior management, which effectively promoted the Board's standardized operation and scientific decision-making.

During the Reporting Period, the Board of the Company consists of not fewer than eight members, including 3 independent Directors, 1 of who is a professional accountant. The Board has 4 special committees, namely the Strategy Committee, the Audit Committee, the Remuneration and Evaluation Committee and the Nomination Committee. The composition of the Board and special committees is in compliance with the requirements of the Guidance on Establishment of the Independent Director System in Listed Companies.

Section IX Corporate Governance (Continued)

I. EXPLANATION FOR ISSUES RELATED TO CORPORATE GOVERNANCE (CONTINUED)

4. Supervisors and the Supervisory Committee: Presently, the Supervisory Committee comprises 5 members including 2 supervisors representing staff. The composition of the Supervisory Committee is in compliance with the relevant requirements of the Company Law and other laws and regulations. The Supervisory Committee earnestly performs its prescribed duties according to the Articles of Association and the Rules of Procedure of the Supervisory Committee and monitors the Board's standardized operation, the Company's financial system and operation, the legitimacy and compliance of duty performance by the Company's Directors and senior management.
5. Information disclosure and transparency: The Company strictly implements the Rules for Information Disclosure Management, specifies the person responsible for information disclosure to ensure the truthfulness, accuracy, timeliness and completeness of information disclosure, and treats all shareholders fairly to ensure equal right to know.
6. Establishment of internal control system: The Board authorizes the internal control (audit) office to take charge of the implementation of internal control assessment and to assess the high-risk areas and units within the scope of the assessment. The internal control (audit) office carries out comprehensive evaluation of the implementation of internal control against indicators including internal environment, risk assessment, control measures, information and communication and internal oversight according to the basic standards and supporting guidelines issued by the 5 national ministries and commissions as well as relevant laws and regulations and the Articles of Association, based on the actual situation of the Company. In carrying out internal control measures, the Company built an internal control leading group with the Chairman of the Board as the group leader and an internal control working group with the vice chairman of the Board as the group leader. All relevant management departments of the Company designated internal control commissioners to enhance internal control efforts. Meanwhile, the Company engaged Pan-China Certified Public Accountants (Special General Partnership) to conduct independent audit of the effectiveness of the Company's internal control. During the Reporting Period, the Company also strove to establish an effective risk assessment procedure, specifying the working process and methods for collecting, identifying, analyzing and evaluating risk information. The Company set the standards for risk rating, which requires analysis and sorting of identified risks according to the possibility and magnitude of influence of risks by using both qualitative and quantitative approaches. The Company determined risks worthy of high attention and prioritized control and made clear corresponding reporting process and reporting requirement to enhance risk prevention abilities and assure the achievement of strategic development goals. The Company came up with and improved corresponding control measures based on the risk assessment results through manual and automatic control as well as preventive and afterdetection control to maintain risk control within tolerable bounds. Control measures usually include control on separation of incompatible posts, authorization approval, accounting system, property protection, budget, operation analysis and performance appraisal, etc.

Section IX Corporate Governance (Continued)

I. EXPLANATION FOR ISSUES RELATED TO CORPORATE GOVERNANCE (CONTINUED)

7. Insider registration management: In accordance with the Notice on Furtherance of Relevant Work Regarding Information Insider Registration and Management (Yu Zheng Jian Fa [2011] No. 279) (the “Notice”) issued by Chongqing Securities Regulatory Bureau on 8 November 2011, the Company amended and improved the Information Insider Management System formulated in April 2010. During the Reporting Period, the Company did well in the management of regular reporting and confidentiality, registration, disclosure, filing of insider information such as the Material Assets Reorganisation and insiders in strict accordance with the above requirement, effectively guarding the principle of fairness in information disclosure. During the Reporting Period, the Company had no inside information leakage or insider transactions.

Does Corporate governance significantly deviate from relevant CSRC provisions? If so, please explain the reason.

Applicable Not applicable

II. INTRODUCTION OF GENERAL MEETINGS

Meeting	Date	Website designated for publication of resolutions	Date of publication of resolutions
2016 First Extraordinary Meeting	7 March 2016	Announcement of Results of 2016 First Extraordinary Meeting (2016-013) published on the website of the Shanghai Stock Exchange (http://www.sse.com.cn) and in China Securities Journal, Shanghai Securities News, Securities Daily and Securities Times	8 March 2016
2015 Annual General Meeting	6 June 2016	Announcement of Results of 2015 Annual General Meeting (2016-027) published on the website of the Shanghai Stock Exchange (http://www.sse.com.cn) and in China Securities Journal, Shanghai Securities News, Securities Daily and Securities Times	7 June 2016
2016 Second Extraordinary Meeting	11 October 2016	Announcement of Results of 2016 Second Extraordinary Meeting (2016-057) published on the website of the Shanghai Stock Exchange (http://www.sse.com.cn) and in China Securities Journal, Shanghai Securities News, Securities Daily and Securities Times	12 October 2016

Explanations on general meetings

Applicable Not applicable

Section IX Corporate Governance (Continued)

III. DUTY PERFORMANCE OF DIRECTORS

(I) Directors' attendance of Board meetings and general meetings

Name of director	Independent director or not	Number of Board meetings	Attendance of Board meetings				Whether failed to attend 2 consecutive meetings in person	Attendance of general meetings Number of general meetings attended
			Attendance in person	Attendance via communication	Attendance by proxy	Absence		
Liu Da Wei	No	4	4	0	0	0	No	2
Zhou Hong	No	4	4	0	0	0	No	3
Tu De Ling	No	4	4	0	0	0	No	3
Li Ren Sheng	No	4	4	0	0	0	No	3
Zhang Li Quan	No	4	4	0	0	0	No	3
Yao Xiao Chu	No	4	4	0	0	0	No	3
Xu Yi Xiang	Yes	4	1	3	0	0	No	3
Xin Qing Quan	Yes	4	1	3	0	0	No	3
Wong Chun Wa	Yes	4	0	4	0	0	No	3

Explanations on failure to attend 2 consecutive meetings in person

Applicable Not applicable

Number of Board meetings during the year	4
Including: number of physical meetings	0
number of virtual meetings	0
number of meetings by both physical and virtual means	4

(II) Objections raised by independent Directors in respect of relevant matters of the Company

Applicable Not applicable

(III) Other

Applicable Not applicable

Section IX Corporate Governance (Continued)

IV. IMPORTANT ADVICE AND RECOMMENDATIONS FROM THE SPECIAL COMMITTEES OF THE BOARD IN PERFORMING DUTIES DURING THE REPORTING PERIOD, IN CASE OF OBJECTIONS, THE DETAILS SHOULD BE DISCLOSED

Applicable Not applicable

(I) Work of the Nomination Committee

In 2016, the Nomination Committee of the Company duly performed its duties with diligence in accordance with relevant laws, regulations, Articles of Association and Rules of Procedure for the Nomination Committee.

The second meeting of the second session of the Nomination Committee was convened at the No. 1 Conference Room, 4/F, the Management Building of the Company, by way of communication at 10:00 a.m. on 26 December 2016. All of the 3 members attended the meeting. The meeting was convened by Mr. Liu Da Wei, the chairman. The notice for the meeting was dispatched on 20 December 2016, and relevant information to be considered at the meeting was submitted to all members. The following resolutions were formed upon the earnest consideration by the members attending the meeting:

1. *Recommendations about the size and structure of the Board:*

There was no change on the members of the Board of the Company in 2016.

Based on relevant situations in relation to the Company's production and operation scales and industrial features, the Nomination Committee is of the opinion that, the size and composition of the Board are proper and in line with relevant requirements on standardized governance.

2. *Identifying, vetting and recommending the candidates for Directors and senior management:*

There was no change on the members of the Board and other senior management of the Company in 2016. Therefore, no identification, vetting and recommendation was made on related candidates.

IV. IMPORTANT ADVICE AND RECOMMENDATIONS FROM THE SPECIAL COMMITTEES OF THE BOARD IN PERFORMING DUTIES DURING THE REPORTING PERIOD, IN CASE OF OBJECTIONS, THE DETAILS SHOULD BE DISCLOSED (CONTINUED)

(II) Work of the Remuneration and Evaluation Committee

In 2016, the Remuneration and Evaluation Committee duly performed its duties with diligence in accordance with relevant laws, regulations, Articles of Associations and Rules of Procedure for the Remuneration and Evaluation Committee.

The second meeting of the fifth session of the Remuneration and Evaluation Committee was convened at the No. 1 Conference Room, 4/F, the Management Building of the Company, by way of communication at 10:00 a.m. on 29 December 2016. All of the 4 members attended the meeting. The meeting was convened by Mr. Xu Yi Xiang, the chairman. The following resolutions were formed at the meeting:

1. Approving the remuneration scheme for senior management of the Company for 2016 and its implementation, i.e. the remuneration for the Company's executive Directors, the management and other senior management members in 2016 was designed to be 4 to 10 times of average salary of the employees, which have 0.7 to 1.0 times of difference for different persons; remuneration for Supervisors is 3 to 8 times of average salary of the employees, which have 0.8 to 1.0 times of difference for different persons. The remuneration of the above persons is determined based on basic salary and annual performance bonus and is paid strictly based on performance evaluation according to the Company's regulations.
2. Approving the remuneration scheme for Directors, supervisor and senior management of the Company for 2017, i.e. the remuneration for the Company's executive Directors, the management and other senior management members in 2017 will be designed to be 4 to 10 times of average salary of the employees on a market-oriented basis, so as to implement a designed annual remuneration based on performance agreement. The remuneration of the above persons is determined based on annual basic salary, annual performance bonus (representing bonus calculated according to the result of losses controlling and turning losses into gains) and safety performance.

IV. IMPORTANT ADVICE AND RECOMMENDATIONS FROM THE SPECIAL COMMITTEES OF THE BOARD IN PERFORMING DUTIES DURING THE REPORTING PERIOD, IN CASE OF OBJECTIONS, THE DETAILS SHOULD BE DISCLOSED (CONTINUED)

(III) Work of the Strategy Committee

In 2016, the Strategy Committee duly performed its duties with diligence in accordance with relevant laws, regulations, Articles of Associations and Rules of Procedure for the Strategy Committee.

During the Reporting Period, the Strategic Committee focused on the Company's material development strategy and strictly implemented relevant decision-making procedures. On 28 December 2016, the Company convened the second meeting of the fifth session of the Strategic Committee. All of the 6 members attended the meeting. The meeting was convened by Mr. Liu Da Wei, the chairman, at which the resolution in relation to the Purchase and Sale Cooperation Framework Agreement entered into between the Company and Chongqing Qianxin International Trade Company Limited was considered and approved, and was submitted to the Board of the Company for decision.

(IV) Work of the Audit Committee

According to the relevant provisions of CSRC and Shanghai Stock Exchange, Work Rules for Audit Committee under the Board, the Rules of Procedure on Annual Report for Independent Directors, Work Procedures on Annual Report for Audit Committee under the Board, the Audit Committee has duly and proactively performed its duties with diligence in 2016. The performance of relevant work by the Audit Committee in 2016 is reported as follows:

1. *General status of Audit Committee of the Board*

The Audit Committee of the Board of the Company comprises of 3 Independent Directors, among which, the convener was performed by an Independent Director who has professional accounting qualification.

IV. IMPORTANT ADVICE AND RECOMMENDATIONS FROM THE SPECIAL COMMITTEES OF THE BOARD IN PERFORMING DUTIES DURING THE REPORTING PERIOD, IN CASE OF OBJECTIONS, THE DETAILS SHOULD BE DISCLOSED (CONTINUED)

(IV) Work of the Audit Committee (Continued)

2. *Meetings convened by the Audit Committee of the Board*

During 2016, a total of 3 meetings were convened by the Audit Committee of the Board of the Company:

The second meeting of the sixth session of the Audit Committee of the Board was held by the Company on 15 January 2016, and the following resolutions were considered: (1) agreed to dismiss KPMG Huazhen Certified Public Accountants (Special General Partnership) as the auditor for the Company's 2015 annual report audit and internal control, proposed to appoint Pan-China Certified Public Accountants (Special General Partnership) as the auditor for the Company's 2015 annual report audit and internal control, and determined the remuneration for the auditor for 2015 annual report audit and internal control in accordance with the industry standards and the auditing situation with reference to the fair and reasonable pricing principle in the market; (2) agreed to submit the Resolution in relation to Change Auditors for 2015 Annual Report Audit and Internal Control to the Board for consideration.

The third meeting of the sixth session of the Audit Committee was held by the Company on 29 March 2016, and the following resolutions were considered: (1) the 2015 audited financial report was approved. (2) the connected transactions conducted by the Company in 2014 were confirmed; (3) agreed to the Company's provision for impairment of assets for 2015; (4) the 2015 self-evaluation report on internal control was approved; (5) the scheme on implementation of standard for internal control in 2016 was approved; (6) the 2015 internal audit report and the 2016 internal audit plan were approved; (7) the 2015 internal control audit report was approved; (8) the report of the Audit Committee provided by auditor was discussed by the Audit Committee and was brought into the keen attention of the Board; (9) the final report for 2015 financial statements and internal control prepared by Pan-China Certified Public Accountants (Special General Partnership) was approved and submitted to the Board for consideration; (10) the re-appointment of Pan-China Certified Public Accountants (Special General Partnership) as the auditors for Company's 2016 financial and internal control was proposed and submitted to the Board for consideration.

IV. IMPORTANT ADVICE AND RECOMMENDATIONS FROM THE SPECIAL COMMITTEES OF THE BOARD IN PERFORMING DUTIES DURING THE REPORTING PERIOD, IN CASE OF OBJECTIONS, THE DETAILS SHOULD BE DISCLOSED (CONTINUED)

(IV) Work of the Audit Committee (Continued)

2. *Meetings convened by the Audit Committee of the Board (Continued)*

The fourth meeting of the sixth session of the Audit Committee of the Board was held by the Company on 30 August 2016, at which the Company's unaudited interim financial report for 2016 was considered and approved, and was submitted to the Board for consideration; the Company's semi-annual reports and summary for 2016 were considered and approved, and were submitted to the Board for consideration.

3. *Performance of relevant work by the Audit Committee of the Board of the Company*

(1) Communication with external auditor

In accordance with the relevant provisions, the independent Directors of the Company communicated with the certified public accountants responsible for the annual audit (the "CPAs") prior to the commencement of annual audit by the auditor. The key issues being discussed include the audit opinion on going concern, the audit plan for provision for impairment of fixed assets, the impact of significant pending litigation and continuing performing significant cooperation contracts on the Company's financial report, the rectification of the internal control deficiencies of the Company in 2015 and the internal control audit plan for 2016, which resulted in written opinions.

Upon the commencement of audit by CPAs for annual audit, the Audit Committee communicated and exchanged opinions with the CPAs for annual audit about the problems found out during the auditing and consulted with them for the submitting time of the auditors' report. After the auditor issued the preliminary audit opinion and before the Company convenes a Board meeting to consider the annual report, the Audit Committee communicated with CPAs in respect of the key issues including the matter of going concern, fixed assets impairment, significant pending litigation, significant deficiencies of non-internal control of financial report, termination of original significant cooperation contracts and commencement of new significant cooperation contracts, and capital and debt risk, so as to understand the solutions of the management of the Company and the audit evidence obtained by the auditors. The communication record has resulted in written opinions.

IV. IMPORTANT ADVICE AND RECOMMENDATIONS FROM THE SPECIAL COMMITTEES OF THE BOARD IN PERFORMING DUTIES DURING THE REPORTING PERIOD, IN CASE OF OBJECTIONS, THE DETAILS SHOULD BE DISCLOSED (CONTINUED)

(IV) Work of the Audit Committee (Continued)

3. *Performance of relevant work by the Audit Committee of the Board of the Company (Continued)*

(2) Reviewing the Company's financial statements

After listening to the report on financial position and operating results for the year by the financial controller of the Company, the Committee carefully reviewed the preliminary financial statements prepared by the Company prior to the commencement of annual audit by the auditor, asked for the Company's keen attention on the impact of going concern, provision for impairment of fixed assets and significant pending litigation on the financial statements and agreed to submit related reports to CPAs for annual audit.

(3) Supervising and evaluating the work of external auditor

Upon the issue of Auditors' Report for 2015 by Pan-China Certified Public Accountants, the Audit Committee held a meeting, at which it made a summary of the audit work by Pan-China Certified Public Accountants; and recommended the Board to re-appoint Pan-China Certified Public Accountants (Special General Partnership) as the audit and internal control auditor of the Company for 2016.

(4) Providing guidance on the internal audit of the Company

During the Reporting Period, the Audit Committee under the Board of the Company earnestly reviewed the Company's internal audit for 2015 and the internal audit plan for 2016, promptly supervised and urged the smooth implementation of the internal audit plan for 2016, and provide instructive opinions on the problems occurred in the Company's internal audit to improve the Company's efficiency of internal audit.

IV. IMPORTANT ADVICE AND RECOMMENDATIONS FROM THE SPECIAL COMMITTEES OF THE BOARD IN PERFORMING DUTIES DURING THE REPORTING PERIOD, IN CASE OF OBJECTIONS, THE DETAILS SHOULD BE DISCLOSED (CONTINUED)

(IV) Work of the Audit Committee (Continued)

3. *Performance of relevant work by the Audit Committee of the Board of the Company (Continued)*

(5) Reviewing the establishment and implementation of the internal control system

During the Reporting Period, the Audit Committee under the Board gave full play to the role of professional committee to proactively propel the construction of the Company's internal control system and supervise and urge the construction of the Company's standard internal control system. During the Reporting Period, the Audit Committee under the Board of the Company reviewed the Company's self-assessment report on internal control in 2015 and 2016, and noted that, in 2015, there was 1 significant defect and 3 general defects of the annual Company's internal control relating to the accuracy and timeliness of disclosure of results, for which the Company has completed the related rectification at the end of December 2016. In 2016, the Company maintained effective financial internal control in all material respect in accordance with the requirements of the code of corporate internal control and related regulations; due to the non-fully expected impact of market changes on some major cooperation projects, which have resulted in deviation from the evaluation of risk of economic benefit and constituted deficiencies of non-internal control of financial report, the Company has negotiated with some partners for termination of cooperation in December 2016.

4. *Overall evaluation*

During the Reporting Period, according to the provisions under the Operational Guidelines of the Shanghai Stock Exchange for the Audit Committee under the Board of Directors of Listed Companies, Work Rules for Audit Committee under the Board, the Rules of Procedure on Annual Report for Independent Directors, Work Procedures on Annual Report for Audit Committee under the Board, the Audit Committee has duly performed its duties with diligence.

Section IX Corporate Governance (Continued)

V. EXPLANATION ABOUT IDENTIFICATION OF RISKS IN THE COMPANY BY THE SUPERVISORY COMMITTEE

Applicable Not applicable

VI. EXPLANATION ABOUT INDEPENDENCE OF THE COMPANY FROM THE CONTROLLING SHAREHOLDER IN TERMS OF BUSINESS, STAFF, ASSETS, ORGANIZATION AND FINANCE AND THE COMPANY'S INDEPENDENT OPERATING CAPABILITY

Applicable Not applicable

Corresponding resolutions, progress and subsequent working plans of the Company in case of horizontal competition

Applicable Not applicable

VII. ESTABLISHMENT AND IMPLEMENTATION OF SENIOR MANAGEMENT APPRAISAL AND INCENTIVE MECHANISMS DURING THE REPORTING PERIOD

Applicable Not applicable

During the Reporting Period, the Company made an appraisal of economic responsibilities of the Directors and senior management who received remunerations from the Company according to the implementation the Company's annual operational budget plan, and paid remuneration and bonus based on the appraisal results.

Section IX Corporate Governance (Continued)

VIII. WHETHER TO DISCLOSE THE SELF-EVALUATION REPORT ON INTERNAL CONTROL

Applicable Not applicable

According to the identification criteria of material deficiency of internal control in the financial reporting of the Company, as at the basis date of internal control evaluation report, material deficiency of internal control in the financial reporting did not exist. The Board is of the view that the Company has maintained efficient internal control in the financial report in all material respects in accordance with requirements of corporate internal control standard system and relevant regulations.

According to the identification of material defects of internal control in the non-financial report, as at the basis date of internal control evaluation, the Company found 1 material defect: it failed to fully expect the impact of market changes in some major cooperation projects, leading to bias in economic risk assessment and ratcheting up the pressure on production and management. The Company terminated cooperation with partners through consultation in December 2016.

Upon the self-evaluation, the Company was subject to general defects in timely internal transfer of engineering receipts and engineering settlement, incompleting reconciliation records and timely handling of property rights. The Board and the management attached great importance to these general defects by requiring relevant units and responsible personnel for rectification and implementation within a time limit and intensified follow-up supervision and inspection to enable such rectification to be implemented properly.

For details, please refer to the Audit Report on Internal Control of Chongqing Iron & Steel Company Limited in 2016 published on the website of the Shanghai Stock Exchange (<http://www.sse.com.cn>) and in China Securities Journal, Shanghai Securities News, Securities Daily and Securities Times on 30 March 2017.

Explanation on material defects regarding the internal control during the Reporting Period

Applicable Not applicable

Due to the non-fully expected impact of market changes on some major cooperation projects, which have resulted in deviation from the evaluation of risk of economic benefit and brought greater pressure on operation, the Company has negotiated with some partners for termination of cooperation in December 2016.

Section IX Corporate Governance (Continued)

IX. EXPLANATION ON THE AUDIT REPORT ON INTERNAL CONTROL

Applicable Not applicable

Pan-China Certified Public Accountants (Special General Partnership) conduct an audit on the effectiveness of the Company's internal control over financial reporting as at 31 December 2016 in accordance with Enterprise Internal Control Audit Guidance and relevant requirements from the practising guidances of the China Institute of Certified Public Accountants and in view of that, the Company maintained effective internal control on financial reporting in all material aspects as at 31 December 2016 according to the Basic Standards for Enterprise Internal Control and relevant requirements. No discrepancy as between the audit report and self-evaluation opinion of the Company was found. Users of the internal control audit report are advised to pay attention to the following risks: due to the non-fully expected impact of market changes on some major cooperation projects, which have resulted in deviation from the evaluation of risk of economic benefit and brought greater pressure on operation, the Company has negotiated with some partners for termination of cooperation in December 2016.

Whether to disclose the audit report on internal control: Yes

X. OTHERS

Applicable Not applicable

Section X Relevant Information on Corporate Bond

Applicable Not applicable

I. OVERVIEW OF CORPORATE BONDS

Unit: RMB100 million

Bonds Name	Abbreviation	Bond code	Issuing date	Date of expiry	Balance of bonds	Interest rate	repayment method of the principal and the interest thereon	Place of transaction
Corporate bonds of Chongqing Iron & Steel Company limited of 2010	10 CISL Bond	122059	9 December 2010	9 December 2017	20.00	6.20%	Interest is payable annually in arrears, and principal will be repaid upon maturity	Shanghai Stock Exchange

Payment of interest of corporate bonds

Applicable Not applicable

On 9 December 2016, the Company paid the interest of 10 CISL Bond in a timely manner.

Other information about corporate bonds

Applicable Not applicable

The coupon rate of the bonds is 6.20% and remains unchanged for the first five years during the existence period (from 9 December 2010 to 8 December 2015); the Company chose not to raise the coupon rate at the end of the fifth year within the existence period, and the coupon rate remains at 6.20%, which will remain unchanged for the last two years (from 9 December 2015 to 8 December 2017).

Section X Relevant Information on Corporate Bond (Continued)

II. CONTACT PERSONS AND METHODS OF CORPORATE BONDS TRUSTEE MANAGER, CONTACT METHODS OF CREDIT RATING AGENCY

Bonds trustee manager	Name	China Merchants Securities Co., Ltd.
	Address	Level 38–45, Tower A, Jiangsu Building, Yitian Road, Futian District, Shenzhen, China
	Contact person	Li Jian
	Tel	0755–82943256
Credit rating agency	Name	China Chengxin Securities Ratings Co., Ltd.
	Address	4/F, Jinyang Tower, No. 26 Financial Street, Xicheng District, Beijing

Others:

Applicable Not applicable

III. USE OF PROCEEDS RAISED FROM PUBLIC ISSUANCE OF THE CORPORATE BONDS

Applicable Not applicable

The Company's 10 CISL Bond has raised funds of RMB2 billion and was fully utilized as scheduled in accordance with the use of proceeds as set out in the prospectus in 2011.

IV. INFORMATION OF THE RATING AGENCY OF THE CORPORATE BONDS

Applicable Not applicable

China Chengxin Securities Ratings Co., Ltd. conducted a credit rating at the issuance of the bonds and came to the conclusion that the main long-term credit rating of the Company was at AA and the bonds credit rating of the Company was AA+ with a stable outlook; on 29 April 2016, China Chengxin Securities Ratings Co., Ltd. conducted a follow-up credit rating and came to the conclusion that the main long-term credit rating of the Company was at AA- with a negative outlook and the bonds credit rating of the Company was AAA.

Section X Relevant Information on Corporate Bond (Continued)

V. CORPORATE BONDS CREDIT ENHANCEMENT MECHANISM, SOLVENCY PLAN AND OTHERS DURING THE REPORTING PERIOD

Applicable Not applicable

During the Reporting Period, the enhancement mechanism, solvency plan and other solvency guarantee measures of corporate bonds remained the same and were in line with the relevant commitment as set out in the prospectus.

VI. MEETING OF CORPORATE BONDHOLDERS

Applicable Not applicable

As at end of the Reporting Period, no meeting of corporate bondholders had been convened.

VII. DUTY FULFILLMENT OF CORPORATE BONDS TRUSTEE MANAGER

Applicable Not applicable

During the Reporting Period, the bonds trustee manager performed its duty in accordance with the agreement.

VIII. ACCOUNTING DATA AND FINANCIAL INDICATOR FOR THE RECENT TWO YEARS AS OF THE END OF REPORTING PERIOD

Applicable Not applicable

Unit: RMB0'000

Major indicator	2016	2015	Increase or decrease over the same period of the previous year (%)	Reason for changes
Earnings before interest, tax, depreciation and amortization	-2,186,577	-3,481,873	-37.2	
Current ratio	0.09	0.19	-49.82	
Quick Ratio	0.06	0.07	-15.83	
Gearing Ratio	100.29%	89.78%	11.71	

Section X Relevant Information on Corporate Bond (Continued)

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

Applicable Not applicable

X. BANK CREDIT BUSINESS WITHIN THE REPORTING PERIOD

Applicable Not applicable

As of the end of Reporting Period, the lines of credit of the Company from the bank totaled RMB17.632 billion and the credit utilized was RMB16.532 billion.

XI. FULFILLMENT OF COMMITMENT IN THE COMPANY'S PROSPECTUS DURING THE REPORTING PERIOD

Applicable Not applicable

During the Reporting Period, the Company strictly fulfilled the relevant commitments in the prospectus, utilized the raised capital with compliance and paid the interest of the corporate bonds on time and thus there was no such situations that damaged the interests of bondholders.

XII. IMPACT OF MAJOR EVENTS TO OPERATING STATUS AND SOLVENCY OF THE COMPANY

Applicable Not applicable

The iron and steel industry experienced a slight improvement in 2016, yet overcapacity remained severe. The Company's audited net profit vested in the shareholders of listed company was RMB-4.685 billion. The loss-making net profit and tight cash flow both had adverse impact on the capital and interest of corporate bonds due and payable.

Section XI Internal Control Report

I. STATEMENT OF INTERNAL CONTROL RESPONSIBILITIES AND INTERNAL CONTROL SYSTEM ESTABLISHMENT

The Board of the Company is responsible for setting up and maintaining an effective internal control system related to financial reporting. The Company prepared the 2016 Internal Control Evaluation Report of Chongqing Iron & Steel Company Limited according to the internal control functioning in 2016 (for details, please refer to the announcement published on the website of the Shanghai Stock Exchange (<http://www.sse.com.cn>) and in China Securities Journal, Shanghai Securities News, Securities Daily and Securities Times on 30 March 2017).

II. EXPLANATION ON RELEVANT MATTER OF THE INTERNAL CONTROL AUDIT REPORT

Pan-China Certified Public Accountants (Special General Partnership) conduct an audit on the effectiveness of the Company's internal control over financial reporting as at 31 December 2016 in accordance with Enterprise Internal Control Audit Guidance and relevant requirements from the practising guidances of the China Institute of Certified Public Accountants and in view of that, the Company maintained effective internal control on financial reporting in all material aspects as at 31 December 2016 according to the Basic Standards for Enterprise Internal Control and relevant requirements. No discrepancy as between the audit report and self-evaluation opinion of the Company was found. Users of the internal control audit report are advised to pay attention to the following risks: due to the non-fully expected impact of market changes on some major cooperation projects, which have resulted in misestimated of risk of economic benefit and brought greater pressure on operation, the Company has negotiated with cooperation partners for termination of cooperation in December 2016.

This paragraph does not affect the audit opinion on internal control on financial reporting published.

III. EXPLANATION ABOUT THE ACCOUNTABILITY SYSTEM FOR MAJOR ERRORS IN ANNUAL REPORT AND IMPLEMENTATION THEREOF

The fourth session of the Board of the Company considered and approved at its 4th meeting the Information Disclosure Management System of Chongqing Iron & Steel Company Limited, which provides for accountability for major errors in information disclosure in the annual report of the Company.

Section XII Social, Environmental and Governance Report

This section was prepared according to the requirements under the Corporate Governance Code and Corporate Governance Report of the Stock Exchange.

I. CORPORATE GOVERNANCE PRACTICES

The Company has always been committed to improving corporate governance and deems corporate governance as part of value creation with the aim to demonstrate the fulfillment of commitments made by the Board and senior management, maintain transparency and accountability to shareholders and create maximum value for shareholders.

The Company complied with the corporate governance principles and all the code provisions (if applicable, including most recommended best practices) (Corporate Governance Code) set out in Appendix 14 to the Listing Rules as at 31 December 2016.

a) Securities transactions by Directors and Supervisors

(I) Directors' and Supervisors' Interests in the Shares of the Company or Associated Corporation

As at 31 December 2016, the interests and short positions (including interests or short positions which they were taken or deemed to have under relevant provisions of the SFO) of the Directors, Supervisors and senior management members in the shares or underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or which were required, pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules of the Stock Exchange") and the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

Interests in Chongqing Iron & Steel Group Doorlead Realty Co., Ltd. (originally named Hengda):

Name	Interest type	Number of (shares)
Liu Da Wei	Individual	800
Tu De Ling	Individual	800
Xie Chuan Xin	Individual	5,600
Chen Hong	Individual	1,600

Note: the above information indicates that the interests of the Directors and Supervisors in Hengda were transferred from the Company to the Parent Company in December 2002.

I. CORPORATE GOVERNANCE PRACTICES (CONTINUED)

a) Securities transactions by Directors and Supervisors (Continued)

(I) *Directors' and Supervisors' Interests in the Shares of the Company or Associated Corporation (Continued)*

Save as disclosed above, as at 31 December 2016 none of the Directors, Supervisors or their respective associates had any interest in the shares of the Company or its associated corporations.

During the year 2016, none of the Directors or Supervisors or their spouses or children under 18 years of age has been granted by the Company the rights to subscribe for the Company's shares.

At no time during the year 2016 was the Company, its fellow subsidiaries or its Parent Company a party to any contract of significance in relation to the Company's business in which a Director or Supervisor of the Company had material interest, either directly or indirectly.

At no time during the year 2016 was the Company, its fellow subsidiaries or its Parent Company a party to any arrangements to enable the Directors or Supervisors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

(II) *Service Contracts of Directors and Supervisors*

The Directors and supervisors of the Company respectively entered into service contracts which commenced from 31 May 2012. Neither terms for compensation for termination of service prior to the expiry of the service contracts nor the terms for compensation for no renewal of service upon the expiry of such service contracts were made.

(III) *Directors' and Supervisors' Interests in the Contracts*

The Company did not enter into any contract of significance (except service contracts) in which a Director or Supervisor of the Company was enabled to have a material interest or is substantially interested, whether directly or indirectly, and there was no such contract subsisting at the end of the reporting period or at any time during the reporting period.

I. CORPORATE GOVERNANCE PRACTICES (CONTINUED)

a) Securities transactions by Directors and Supervisors (Continued)

(IV) *Model Code for Securities Transactions by Directors and Supervisors*

The Company takes the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to Listing Rules of the Stock Exchange and the Rules on the Management of Shares Held by the Directors, Supervisors and senior management Officers of Listed Companies and the Changes Thereof (Zheng Jian Gong Si Zi [2007] No. 56 by CSRC) as the code for securities transactions by its Directors, Supervisors, and senior management. After making specific enquiries to all Directors and Supervisors, the Company confirmed that all Directors and Supervisors had complied with the requirements of the above code and rules concerning the securities transactions by Directors as at the date hereof.

b) The Board

i. *Composition of the Board*

For details, please refer to “Section VIII.I.(I)” of this report.

ii. *Number of Board meetings during the financial year*

For details, please refer to “Section IX.III” of this report.

iii. *Directors’ attendance of the Board meetings and general meetings*

For details, please refer to “Section IX.III” of this report.

iv. *Division of responsibilities between the Board and the management*

The Board is collectively responsible for the Company’s management and operation under the leadership of its chairman. The Board formulates the Company’s overall strategy, sets the Company’s business direction and financial performance target, ensure the establishment and implementation of the Company’s good corporate governance structure and procedure. The Board reports the Company’s performance and business to the Company’s shareholders. The Board is the Company’s final decision-making organ other than matters which are required by the Company’s Articles of Association, the Listing Rules and other applicable laws and regulations to be subject to approval by shareholders.

I. CORPORATE GOVERNANCE PRACTICES (CONTINUED)

b) The Board (Continued)

iv. Division of responsibilities between the Board and the management (Continued)

The management takes charge of the Company's business operation and implements policies formulated by the Board. The management is accountable to the Board and is required to make decisions for matters prescribed by the executive committee or seek prior approval of the executive committee before making commitments on behalf of the Company. The executive committee monitors the management's performance according to the Company's corporate goals, missions and business plan which are determined and approved by the Board from time to time.

v. The Company strictly complied with relevant provisions under Rule 3.10(1) and (2) and Rule 3.10(A) of the Listing Rules of Hong Kong Stock Exchange during the Reporting Period.

vi. The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

vii. There is no disclosable connected relationship between members of the Board of the Company.

viii. Particulars of Directors and senior management training

During the year, all Directors received training required by applicable laws and regulatory regulations. In addition, some Directors also attended training related to their profession or business to enhance their management capability. All new Directors had proper understanding of the laws and rules which they should know for carrying out their duties before taking office.

I. CORPORATE GOVERNANCE PRACTICES (CONTINUED)

c) Chairman and general manager

The chairman is elected and removed by a majority vote of all Directors, serves for a term of 3 years and is eligible for re-election. The chairman is responsible for the day-to-day work of the Board.

The general manager takes charge of the day-to-day production and operation. The general manager is appointed by the Board for a term of 3 years and is eligible for re-election.

The roles of chairman and general manager of the Company were performed by different individuals.

d) Non-executive Director

Non-executive Directors of the Company serve for a term of 3 years and are eligible for re-election. For detailed information about current members of the Board, please refer to Section VIII(I) of this report.

e) Committees under the Board

(I) *Functions of special committees*

1. Primary responsibilities of the Strategy Committee
 - 1) to study the strategic plan for long-term development of the Company and give suggestions;
 - 2) to study the major investment and financing plans which are required by the Articles of Association to be approved by the Board and give suggestions;
 - 3) to study the major capital operation and assets operation project which are required by the Articles of Association to be approved by the Board and give suggestions;
 - 4) to study other significant events which may influence the Company's development and give suggestions;
 - 5) to inspect the execution of the above matters;
 - 6) other matters authorized by the Board.

I. CORPORATE GOVERNANCE PRACTICES (CONTINUED)

e) Committees under the Board (Continued)

(I) *Functions of special committees (Continued)*

2. Primary responsibilities of the Audit Committee
 - 1) to make recommendation on the appointment or removal of the external auditing institutions;
 - 2) to monitor the Company's internal audit system and the implementation thereof;
 - 3) to coordinate the communication between the internal and external auditors;
 - 4) to review the financial information and disclosure of the Company;
 - 5) to review the internal control system of the Company and audit major connected transactions;
 - 6) other matters authorized by the Board.
3. Primary responsibilities of the Remuneration and Evaluation Committee
 - 1) to formulate the remuneration scheme or plan according to the main scopes, duties and importance of the positions of Directors and senior management as well as the remuneration levels of similar positions of other similar enterprises;
 - 2) the remuneration scheme or plan includes but is not limited to the criteria and procedure for performance appraisal, major appraisal system as well as the main plan and system for awards and punishment;
 - 3) to inspect duty performance of Directors (non-independent director) and senior management and conduct annual performance evaluation;
 - 4) to monitor the implementation of the remuneration system;
 - 5) other matters authorized by the Board.

Section XII Social, Environmental and Governance Report (Continued)

I. CORPORATE GOVERNANCE PRACTICES (CONTINUED)

e) Committees under the Board (Continued)

(I) Functions of special committees (Continued)

4. Primary responsibilities of the Nomination Committee

- 1) to make recommendations to the Board regarding the size and composition of the Board based on the Company's business operation, asset size and shareholding structure;
- 2) to study the criteria and procedure for electing Directors and managers and make recommendation to the board;
- 3) to identify individuals suitably qualified to become Directors and managers;
- 4) to vet the candidates for Directors and managers and make recommendations;
- 5) to vet other senior management proposed to be appointed by the Board and make recommendation;
- 6) other matters authorized by the Board.

(II) Composition of all special committees (as of 31 December 2016)

Strategy Committee	Audit Committee	Remuneration and Evaluation Committee	Nomination Committee
Liu Da Wei*	<i>Xin Qingquan*</i>	<i>Xu Yixiang*</i>	Liu Da Wei*
Li Rensheng	<i>Xu Yixiang</i>	Tu De Ling	<i>Xin Qingquan</i>
Zhou Hong	<i>Wong Chun Wa</i>	<i>Xin Qingquan</i>	<i>Wong Chun Wa</i>
Zhang Liquan		<i>Wong Chun Wa</i>	
Yao Xiaohu			
<i>Xu Yixiang</i>			

Note: * Chairman of special committees

Names in italic letters are independent non-executive directors

I. CORPORATE GOVERNANCE PRACTICES (CONTINUED)

e) Committees under the Board (Continued)

(III) *Work of special committees*

For details, please refer to “Section IX.IV” of this report.

f) Remuneration of auditors

For details, please refer to “Section V.VI” of this report.

g) Company secretary

The Company did not engage any service institution as the company secretary.

h) Shareholders' rights

(I) *Shareholders' right to convene an extraordinary general meeting*

According to the Company law, the Articles of Association of the Company stipulates that: shareholders individually or collectively holding more than 10% of the Company's shares are entitled to request, which should be in written form, the Board to hold an extraordinary general meeting. The Board shall, in accordance with laws, regulations and the Articles of Association, give a written feedback indicating its agreement or objection to convening an extraordinary general meeting within 10 days of receipt of the requisition. If the Board agrees to the proposal, it shall issue a note convening the general meeting within 5 days of its decision and shall obtain relevant shareholders' consent in case of any changes to the original requisition. If the Board disagrees or does not give any feedback within 10 days of receipt of the requisition, shareholders individually or collectively holding more than 10% of the Company's shares have the right to propose, which should be in written form, the convening of an extraordinary general meeting to the Supervisory Committee.

I. CORPORATE GOVERNANCE PRACTICES (CONTINUED)

h) Shareholders' rights (Continued)

(II) *Enquiry procedure and available information*

According to the Articles of Association of the Company, shareholders may have access to relevant information including:

1. the Articles of Association after paying the cost;
2. inspecting and copying, after paying reasonable fees;
 - 1) all parts of the register of shareholders;
 - 2) personal information of the Company's Directors, Supervisors, general manager and other senior management, including: (a) current and previous name and alias; (b) principal address (residence); (c) nationality; (d) full-time and all other part-time jobs and titles; (e) identity document and number;
 - 3) counterfoil of corporate bonds;
 - 4) resolutions of the Board meetings;
 - 5) resolutions of the Supervisory Committee meetings;
 - 6) information about the share capital of the Company;
 - 7) reports showing the total nominal value and number of each class of shares repurchased by the Company since the end of the last financial year, the maximum and minimum prices as well as the aggregate amount paid by the Company;
 - 8) minutes of general meetings.

(III) *Procedure for proposing a resolution*

Shareholders individually or collectively holding more than 3% of the Company's shares may put forward a temporary proposal and submit the same in written to the convener 10 days prior to a general meeting.

II. PERFORMANCE OF SOCIAL RESPONSIBILITIES AND ENVIRONMENTAL PROTECTION RESPONSIBILITIES

1. Protection of shareholders and creditors' rights

The Company was actively in compliance with the Listing Rules of the Stock Exchange and relevant regulatory rules of A-share listed companies, while striving to build modern enterprise management system and improved the corporate governance structure and internal management system to effectively prevent business risks, protect the safety of assets, ensure the authenticity, legality and integrity of accounting information and other data, promote the Company to standardize the operation, and achieve sustainable development.

- (1) Standardized operation of corporate governance.
- (2) Sound financial management system with effective implementation.
- (3) Establishing good relationship with investors with a focus on information disclosure management.

2. Effectively protecting the rights and interests of employees

- (1) Ensuring employees to enjoy the labor rights and fulfill their labor obligations according to laws.
- (2) Establishing a reasonable salary and performance appraisal system and caring about the immediate interests of the staff.
- (3) Maintaining employees' occupational health and safety.

II. PERFORMANCE OF SOCIAL RESPONSIBILITIES AND ENVIRONMENTAL PROTECTION RESPONSIBILITIES (CONTINUED)

3. Supplier selection and related responsibility guarantee

The Company abided by the raw material bidding and purchasing system to continuously improve and perfect the purchasing work. In terms of raw materials within the bidding scope, the Company performed annual bidding, semi-annual bidding, quarterly bidding, monthly bidding and bulk bidding, and finished the bidding process of inviting, opening, evaluating and selecting under the principle of openness, fairness, impartiality and good faith. To raise the procurement transparency, the Company released tender notice and inquiry announcement via various information media, expanded the coverage of bidding information, and insisted on releasing tender notice and inquiry announcement on such websites as Custeel, Mysteel, China Metallurgical Furnace Materials, Steelhome, The Association of China Refractories Industry, CNFEOL, Chongqing Iron & Steel (Group) Co., Ltd. and OA of Chongqing Iron & Steel (Group) Co., Ltd. (Chongqing Iron & Steel Business Information newly added in the second half of the year) to attract more potential suppliers to take part in competition and achieve the goal of open and fair competition.

4. Attaching great importance to product quality and after-sales service and protecting rights and interests of customers and commitment to society

(1) *Improving the physical quality of products in all-around way*

The Company actively explored innovative quality management and quality supervision mode and improved quality control measures under the economic production. Through implementing the whole-process management including quality risk assessment, process quality tracking and final product quality evaluation, the Company improved and optimized the quality management system of the whole process, extended quality assurance system management and guaranteed the suitability, effectiveness and compliance of the quality system. The Company raised process control capability via implementing quality control for key processes, and ensured the stability of process quality by stabilizing process parameters. The Company actively promoted electronic quality certificate and met users' personalized needs through improving service quality and perfecting quality detection and judgment model.

II. PERFORMANCE OF SOCIAL RESPONSIBILITIES AND ENVIRONMENTAL PROTECTION RESPONSIBILITIES (CONTINUED)

4. Attaching great importance to product quality and after-sales service and protecting rights and interests of customers and commitment to society (Continued)

(1) *Improving the physical quality of products in all-around way (Continued)*

The Company has established Quality Management and Quality Supervision and Inspection Department, which is independent from production units, and responsible for quality management, quality supervision, product appearance inspection, physical and chemical properties testing, quality decision and issuance of quality certificate and providing opinions and suggestions on quality improvement. Quality Inspection Department of the Company is responsible for inspecting the product quality from appearance, size, physical and chemical properties according to GB, YB, specification of products for related ship classification societies and internal quality control standards. In terms of key procedures of quality control (guarantee) during the production of each kind of products, the Company established key process control points in relevant units to strengthen production process control and ensure process quality in a stable state of control. The product quality of the Company throughout the year was stable, devoid of serious quality objection.

(2) *Quality responsibility of after-sales service*

The Company has established Customer Service Center and nine after-sales service networks in large and medium cities across the country, which strengthened contact with customers, carefully studied and answered all kinds of questions raised by customers, timely assigned professionals to communicate, negotiate and solve quality defects that affect customers' normal use on site. Customers' overall satisfaction with the company in 2016 remained at a higher level and customers' rights and interests were greatly protected.

II. PERFORMANCE OF SOCIAL RESPONSIBILITIES AND ENVIRONMENTAL PROTECTION RESPONSIBILITIES (CONTINUED)

4. Attaching great importance to product quality and after-sales service and protecting rights and interests of customers and commitment to society (Continued)

(3) *Quality responsibility for society*

The Company has always attached great importance to product quality, developed sound quality management organization, perfect quality management system, effective quality assurance system and reliable quality inspection technologies, and obtained quality management system certificate and Laboratory Accreditation Certificate certified by China National Accreditation Board for Conformity Assessment. The Company provided the society and users with qualified products which completely conform to the requirements of the relevant product standards and contracts. In recent five years, the Company hasn't been punished by the Quality and Technical Supervision Department due to product quality problems. The Company got 100% qualified rate of products selected (or spot checked) for product quality supervision and inspection by the Quality and Technical Supervision Departments at various levels and has always remained stable quality.

Being responsible for the society and users, and in order to prevent products from being counterfeited, the Company mainly took the following measures: affixing a logo on the products, labelling, spraying characters, being stamped, marking the quality certificate with "Copying invalid", etc. The stability of product quality and a large number of famous products raised the Company's quality brand advantage and reputation in the society and customers and thus promoted product sales. Quality brand advantage has become the base of the Company to take part in market competition and the pillar to survive and develop.

5. Safety in production

The Company has always been adhering to the concept of safety in production, "Safe development & continuous improvement", integrating the employees' lives and health rights and economic and social benefits of the Company with greater sense of social responsibility, and making great efforts to safety in production from political, legal, livelihood, benefit and sustainable perspectives to protect employees and their lives.

II. PERFORMANCE OF SOCIAL RESPONSIBILITIES AND ENVIRONMENTAL PROTECTION RESPONSIBILITIES (CONTINUED)

6. Environmental protection and energy saving and emission reduction

The Company strictly abided by environmental laws and regulations, developed environmental responsibility system, and further defined the principle of “One Post Responsible for Business Development and Party Conduct Construction”, which made management at various levels perform their own functions and takes their own responsibility. The Company also stipulated annual environmental target and implemented the same in each unit, signed environmental responsibility statement to ensure the completion of the target, developed and completed a self-monitoring program throughout the year, and regularly released monitoring data on the website of Environmental Protection Agency. Major pollutants of the Company met national standards and permit emission requirements. The Company fulfilled the target of clean production through the review of cleaner production audit by Chongqing Environmental Protection Bureau.

Wastewater Supervisory Monitoring Data

Outlet	Monitoring Time	Production Load (%)	Monitoring Project	Monitoring Value	Standard Limit	Unit of Measurement	Reaching Standard or not
Total wastewater outlet of Central Sewage Treatment Station	2017-02-15	85.0	Wastewater flow	7,160		Ton/day	
			Chemical oxygen demand	20.5	50	mg/L	Yes
			PH Value	8.01	6-9	non-dimensional	Yes
	2016-10-18	70.0	Ammonia nitrogen	4.02	5	mg/L	Yes
			Wastewater flow	19,200		Ton/day	
			Chemical oxygen demand	12.5	50	mg/L	Yes
			Ammonia nitrogen	2.6	5	mg/L	Yes

Section XII Social, Environmental and Governance Report (Continued)

II. PERFORMANCE OF SOCIAL RESPONSIBILITIES AND ENVIRONMENTAL PROTECTION RESPONSIBILITIES (CONTINUED)

6. Environmental protection and energy saving and emission reduction (Continued)

Exhaust Gas Supervisory Monitoring Data (Continued)

Outlet	Monitoring Time	Production Load (%)	Monitoring Project	Measured Value	Reduced Value	Standard Limit	Unit of Measurement	Reaching Standard or not
1# Sintering machine head desulfurization	2017-02-15	76.0	Exhaust gas flow	1,220,000			m ³ /h	
			Particulate matter	19.3	19.3	50	mg/m ³	Yes
			Nitrogen oxide	158	158	300	mg/m ³	Yes
			Sulfur dioxide	73	73	200	mg/m ³	Yes
	2016-10-26	72.0	Exhaust gas flow	1,110,000			m ³ /h	
			Particulate matter	22.6	22.6	50	mg/m ³	Yes
			Nitrogen oxide	224	224	300	mg/m ³	Yes
			Sulfur dioxide	163	163	200	mg/m ³	Yes
2# Sintering machine head desulfurization	2017-02-22	76.0	Exhaust gas flow	1,390,000			m ³ /h	
			Particulate matter	24.7	24.7	50	mg/m ³	Yes
			Nitrogen oxide	91	91	300	mg/m ³	Yes
			Sulfur dioxide	45	45	200	mg/m ³	Yes
	2016-10-18	70.0	Exhaust gas flow	1,420,000			m ³ /h	
			Particulate matter	16.9	16.9	50	mg/m ³	Yes
			Nitrogen oxide	161	161	300	mg/m ³	Yes
			Sulfur dioxide	142	142	200	mg/m ³	Yes
1# Hot blast stove	2017-02-15	76.0	Exhaust gas flow	279,000			m ³ /h	
			Particulate matter	5.9	5.9	20	mg/m ³	Yes
			Nitrogen oxide	45	45	300	mg/m ³	Yes
			Sulfur dioxide	81	81	100	mg/m ³	Yes
	2016-10-18	70.0	Exhaust gas flow	253,000			m ³ /h	
			Particulate matter	13.7	13.7	20	mg/m ³	Yes
			Nitrogen oxide	191	191	300	mg/m ³	Yes
			Sulfur dioxide	55	55	100	mg/m ³	Yes
3# Hot blast stove	2017-02-15	76.0	Exhaust gas flow	168,000			m ³ /h	
			Particulate matter	5.28	5.28	20	mg/m ³	Yes
			Nitrogen oxide	107	107	300	mg/m ³	Yes
			Sulfur dioxide	69	69	100	mg/m ³	Yes
	2016-10-18	70.0	Exhaust gas flow	156,000			m ³ /h	
			Particulate matter	8.78	8.78	20	mg/m ³	Yes
			Nitrogen oxide	185	185	300	mg/m ³	Yes
			Sulfur dioxide	68	68	100	mg/m ³	Yes

II. PERFORMANCE OF SOCIAL RESPONSIBILITIES AND ENVIRONMENTAL PROTECTION RESPONSIBILITIES (CONTINUED)

6. Environmental protection and energy saving and emission reduction (Continued)

Exhaust Gas Supervisory Monitoring Data (Continued)

In active response to the national call on environmental protection and energy saving, the Company conducted energy saving and consumption reduction by accelerating the elimination and scrapping of high energy consumption equipment, conducting the comprehensive energy conservation research and paying attention to the effective utilization of energy and reduced emissions of standard coal, CO₂, SO₂ and dust through optimization and reuse of key points with high energy consumption such as waste heat and residual pressure.

The Company's Resource Consumption Scale:

Resource Category	Unit of Measurement	Total Consumption
Electricity	(K) Kilowatt hours	944,100
Natural gas	Cubic metre	6,326,700
Fine washed coal	Ton	2,629,300
Anthracite	Ton	599,500
Oil	Ton	6,100

II. PERFORMANCE OF SOCIAL RESPONSIBILITIES AND ENVIRONMENTAL PROTECTION RESPONSIBILITIES (CONTINUED)

7. Further improving the punishment and prevention system

The Company fully implemented the responsibility of “Strictly administering the party”, and in combination with thematic education of “Three Stricts and Three Steadies”, formulated and earnestly implemented the construction of ethical party and Government and anti-corruption responsibility system; strictly carried out the main responsibility of Party Committee and supervisory responsibility of the Commission for Discipline Inspection for the construction of ethical party and Government, persistently enhanced work style construction, strengthened supervision and accountability and further improved the system of punishing and preventing corruption; with proper integration of management team, Party Committee and listed companies as the focus, the Company strictly carried out implementation measures of collective decision-making for “Three Importance and One Greatness”; conscientiously carried out clean risk prevention and control work; strengthened the construction of the system of combating corruption and building a clean government, actively explored effective mechanisms to strengthen the probity and self-discipline of leading cadres and key positions in order to develop and improve the feasible honest system; promoted anti-corruption propaganda and education, upheld and deepened multiple, regular and diverse pattern of honesty education and developed ideal and belief education, legal education, warning education, special warning education for prevention of duty crime and others; as for the difficult and key points in production and operation, the Company carried out solid performance monitoring and initiated 24 projects throughout the year to bring in better economic and social benefits as well as better management and anti – corruption results; monitored and tracked the whole-process of tender for equipment repair, engineering and spare parts projects, and production, maintenance, logistics outsourcing pricing and sales pricing, and put forward suggestions and opinions; strengthened anti-corruption supervision and investigation of petition cases, and for key regions and post, carried out monthly surprise checks and visited customers, opened report box and strengthened reporting clues collection via such channels as visits and letters. The Company continuously improved through punishment and prevention system, built the ideological moral bottom line that one wouldn’t, couldn’t and shouldn’t commit corruption, developed prevention, protection and disciplinary mechanism, and tried to create clean atmosphere for corporate reform and development.

II. PERFORMANCE OF SOCIAL RESPONSIBILITIES AND ENVIRONMENTAL PROTECTION RESPONSIBILITIES (CONTINUED)

8. Concerned about the difficulties of workers and promoting enterprise harmony

Labour unions of the Company at various levels have always been taking “wholeheartedly serving workers and safeguarding the interests of workers” as the starting point and ultimate goal of all work, fully exerted the role of the responsibility system for caring about difficult workers of the Company, plants (departments), workshops, teams and groups, respected, understood, cared and helped difficult workers, and thus enhanced corporate cohesion. The Company strengthened the assistance to difficult workers, providing more assistance, expanding assistance scope, improving assistance mode, raising assistance level, building assistance mechanism, applying assistance fund and realizing institutionalization and standardization of assistance. The Company adopted the dynamic management of files of exceptionally difficult workers, accurately and timely filled in the files of all difficult workers, set up files of exceptionally difficult workers and regularly provided assistance to them. The Company carried out “heart-warming activities” in a deep-going way, institutionalized visiting difficult workers, model workers and production backbone during holidays and festivals, and visited model workers, advanced production workers and difficult workers. The Company developed Helping Students in Autumn and helped difficult workers’ children in attending colleges. Labour unions of the Company at various levels carefully performed the “Celebrating, Talking and Visiting” system, actively organized the related activities and made greater efforts indeed in helping difficult workers and safeguarding employees’ rights and interests, which were taken as major events of maintaining stability and promoting harmony, to strengthen the enterprise cohesion.

To the Shareholders of Chongqing Iron & Steel Company Limited:

I. AUDITORS' OPINION

We have audited the accompanying financial statements of Chongqing Iron & Steel Company Limited (hereinafter referred to as "the Company"), which comprise the consolidated and company balance sheets as at 31 December 2016, the consolidated and company income statements, the consolidated and company cash flow statements and the consolidated and company statements of changes in shareholders' equity for the year then ended, and notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the consolidated and company financial positions of the Company as at 31 December 2016, and of its consolidated and company financial performances and its consolidated and company cash flows for the year then ended in accordance with China Accounting Standards for Business Enterprises.

II. BASIS OF OPINIONS

We have conducted our audit in accordance with China Standards on Auditing issued by the Chinese Institute of Certified Public Accountants. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with China Code of Ethics for Certified Public Accountants (hereinafter referred to as "the Code of Ethics"), and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

III. MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw the attention from users of financial statement to the matters disclosed in note II (II) and XIII (VII) to the financial statements. For the year ended 31 December 2016, the net loss attributable to the owners of the Parent Company was RMB4.686 billion, the net cash outflow from operating activity was RMB0.449 billion; as at 31 December 2016, total equity attributable to the owners of the Parent Company was RMB-0.20 billion, the debt to assets ratio was 100.29%, with current liabilities exceeded current assets by RMB23.684 billion, including financial liabilities (including corporate bonds) due within one year amounting to RMB9.205 billion. Some bank accounts of the Company were frozen by the court due to litigation. The amount involved in litigation was approximately RMB3.8 billion, including an amount of pending litigation of RMB2.43 billion. The Company has fully disclosed in note II (II) to the financial statements the key issues or circumstances which may cast significant doubt upon the Company's ability to continue as a going concern and how the management of the Company (hereinafter as "the management") response to these issues or circumstances. The disclosure indicated the existence of a material uncertainty which may cast significant doubt upon the Company's ability to continue as a going concern, as a result of which the Company may not be able to liquid its assets or pay off its debts during the ordinary course of business. This explanatory paragraph does not affect the audit opinion made.

Auditor's Report (Continued)

IV. KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

(I) Impairment of fixed assets

1. *Description of the Key audit matter*

For the year ended 31 December 2016, the operating revenue of the Company reported in the consolidated in-come statement was RMB4.415 billion, the operating loss was RMB5.384 billion, the gross margin was -39.59%, reflected the Company's principal business suffered a significant loss. As disclosed in note III (XXV) "Critical accounting judgments and estimates" and note V (I) 10 "Fixed assets" to the financial statements, the management determined that no provision for impairment of fixed assets was needed based on their estimation of the recoverable amount of fixed assets. As at 31 December 2016, the book value of fixed assets of the Company reported in the consolidated balance sheet was RMB29.491 billion, which accounted for 80.93% of total assets. Given that the closing balance of book value of fixed assets of the Company accounted for a large pro-portion of total assets, and the estimated recoverable amount of fixed asset are subject to the significant judgments and estimates made by the management on fair value of assets, cost of disposal, discount rate and expected future cash flow, we identify it as a key audit matter.

2. *How our audit addressed the key audit matter*

During the audit, the major auditing procedures we implemented include: understand macroeconomic policy, follow the development trend of the steel industry, refer to the Chongqing government's report on the plan of reducing steel production capacity in Chongqing, access to professional advisory opinions on promotion of competitiveness of the Company, evaluate the Company's future market prospect; conduct interviews with the management to understand the Company's future business plan and the progress of major cooperation projects to be implemented, as well as inspect major contract to be implemented, evaluate the impact of such cooperation on the use of existing assets; obtain the valuation report on impairment test of fixed assets based on 31 December 2016 issued by asset evaluation institutions, understand and assess the evaluation of fixed asset by professional; evaluate the rationality of the method for impairment adopted by the management; understand and evaluate the calculation method used and significant judgments and estimates made in measuring the recover-able amount, and review the impairment calculation process; and verify the reporting and disclosure of the relevant impairment information in the financial statements.

IV. KEY AUDIT MATTERS (CONTINUED)

(II) Major pending litigation

1. *Description of the Key audit matter*

As disclosed in note XI (II) to the financial statements, as at 31 December 2016, the amount of the pending litigation of the Company was RMB2.43 billion, the carrying amount of the pending litigation payable was RMB1.2 billion. In September 2016, Chongqing Saving Sanfeng Energy Limited (重慶中節能三峰能源有限公司) (hereinafter referred to as Sanfeng) filed a suit against the Company to Chongqing Municipal High People's Court, requesting the court to make a ruling on the joint and several payment of the electricity fees for processing, compensation and liquidated damages totaling RMB1.93 billion (calculated up to 30 June 2016) by the Company and Chongqing Iron & Steel (Group) Co., Ltd., including electricity fees for processing totaling RMB1.117 billion, the compensation of RMB124 million and the liquidated damages of RMB689 million. The Company didn't accept the calculation method of processing expenses, the compensation or the liquidated damages since it deemed that the performance was affected by the obvious changes in situations including the release of the new Environmental Protection Law and the compulsory requirement on the reduction of emission of SO₂-related wastes in the steel industry, and the claim made by Sanfeng was not fair. As at 31 December 2016, the electricity fees for processing payable was approximately RMB650 million. On March 29, 2017, the parties thereto reached an accommodation and entered into an agreement that the Company pays the arrears totaling RMB642 million and Sanfeng apply to Chongqing Municipal High People's Court for the withdrawal of lawsuit after the Company making the payment as agreed. Given that the lawsuit is still pending and has not been withdrawn, the execution of the settlement agreement and the outcome of the lawsuit and its potential impact on the financial statements are subject to the significant judgments and estimates made by the management, we identify it as a key audit matter.

2. *How our audit addressed the key audit matter*

During the audit, the major auditing procedures we implemented include: obtain Sanfeng's civil indictment and Chongqing Municipal Senior People's Court's notice of responding to the lawsuit; refer the company's information announcement about material lawsuit; review the difference between the Company's account payable amount and prosecution amount and figure out the causes; communicate with the management and related department to understand the actions taken towards and the settlement progress about the litigation; obtain the settlement agreement signed between Sanfeng and the Company; obtain the memorandum of financial support from Chongqing Iron & Steel (Group) Co., Ltd. to the Company; obtain professional opinion from the Company's law department; confirm with Sanfeng about the settlement progress, and examine the related information of this major litigation to the reporting and disclosure in the financial statements.

Auditor's Report (Continued)

V. OTHER INFORMATION

Management is responsible for the other information. The other information comprises the information included in the Company's 2016 annual report, but does not include the financial statements and our auditor's report thereon.

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

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

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

VI. RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

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

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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

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

As part of an audit in accordance with the auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

Auditor's Report (Continued)

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

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

Pan-China Certified Public Accountants LLP

Chinese Certified Public Accountant
(The engagement partner)

Hangzhou • China

Chinese Certified Public Accountant

Date of Report: March 30, 2017

Consolidated Balance Sheet

As at 31 December 2016

Compilation Organization: Chongqing Iron & Steel Company Limited

Expressed in RMB thousand yuan

Assets	Notes	As at 31 December 2016	As at 31 December 2015
Current assets:			
Cash and bank deposits	1	1,102,694	925,471
Notes receivable	2	19,435	45,863
Accounts receivable	3	256,258	503,202
Prepayments	4	37,191	39,924
Other receivables	5	58,099	40,376
Inventories	6	972,960	2,775,858
Other current assets	7	509	501
Total current assets		2,447,146	4,331,195
Non-current assets:			
Available-for-sale financial assets	8	5,000	5,000
Long-term equity investments	9	131,015	
Fixed assets	10	29,491,264	30,306,394
Construction in progress	11	43,131	128,949
Construction materials	12	15,126	10,651
Intangible assets	13	2,648,584	2,712,264
Deferred tax assets	14		
Other non-current assets	15	1,657,188	1,733,626
Total non-current assets		33,991,308	34,896,884
Total assets		36,438,454	39,228,079

Consolidated Balance Sheet (Continued)

As at 31 December 2016

Liabilities and shareholders' equities	Notes	As at 31 December 2016	As at 31 December 2015
Current liabilities:			
Short-term borrowings	16	5,700,587	3,492,152
Notes payable	17	1,632,710	3,663,417
Accounts payable	18	9,385,026	10,532,063
Receipts in advance	19	1,014,762	653,721
Employee benefits payable	20	561,255	311,835
Tax payable	21	235	8,679
Interests payable	22	117,013	30,900
Other payables	23	4,202,381	2,702,833
Non-current liabilities due within one year	24	3,504,533	1,796,250
Other current liabilities	25	12,231	15,054
Total current liabilities		26,130,733	23,206,904
Non-current liabilities:			
Long-term borrowings	26	9,073,456	9,849,988
Debentures payable	27		1,987,882
Long-term payable	28	61,944	
Long-term employee benefits payable	29	276,634	
Provisions	30	52,177	
Deferred income	31	174,326	175,158
Other non-current liabilities	32	776,618	
Total non-current liabilities		10,415,155	12,013,028
Total liabilities		36,545,888	35,219,932

Consolidated Balance Sheet (Continued)

As at 31 December 2016

Liabilities and shareholders' equities	Notes	As at 31 December 2016	As at 31 December 2015
Shareholders' equity:			
Share Capital	33	4,436,023	4,436,023
Capital reserve	34	7,154,203	6,657,614
Other comprehensive income			
Special reserve	35		
Surplus reserve	36	606,991	606,991
Retained earnings	37	-12,397,711	-7,711,755
Total equity attributable to shareholders of the parent company		-200,494	3,988,873
Non-controlling interest		93,060	19,274
Total shareholders' equity		-107,434	4,008,147
Total liabilities and shareholders' equities		36,438,454	39,228,079

Legal Representative: The person in charge of accounting body: The head of the accounting department:

Liu Dawei

Tu Deling

Zhang Zongming

Balance Sheet of the Parent Company

As at 31 December 2016

Compilation Organization: Chongqing Iron & Steel Company Limited

Expressed in RMB thousand yuan

Assets	Notes	As at 31 December 2016	As at 31 December 2015
Current assets:			
Cash and bank deposits		362,385	921,703
Notes receivable		19,435	45,165
Accounts receivable	1	258,568	485,739
Prepayments		22,535	27,440
Other receivables	2	58,084	40,228
Inventories		972,960	2,775,485
Other current assets		87	
Total current assets		1,694,054	4,295,760
Non-current assets:			
Available-for-sale financial assets		5,000	5,000
Long-term equity investments	3	893,637	101,000
Fixed assets		29,481,983	30,296,557
Construction in progress		42,829	128,949
Construction materials		15,126	10,651
Intangible assets		2,648,584	2,712,264
Other non-current assets		1,657,188	1,672,227
Total non-current assets		34,744,347	34,926,648
Total assets		36,438,401	39,222,408

Balance Sheet of the Parent Company (Continued)

As at 31 December 2016

Liabilities and shareholders' equities	Notes	As at 31 December 2016	As at 31 December 2015
Current liabilities:			
Short-term borrowings		5,700,587	3,492,152
Notes payable		1,632,710	3,663,417
Accounts payable		9,429,515	10,565,822
Receipts in advance		1,006,106	638,035
Employee benefits payable		560,810	311,776
Tax payable		18	7,902
Interests payable		117,013	30,900
Other payables		4,259,548	2,700,097
Non-current liabilities due within one year		3,504,533	1,796,250
Other current liabilities		12,231	15,054
Total current liabilities		26,223,071	23,221,405
Non-current liabilities:			
Long-term borrowings		9,073,456	9,849,988
Debentures payable			1,987,882
Long-term payable		61,944	
Long-term employee benefits payable		276,634	
Provisions		52,177	
Deferred income		174,326	175,158
Other non-current liabilities		776,618	
Total non-current liabilities		10,415,155	12,013,028
Total liabilities		36,638,226	35,234,433

Balance Sheet of the Parent Company (Continued)

As at 31 December 2016

Liabilities and shareholders' equities	<i>Notes</i>	As at 31 December 2016	As at 31 December 2015
Shareholders' equity:			
Share Capital		4,436,023	4,436,023
Capital reserve		7,185,146	6,688,557
Other comprehensive income			
Special reserve			
Surplus reserve		577,012	577,012
Retained earnings		-12,398,006	-7,713,617
Total shareholders' equity		-199,825	3,987,975
Total liabilities and shareholders' equities		36,438,401	39,222,408

Legal Representative: **Liu Dawei** The person in charge of accounting body: **Tu Deling** The head of the accounting department: **Zhang Zongming**

Consolidated Income Statement

For the year ended 31 December 2016

Compilation Organization: Chongqing Iron & Steel Company Limited

Expressed in RMB thousand yuan

Items	Notes	Current period cumulative	Preceding period comparative
I. Total operating revenue		4,414,902	8,350,022
Including: Operating revenue	1	4,414,902	8,350,022
II. Total operating costs		9,799,664	17,634,915
Including: Operating costs	1	6,162,610	10,509,209
Taxes and surcharges	2	51,313	1,108
Selling expenses	3	109,062	248,554
Administrative expenses	4	1,680,799	1,266,607
Financial expenses	5	1,187,573	1,264,709
Impairment losses on assets	6	608,307	4,344,728
Add: Gains from changes in fair value (losses are represented by "-")			
Investment income (losses are represented by "-")	7	599	
Including: Gains from investment in associates and joint ventures	7	599	
Gains on foreign exchange (losses are represented by "-")			
III. Operating profit (losses are represented by "-")		-5,384,163	-9,284,893
Add: Non-operating income	8	751,447	3,319,790
Including: Gains on disposal of non-current assets	8	12	419
Less: Non-operating expenses	9	52,951	4,110
Including: Losses on disposal of non-current assets	9	6	3,909
IV. Profit before income tax (losses are represented by "-")		-4,685,667	-5,969,213
Less: Income tax expenses	10	17	17,973
V. Net profit for the year (net losses are represented by "-")		-4,685,684	-5,987,186
Net profit attributable to the shareholders of the parent company		-4,685,956	-5,987,248
Non-controlling interests		272	62

Consolidated Income Statement (Continued)

For the year ended 31 December 2016

Items	Notes	Current period cumulative	Preceding period comparative
VI. Other comprehensive income after tax			
Other comprehensive income after tax attributable to shareholders of the parent company			
(I) Other comprehensive income that will not be reclassified to profit or loss			
1. Changes in remeasurement on the net defined benefit liability/asset			
2. Share of other comprehensive income of investees that will not be reclassified to profit or loss under equity method			
(II) Other comprehensive income that will be reclassified to profit or loss			
1. Share of other comprehensive income of investees that will be reclassified to profit or loss under equity method			
2. Profit or loss arising from changes in fair value of available-for-sale financial assets			
3. Profit or loss from reclassification of held-to-maturity investments as available-for-sale assets			
4. Effective hedging portion of profit or loss arising from cash flow hedging instruments			
5. Translation difference arising on translation of foreign currency financial statements			
6. Others			
Other comprehensive income after tax attributable to non-controlling interests			
VII. Total comprehensive income		-4,685,684	-5,987,186
Total comprehensive income attributable to shareholders of the parent company		-4,685,956	-5,987,248
Total comprehensive income attributable to non-controlling interests		272	62
VIII. Earnings per share:			
(1) Basic earnings per share (<i>yuan/share</i>)		-1.06	-1.35
(2) Diluted earnings per share (<i>yuan/share</i>)		-1.06	-1.35

Legal Representative: The person in charge of accounting body:

Liu Dawei

Tu Deling

The head of the accounting department:

Zhang Zongming

Income Statement of the Parent Company

For the year ended 31 December 2016

Compilation Organization: Chongqing Iron & Steel Company Limited

Expressed in RMB thousand yuan

Items	Notes	Current period cumulative	Preceding period comparative
I. Operating revenue	1	3,889,025	7,998,479
Less: Operating costs	1	5,640,968	10,172,654
Taxes and surcharges		51,251	844
Selling expenses		102,832	237,140
Administrative expenses		1,674,737	1,263,944
Financial expenses		1,194,710	1,264,719
Impairment losses on assets		608,015	4,344,727
Add: Gains from changes in fair value (losses are represented by "-")			
Investment income (losses are represented by "-")	2	599	1,279
Including: Gains from investment in associates and joint ventures	2	599	
II. Operating profit (losses are represented by "-")		-5,382,889	-9,284,270
Add: Non-operating income		751,447	3,319,785
Including: Gains on disposal of non- current assets		12	419
Less: Non-operating expenses		52,947	4,094
Including: Losses on disposal of non- current assets		6	3,909
III. Profit before income tax (losses are represented by "-")		-4,684,389	-5,968,579
Less: income tax expenses			17,116
IV. Net profit for the year (net losses are represented by "-")		-4,684,389	-5,985,695

Income Statement of the Parent Company (Continued)

For the year ended 31 December 2016

Items	Notes	Current period cumulative	Preceding period comparative
V. Other comprehensive income after tax			
(I) Other comprehensive income that will not be reclassified to profit or loss			
1. Changes in remeasurement on the net defined benefit liability/asset			
2. Share of other comprehensive income of investees that will not be reclassified to profit or loss under equity method			
(II) Other comprehensive income that will be reclassified to profit or loss			
1. Share of other comprehensive income of investees that will be reclassified to profit or loss under equity method			
2. Profit or loss arising from changes in fair value of available-for-sale financial assets			
3. Profit or loss from reclassification of held-to-maturity investments as available-for-sale assets			
4. Effective hedging portion of profit or loss arising from cash flow hedging instruments			
5. Translation difference arising on translation of foreign currency financial statements			
6. Others			
VI. Total comprehensive income		-4,684,389	-5,985,695
VII. Earnings per share:			
(1) Basic earnings per share (<i>yuan/share</i>)			
(2) Diluted earnings per share (<i>yuan/share</i>)			

Legal Representative: The person in charge of accounting body:

Liu Dawei

Tu Deling

The head of the accounting department:

Zhang Zongming

Consolidated Cash Flow Statement

For the year ended 31 December 2016

Compilation Organization: Chongqing Iron & Steel Company Limited

Expressed in RMB thousand yuan

Items	Notes	Current period cumulative	Preceding period comparative
I. Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		2,714,747	5,832,136
Receipts of tax refund			18
Other cash receipts related to operating activities	1	13,694,582	12,576,840
Sub-total of cash inflows from operating activities		16,409,329	18,408,994
Cash payments for goods purchased and services rendered		2,858,421	7,594,159
Cash payments to and on behalf of employees		463,004	886,311
Payments of various types of taxes		81,339	97,527
Other cash payments related to operating activities	2	13,455,586	11,509,176
Sub-total of cash outflows from operating activities		16,858,350	20,087,173
Net cash flows from operating activities		-449,021	-1,678,179

Consolidated Cash Flow Statement (Continued)

For the year ended 31 December 2016

Items	Notes	Current period cumulative	Preceding period comparative
II. Cash flows from investing activities:			
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets			875,076
Net cash receipts from disposal of subsidiaries and other operating entities			
Other cash receipts related to investing activities			
<hr/>			
Sub-total of cash inflows from investing activities			875,076
<hr style="border-top: 1px dashed #0070C0;"/>			
Cash payments for acquisition and construction of fixed assets, intangible assets and other long-term assets		133,229	261,875
Cash payments for investments		130,416	
<hr/>			
Sub-total of cash outflows from investing activities		263,645	261,875
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Net cash flows from investing activities		-263,645	613,201
<hr style="border-top: 1px dashed #0070C0;"/>			

Cash Flow Statement of the Parent Company

For the year ended 31 December 2016

Compilation Organization: Chongqing Iron & Steel Company Limited

Expressed in RMB thousand yuan

Items	Notes	Current period cumulative	Preceding period comparative
I. Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		2,179,482	5,342,465
Other cash receipts related to operating activities		13,681,499	12,554,107
Sub-total of cash inflows from operating activities		15,860,981	17,896,572
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Cash payments for goods purchased and services rendered		2,331,217	7,120,532
Cash payments to and on behalf of employees		457,713	882,029
Payments of various types of taxes		79,057	92,737
Other cash payments related to operating activities		13,440,933	11,478,904
Sub-total of cash outflows from operating activities		16,308,920	19,574,202
Net cash flows from operating activities		-447,939	-1,677,630
<hr style="border-top: 1px dashed #0070C0;"/>			
II. Cash flows from investing activities:			
Cash received from investment income			1,279
Net cash receipts from disposals of fixed assets, intangible assets and other long-term assets			875,076
Net cash receipts from disposal of subsidiaries and other operating entities			
Other cash receipts related to investing activities			
Sub-total of cash inflows from investing activities			876,355
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Cash payments for acquisition and construction of fixed assets, intangible assets and other long-term assets		132,909	259,491
Cash payments for investments		130,416	
Net cash payments for the acquisition of subsidiaries & other business units		661,622	
Sub-total of cash outflows from investing activities		924,947	259,491
Net cash flows from investing activities		-924,947	616,864

Cash Flow Statement of the Parent Company (Continued)

For the year ended 31 December 2016

Items	Notes	Current period cumulative	Preceding period comparative
III. Cash flows from financing activities:			
Cash received from borrowings		7,910,151	7,547,985
Other cash receipts related to financing activities		2,459,226	2,739,741
Sub-total of cash inflows from financing activities		10,369,377	10,287,726
<hr/>			
Repayment of borrowings		5,109,289	6,231,745
Cash payments for distribution of dividends or profits, or interests		645,769	1,024,756
Other cash payments related to financing activities		3,264,989	2,084,680
Sub-total of cash outflows from financing activities		9,020,047	9,341,181
Net cash flows from financing activities		1,349,330	946,545
<hr/>			
IV. Effect of changes in foreign exchange rate on cash and cash equivalents		86	4,661
<hr/>			
V. Net increase in cash and cash equivalents		-23,470	-109,560
Add: Cash and cash equivalents at the beginning of the period		28,608	138,168
<hr/>			
VI. Cash and cash equivalents at the end of the period		5,138	28,608
<hr/>			

Legal Representative: **Liu Dawei** The person in charge of accounting body: **Tu Deling** The head of the accounting department: **Zhang Zongming**

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2016

Compilation Organization: Chongqing Iron & Steel Company Limited

Expressed in RMB thousand yuan

Items	Current period cumulative							Total shareholders' equity
	Total equity attributable to shareholders of the parent company						Non-controlling interest	
	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings		
I. Closing balance of the preceding year	4,436,023	6,657,614			606,991	-7,711,755	19,274	4,008,147
II. Opening balance of the current year	4,436,023	6,657,614			606,991	-7,711,755	19,274	4,008,147
III. Changes in the current period (decrease are represented by "-")		496,589				-4,685,956	73,786	-4,115,581
(I) Total comprehensive income						-4,685,956	272	-4,685,684
(II) Shareholders' contribution and reduction in share capital		496,589					73,514	570,103
1. Capital contributed by owners							73,514	73,514
4. Others		496,589						496,589
(III) Profit distribution								
(IV) Transfers within shareholders' equity								
(V) Special reserve								
1. Accrued in the current period				19,511				19,511
2. Utilized in the current period				19,511				19,511
(VI) Others								
IV. Closing balance of the current period	4,436,023	7,154,203			606,991	-12,397,711	93,060	-107,434

Consolidated Statement of Changes in Shareholders' Equity (Continued)

For the year ended 31 December 2016

Items	Preceding period comparative							Total shareholders' equity
	Total equity attributable to shareholders of the parent company							
	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	Non-controlling interest	
I. Closing balance of the preceding year	4,436,023	6,655,407			606,991	-1,724,507	19,212	9,993,126
II. Opening balance of the current year	4,436,023	6,655,407			606,991	-1,724,507	19,212	9,993,126
III. Changes in the current period (decrease are represented by "-")		2,207				-5,987,248	62	-5,984,979
(I) Total comprehensive income						-5,987,248	62	-5,987,186
(II) Shareholders' contribution and reduction in share capital		2,207						2,207
1. Capital contributed by owners								
4. Others		2,207						2,207
(III) Profit distribution								
(IV) Transfers within shareholders' equity								
(V) Special reserve								
1. Accrued in the current period				22,179				22,179
2. Utilized in the current period				22,179				22,179
(VI) Others								
IV. Closing balance of the current period	4,436,023	6,657,614			606,991	-7,711,755	19,274	4,008,147

Legal Representative: **Liu Dawei** The person in charge of accounting body: **Tu Deling** The head of the accounting department: **Zhang Zongming**

Statement of Changes in Shareholders' Equity of the Parent Company

For the year ended 31 December 2016

Compilation Organization: Chongqing Iron & Steel Company Limited

Expressed in RMB thousand yuan

Items	Current period cumulative						Total shareholders' equity
	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	
I. Closing balance of the preceding year	4,436,023	6,688,557			577,012	-7,713,617	3,987,975
II. Opening balance of the current year	4,436,023	6,688,557			577,012	-7,713,617	3,987,975
III. Changes in the current period (decrease are represented by "-")		496,589				-4,684,389	-4,187,800
(I) Total comprehensive income						-4,684,389	-4,684,389
(II) Shareholders' contribution and reduction in share capital		496,589					496,589
4. Others		496,589					496,589
(III) Profit distribution							
(IV) Transfers within shareholders' equity							
(V) Special reserve							
1. Accrued in the current period				19,511			19,511
2. Utilized in the current period				19,511			19,511
(VI) Others							
IV. Closing balance of the current period	4,436,023	7,185,146			577,012	-12,398,006	-199,825

Statement of Changes in Shareholders' Equity of the Parent Company (Continued)

For the year ended 31 December 2016

Items	Preceding period comparative						Total shareholders' equity
	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	
I. Closing balance of the preceding year	4,436,023	6,686,350			577,012	-1,727,922	9,971,463
II. Opening balance of the current year	4,436,023	6,686,350			577,012	-1,727,922	9,971,463
III. Changes in the current period (decrease are represented by "-")							
(I) Total comprehensive income		2,207				-5,985,695	-5,983,488
(II) Shareholders' contribution and reduction in share capital		2,207					2,207
4. Others		2,207					2,207
(III) Profit distribution							
(IV) Transfers within shareholders' equity							
(V) Special reserve							
1. Accrued in the current period				22,179			22,179
2. Utilized in the current period				22,179			22,179
(VI) Others							
IV. Closing balance of the current period	4,436,023	6,688,557			577,012	-7,713,617	3,987,975

Legal Representative: **Liu Dawei** The person in charge of accounting body: **Tu Deling** The head of the accounting department: **Zhang Zongming**

Notes to the Financial Statements

For the year ended 31 December 2016 (Unit: RMB'000)

I. BASIC INFORMATION ON THE COMPANY

According to the Approval for the Establishment of Chongqing Iron & Steel Company Limited (Ti Gai Sheng Zi [1997] No. 127) issued by the State Commission for Restructuring Economic Systems and the Approval for the Management of State-owned Equity of Chongqing Iron & Steel Company Limited (in preparation) (Guo Zi Qi Fa [1997] No. 156) issued by the State-owned Assets Administration Bureau, the Company was established as a limited liability company by Chongqing Iron & Steel (Group) Co., Ltd (hereafter referred to as "CISG") as the sole promoter. The Company was incorporated and registered with Chongqing Municipal Administration of Industry and Commerce on 11 August 1997, Headquarters is located in Changshou Economic Development Zone of Chongqing. The Company holds the business license with unified social credit code of 91500000202852965T, with the registered capital of RMB4,436,022,600 yuan and the sum of 4,436,022,600 shares (RMB1 yuan for each share in face value), including 3,897,895,400 A shares without any restricted condition, and 538,127,200 H shares. The Company's shares were listed in the Stock Exchange of Hong Kong Ltd. on 17 October 1997, and listed in Shanghai Stock Exchange on 28 February 2007.

The Company and its subsidiary are mainly engaged in the iron & steel manufacturing industry. Scope of business: production, machining and sale of steel plates, steel sections, wire rods, bar materials, billets and thin plates; production and sale of coking and coal chemical products (excluding dangerous chemicals and others beyond the license), pig iron & grain slag, steel slag, and steel scrap.

The financial statements were approved and authorized for issue by the 9th Session of the Seventh Board Meeting at 30 March 2017.

The Company incorporated the following six subsidiaries into the scope of the consolidated financial statement in the current period: Guizhou CIS Iron and Steel Sales Co., Ltd.; Jingjiang Sanfeng Steel Processing & Distribution Co., Ltd.; Jingjiang CIS Huadong Trading Co., Ltd.; Xi'an CIS Sales Co., Ltd.; Chongqing CIS Building Materials Sales Co., Ltd. and Chongqing CISL high strength cold rolling steel Co., Ltd. Refer to "Notes to the Financial Statements –Change of the consolidation scope and Interest in their entities for details" for details.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

II. PREPARATION BASIS OF THE FINANCIAL STATEMENTS

(I) Preparation basis

The financial statements have been prepared on the basis of going concern.

(II) Assessment of the ability to continue as a going concern

In 2016, the net loss attributable to the owners of the Parent Company was RMB4.686 billion, the net cash outflow from operating activity was RMB0.449 billion; as at 31 December 2016, total equity attributable to the owners of the Parent Company was RMB-0.20 billion, the debt to assets ratio was 100.29%, with current liabilities exceeded current assets by RMB23.684 billion, including financial liabilities (including corporate bonds) due within one year amounting to RMB9.205 billion. Some bank accounts of the Company were frozen by the court due to litigation. The amount involved in litigation was approximately RMB3.8 billion, including an amount of pending litigation of RMB2.430 billion. The above indicated the existence of a material uncertainty which may cast significant doubt upon the Company's ability to continue as a going concern, as a result of which the Company may not be able to liquid its assets or pay off its debts during the ordinary course of business.

To ensure its ability to continue as a going concern, the Company intends to adopt the following measures based on its current situation:

1. To facilitate its continuous and healthy development, the Company will actively implement its plan of asset restructuring and assist relevant parties in their work related to the major assets restructuring.
2. To continuously develop its production operation, the Company will delve deep into the extensive collaboration mechanism with Chongqing Qianxin International Trade Limited (重慶千信國際貿易有限公司), seeking positive business collaboration with it.
3. The Company will conduct in-depth market analysis and optimize its product mix. Such analysis will center on the quantity, cost and profit of orders and products, with factors such as market and efficiency taken into account for coordination and arrangement, to provide data support for the Company to restructure its product lines. The Company will also be engaged in more intensive collection and analysis of market information, with no hesitation in adjusting its operating strategies to ensure product benefits.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

II. PREPARATION BASIS OF THE FINANCIAL STATEMENTS (CONTINUED)

(II) Assessment of the ability to continue as a going concern (Continued)

4. The Company will pursue technological progress to optimize the structure of coal blending and ore proportioning, reduce comprehensive coke ratio and the consumption of metal materials such as iron and steel per tonne, and raise the success ratio of steelmaking and steel rolling. The Company will also optimize its integrated utilization of energy, and cut the product costs through lowering its aggregate energy consumption. Moreover, the Company will strengthen its equipment management by improving its high-efficiency management system, to bring the advantages of the equipment into full play and achieve more efficient utilization. Also in respect of equipment, the Company will optimize its model for regular repair and maintenance. Following the optimization, there will be scattered overhaul to encourage repair and maintenance by the company staff, strict control of project budget management, and less engagement of external parties for engineering projects, all in an effort to deliver economical repair and maintenance featuring lower cost and higher efficiency.
5. The Company will leverage the scale economy of steelmaking by reasonably allocating resources, and fully release the production capacity of its existing equipment through asset integration. Based on production expansion, the Company will seek greater utilization of its production capacity, effective reduction of production costs, and higher asset profitability.
6. The Company will actively reform its human resources mechanism, by developing a reasonable mechanism for remuneration incentives, specifying responsibilities and rights, and exploring the potential of the staff. The staffing structure will also be optimized, in order to boost production efficiency and promote healthy corporate development.
7. The Company will capture the opportunities brought by key national policies, such as reducing corporate leverage (as part of the supply-side structural reform), market-based swapping of bank loans for equities, and addressing overcapacity and financial claims and liabilities for the steel and coal industries. To capture such opportunities, the Company will actively gain the support from the Chongqing municipal government, Chongqing State-owned Assets Supervision and Administration Commission, and the main creditors of the Company. More than that, the Company will take various measures for debt restructuring, so as to shrink the size of its debt and optimize its structure of assets and liabilities.
8. In addition, the Company will strive for the support from competent authorities for relevant industries. The Company will be active in procuring credit banks to establish a creditor's committee and a mechanism for different parties to act in concert. With such a committee and mechanism in place, debt restructuring measures, such as adjusting the term and form of repayment of loans, can be carried out based on controllable risks, sustainable business, a differentiated credit policy, and national policies and regulations, with no random delay, early recovery or termination of loans, all to ensure the normal operation of businesses.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

II. PREPARATION BASIS OF THE FINANCIAL STATEMENTS (CONTINUED)

(II) Assessment of the ability to continue as a going concern (Continued)

9. To ensure its normal production operation, the Company will obtain the undertaking of Chongqing Iron & Steel (Group) Co., Ltd. to provide the Company with necessary financial support for at least 12 months from 31 December 2016 onwards.

With the above measures in place, the management of the Company considered it reasonable to prepare the financial statements on a going concern basis. In addition, the Board of the Company has thoroughly assessed its ability to continue as a going concern, such as reviewing its working capital forecast for the 12 months ended 31 December 2017 prepared by the management. Following such assessment, the Board believes that the Company can access adequate financing sources to meet its needs in working capital, debt repayment and capital expenditure, thus recognizing the management's preparation of the financial statements on a going concern basis.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

Important note: The Company has set up accounting policies and estimates on transactions or events such as provision for bad debts of receivables, provision for impairment of inventory, depreciation of fixed assets, amortization of intangible assets, and revenue recognition, etc. based on the Company's actual production and operation features.

(I) Statement of compliance

The financial statements have been prepared in accordance with the requirements of China Accounting Standards for Business Enterprises (CASBEs), and present truly and completely the financial position, results of operations and cash flows of the Company.

(II) Accounting period

The accounting year of the Company runs from January 1 to December 31 under the Gregorian calendar.

(III) Operating cycle

The Company has a relatively short operating cycle for its business, an asset or a liability is classified as current if it is expected to be realized or due within 12 months.

(IV) Functional currency

The Company's functional currency is Renminbi (RMB) Yuan.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

(V) Accounting treatments of business combination under and not under common control

1. *Accounting treatment of business combination under common control*

Assets and liabilities arising from business combination are measured at carrying amount of the combined party included in the consolidated financial statements of the ultimate controlling party at the combination date. Difference between carrying amount of the equity of the combined party included in the consolidated financial statements of the ultimate controlling party and that of the combination consideration or total par value of shares issued is adjusted to capital reserve, if the balance of capital reserve is insufficient to offset, any excess is adjusted to retained earnings.

2. *Accounting treatment of business combination not under common control*

When combination cost is in excess of the fair value of identifiable net assets obtained from the acquiree at the acquisition date, the excess is recognized as goodwill; otherwise, the fair value of identifiable assets, liabilities and contingent liabilities, and the measurement of the combination cost are reviewed, then the difference is recognized in profit or loss.

(VI) Compilation method of consolidated financial statements

The parent company brings all its controlled subsidiaries into its consolidation scope. The consolidated financial statements are compiled by the parent company according to "CASBE 33 – Consolidated Financial Statements", based on relevant information and the financial statements of the parent company and its subsidiaries.

(VII) Recognition criteria of cash and cash equivalents

Cash as presented in cash flow statement refers to cash on hand and deposit on demand for payment. Cash equivalents refer to short-term, highly liquid investments that can be readily converted to cash and that are subject to an insignificant risk of changes in value.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

(VIII) Foreign currency translation

Transactions denominated in foreign currency are translated into RMB yuan at the spot exchange rate at the transaction date at initial recognition. At the balance sheet date, monetary items denominated in foreign currency are translated at the spot exchange rate at the balance sheet date with difference, except for those arising from the principal and interest of exclusive borrowings eligible for capitalization, included in profit or loss; non-cash items carried at historical costs are translated at the spot exchange rate at the transaction date, with its RMB amount unchanged; non-cash items carried at fair value in foreign currency are translated at the spot exchange rate at the date when the fair value was determined, with difference included in profit or loss or other comprehensive income.

(IX) Financial instruments

1. *Classification of financial assets and financial liabilities*

Financial assets are classified into the following four categories when initially recognized: financial assets at fair value through profit or loss (including held-for-trading financial assets and financial assets designated at initial recognition as at fair value through profit or loss), held-to-maturity investments, loans and receivables, and available-for-sale financial assets.

Financial liabilities are classified into the following two categories when initially recognized: financial liabilities at fair value through profit or loss (including held-for-trading financial liabilities and financial liabilities designated at initial recognition as at fair value through profit or loss), and other financial liabilities.

2. *Recognition criteria, measurement method and derecognition condition of financial assets and financial liabilities*

When the Company becomes a party to a financial instrument, it is recognized as a financial asset or financial liability. The financial assets and financial liabilities initially recognized by the Company are measured at fair value; for the financial assets and liabilities at fair value through profit or loss, the transaction expenses thereof are directly included in profit or loss; for other categories of financial assets and financial liabilities, the transaction expenses thereof are included into the initially recognized amount.

The Company measures its financial assets at fair value subsequent to initial recognition, and does not deduct the transaction expenses that may occur when it disposes of the said financial asset in the future. However, those under the following circumstances are excluded: (1) the held-to-maturity investments, loans and receivables are measured at amortized costs using effective interest method; (2) the equity instrument investments for which there is no quotation in the active market and whose fair value cannot be measured reliably, and the derivative financial assets which are connected with the said equity instrument and must be settled by the delivery of the said equity instrument are measured at their costs.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

(IX) Financial instruments (Continued)

2. *Recognition criteria, measurement method and derecognition condition of financial assets and financial liabilities (Continued)*

The Company measures its financial liabilities at the amortized costs using effective interest method, with the exception of those under the following circumstances: (1) for the financial liabilities at fair value through profit or loss, they are measured at fair value, and none of the transaction expenses may be deducted, which may occur when the financial liabilities are settled in the future; (2) for the derivative financial liabilities, which are connected to the equity instrument for which there is no quotation in the active market and whose fair value cannot be reliably measured, and which must be settled by the delivery of the equity instrument, they are measured at their costs; (3) for the financial guarantee contracts which are not designated as a financial liability at fair value through profit or loss, and for the commitments to grant loans which are not designated as at fair value through profit or loss and which will enjoy an interest rate lower than that of the market, they are measured subsequent to initial recognition at the higher of the following two items 1) The amount as determined according to “CASBE13 – Contingencies”; 2) the surplus after accumulative amortization as determined according to “CASBE14 – Revenues”.

The gains or losses arising from changes in fair value of financial assets or financial liabilities, if not related to hedging, are measured with the following methods: (1) Gains or losses, arising from the changes in fair value of financial asset or liability at its fair value through profit or loss, is included in gains or losses on changes in fair value; interests or cash dividends gained during the asset-holding period are recognized as investment income; when disposing of the assets, investment income is recognized at the difference between the actual amount received and the initial recorded amount, at the same time, gains or losses on changes in fair value are adjusted accordingly. (2) For available-for-sale financial asset, changes in fair value are recorded as other comprehensive income during the holding period, interests measured at effective interest method are recorded as investment income; cash dividends from available-for-sale equity instrument investment are recognized as investment income at the date of dividend declaration; when disposing of the assets, investment income is recognized at the difference between the actual amount received and the book value deducting the accumulative amount of changes in fair value originally included in other comprehensive.

Financial assets are derecognized when the contractual rights for collecting the cash flow of the said financial assets expire or substantially all risks and rewards related to the said financial assets have been transferred. Only when the underlying present obligations of a financial liability are relieved totally or partly may the financial liability be derecognized accordingly.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

(IX) Financial instruments (Continued)

3. *Recognition criteria and measurement method of financial assets transfer*

Where the Company has transferred substantially all of the risks and rewards related to the ownership of the financial asset to the transferee, it derecognizes the financial asset. If it retained substantially all of the risks and rewards related to the ownership of the financial asset, it continues recognizing the financial asset, and the consideration received is recognized as a financial liability. Where the Company does not transfer or retain substantially all of the risks and rewards related to the ownership of a financial asset, it is dealt with according to the circumstances as follows respectively: (1) if the Company gives up its control over the financial asset, it derecognizes the financial asset; (2) if the Company does not give up its control over the financial asset, according to the extent of its continuing involvement in the transferred financial asset, it recognizes the related financial asset and recognizes the relevant liability accordingly.

If the transfer of an entire financial asset satisfies the conditions for derecognition, the difference between the amounts of the following two items are included in profit or loss: (1) the book value of the transferred financial asset; (2) the sum of consideration received from the transfer, and the accumulative amount of the changes of the fair value originally included in equity. If the transfer of financial asset partially satisfies the conditions to derecognition, the entire book value of the transferred financial asset is, between the portion which is derecognized and the portion which is not, apportioned according to their respective relative fair value, and the difference between the amounts of the following two items are included into profit or loss: (1) the book value of the portion which is derecognized; (2) the sum of consideration of the portion which is derecognized, and the portion of the accumulative amount of the changes in the fair value originally included in equity which is corresponding to the portion which is derecognized.

4. *Fair value determination method of financial assets and liabilities*

The Company use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value. The inputs to valuation techniques used to measure fair value are arranged in the following hierarchy and used accordingly:

- (1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date.
- (2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability, for example, interest rates and yield curves observable at commonly quoted intervals; market-corroborated inputs;

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

(IX) Financial instruments (Continued)

4. *Fair value determination method of financial assets and liabilities (Continued)*

- (3) Level 3 inputs are unobservable inputs for the asset or liability. Level 3 inputs include interest rate that is not observable and cannot be corroborated by observable market data at commonly quoted intervals, historical volatility, future cash flows to be paid to fulfill the disposal obligation assumed in business combination, and financial forecast developed using the Company's own data, etc.

5. *Impairment test and provision for impairment loss of financial assets*

- (1) An impairment test is carried out at the balance sheet date on the financial assets other than those at fair value through profit or loss, and provisions for impairment loss should be made if there is objective evidence indicating impairment loss.
- (2) For held-to-maturity investments, borrowings, and receivables, an impairment test is made on an individual basis on financial assets of individually significant amount; with regard to the financial assets of individually insignificant amount, they may be included in a portfolio of financial assets with similar credit risk features so as to carry out an impairment-related test; where, upon the impairment test on an individual basis, the financial asset (including those financial assets of individually significant amount and of individually insignificant amount) is not impaired, it is included in a portfolio of financial assets with similar credit risk features so as to conduct further impairment test. Where a financial asset is impaired, the carrying amount of the said financial asset is written down to the present value of the predicted future cash flow.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

(IX) Financial instruments (Continued)

5. Impairment test and provision for impairment loss of financial assets (Continued)

(3) Available-for-sale financial assets

- 1) Objective evidence indicating that available-for-sale debt instrument investments may be impaired includes:
 - a. significant financial difficulties in the debtor;
 - b. breach of contract by the debtor, such as principal or interest past due or default;
 - c. concessions made to debtors with financial difficulties considering economic and legal factors;
 - d. it is highly probable that the debtor is going to dissolve or going through other terms of financial restructuring;
 - e. owing to significant financial difficulties occurred to the debtor, the debt instrument is discontinued to trade in active market; or
 - f. Other circumstances indicating that available-for-sale debt instrument may be impaired.
- 2) Evidence indicating that available-for-sale equity instrument investment may be impaired includes the fair value of equity instrument investment is suffered from significant or non-temporary decline and the technical, market, economic, or legal environment in which the investee operates has significant adverse changes under which the Company may not be able to recover its investment cost.

When an available-for-sale financial asset at fair value is impaired, the cumulative loss arising from decline in fair value that has been recognized directly in other comprehensive income is reclassified to impairment loss. If, after an impairment loss has been recognized on available-for-sale debt instrument investment, there is objective evidence of a recovery in value of the financial asset which can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss. Subsequent fair value increase in available-for-sale debt instrument investment whose impairment loss has been recognized is directly recognized in other comprehensive income.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

(IX) Financial instruments (Continued)

5. *Impairment test and provision for impairment loss of financial assets (Continued)*

(2) (Continued)

When an available-for-sale equity instrument at cost is impaired, impairment loss on such equity instrument investment is recognized at any excess of its carrying amount over the present value of future cash flows, and such impairment loss is not reversed upon recognition.

(X) Receivables

1. *Receivables of individually significant amount and with provision made on an individual basis*

Judgment basis or amount criteria of individually significant amount	Accounts receivable is considered individually significant if the amount is over RMB20,000,000 yuan; Other receivable is considered individually significant if the amount is over RMB5,000,000 yuan.
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Provision method for receivables of individually significant amount and with provision made on an individual basis	Individual impairment test, provisions are made on the difference between the lower of present value of future cash flow and their carrying amount based on impairment testing on an individual basis.
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Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

(X) Receivables (Continued)

2. *Receivables with provision made on a collective basis using portfolios with similar credit risk features*

(1) Specific portfolios and provision method

Provision method of provision being made on collective basis using portfolios with similar credit risk features

Basis for group determination	Provision methods for bad debts in group
Portfolio grouped with age	Age analysis method
Portfolio grouped with balance due from related parties	No provision for bad debts is made, if no impairment occurred after the impairment test

(2) Age analysis method

Ages	Proportion of provision for accounts receivable (%)
Within 3 months (third month inclusive, the same below)	0%
4–12 months	5%
1–2 years	25%
2–3 years	50%
Over 3 years	100%

3. *For other receivables, the Group adopts individual assessment to make bad debt provision.*

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

(X) Receivables (Continued)

4. *Receivables of individually insignificant amount but with provision made on an individual basis*

Reasons for provision made on an individual basis	Significant difference exists between the present value of the future cash flow of accounts receivable and the present value of the future cash flow of the account receivable combination with aging as the credit risk feature.
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Provision method	Provision for bad debts are made at the excess of the carrying amount of the receivables over the present value of the estimated future cash flows based on independent impairment test.
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For other receivables such as notes receivable, interest receivable and long-term receivable, etc., provision for bad debts is made at the excess of the carrying amount of the receivables over the present value of the estimated future cash flows.

(XI) Inventories

1. *Classification of inventories*

Inventories include finished goods or goods held for sale in the ordinary course of business, work in process in the process of production, and materials or suppliers etc. to be consumed in the production process or in the rendering of services.

2. *Accounting method for dispatching inventories:*

Inventories are recognized at the actual cost, and raw materials and goods on hand dispatched from storage are accounted for with weighted average method on a monthly basis.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

(XI) Inventories (Continued)

3. *Basis for determining net realizable value*

At the balance sheet date, inventories are measured at the lower of cost or net realizable value; provisions for inventory write-down are made on the excess of its cost over the net realizable value. The net realizable value of inventories held for sale is determined based on the amount of the estimated selling price less the estimated selling expenses and relevant taxes and surcharges in the ordinary course of business; the net realizable value of materials to be processed is determined based on the amount of the estimated selling price less the estimated costs of completion, selling expenses and relevant taxes and surcharges in the ordinary course of business; at the balance sheet date, when only part of the same item of inventories have agreed price, their net realizable value is determined separately and is compared with their costs to set the provision for inventory write-down to be made or reversed.

4. *Inventory system*

Perpetual inventory method is adopted.

5. *Amortization method of low-value consumables and packages*

Revolving materials (such as low-value consumables and packaging materials) shall be amortized in full amount or in equal instalments.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

(XII) Long-term equity investments

1. *Judgment of joint control and significant influence*

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of these policies.

2. *Determination of investment cost*

- (1) For business combination under common control, if the consideration of the combining party is that it makes payment in cash, transfers non-cash assets, assumes its liabilities or issues equity securities, on the date of combination, it regards the share of the carrying amount of the equity of the combined party included in the consolidated financial statements of the ultimate controlling party as the initial cost of the investment. The difference between the initial cost of the long-term equity investment and the carrying value of the combination consideration paid or the par value of shares issued offsets capital reserve; if the balance of capital reserve is insufficient to offset, any excess is adjusted to retained earnings.

When long-term equity investments are obtained through business combination under common control achieved in stages, the Company determines whether it is a “bundled transaction”. If it is a “bundled transaction”, stages as a whole are considered as one transaction in accounting treatment. If it is not a “bundled transaction”, investment cost is initially recognized at the share of the carrying amount of net assets of the combined party included in the consolidated financial statements of the ultimate controlling party. The difference between the acquisition-date investment cost of long-term equity investments and the carrying amount of the previously held long-term equity investments plus the carrying amount of the consideration paid for the newly acquired equity is adjusted to capital reserve; if the balance of capital reserve is insufficient to offset, any excess is adjusted to retained earnings.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

(XII) Long-term equity investments (Continued)

2. Determination of investment cost (Continued)

- (2) For business combination not under common control, investment cost is initially recognized at the acquisition-date fair value of considerations paid.

When long-term equity investments are obtained through business combination not under common control achieved in stages, the Company determined whether they are stand-alone financial statements or consolidated financial statements in accounting treatment:

- 1) In the case of stand-alone financial statements, investment cost is initially recognized at the carrying amount of the previously held long-term equity investments plus the carrying amount of the consideration paid for the newly acquired equity.
- 2) In the case of consolidated financial statements, the Company determines whether it is a “bundled transaction”. If it is a “bundled transaction”, stages as a whole are considered as one transaction in accounting treatment. If it is not a “bundled transaction”, the carrying value of the acquirer’s previously held equity interest in the acquire is re-measured at the acquisition-date fair value, and the difference between the fair value and the carrying amount is recognized in investment income; when the acquirer’s previously held equity interest in the acquire involves other comprehensive income under equity method, the related other comprehensive income is reclassified as income for the acquisition period, excluding other comprehensive income arising from changes in net liabilities or assets from re-measurement of defined benefit plan of the acquiree.
- (3) Long-term equity investment obtained through ways other than business combination: the initial cost of a long-term equity investment obtained by making payment in cash is the purchase cost which is actually paid; that obtained on the basis of issuing equity securities is the fair value of the equity securities issued; that obtained through debt restructuring is determined according to “CASBE12 – Debt Restructuring”; and that obtained through non-cash assets exchange is determined according to “CASBE7 – Non-cash Assets Exchange”.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

(XII) Long-term equity investments (Continued)

3. *Subsequent measurement and recognition method of gain or loss*

For long-term equity investment with control relationship, it is accounted for with cost method; for long-term equity investment with joint control or significant influence relationship, it is accounted for with equity method.

4. *Disposal of a subsidiary in stages resulting in the Company's loss of control*

(1) Stand-alone financial statements

The difference between the carrying amount of the disposed equity and the consideration obtained thereof is recognized in profit or loss. If the disposal does not result in the Company's loss of significant influence or joint control, the remained equity is accounted for with equity method; however, if the disposal results in the Company's loss of control, joint control, or significant influence, the remained equity is reclassified as available-for-sale financial assets, and accounted for according to CASBE 22 –Financial Instruments: Recognition and Measurement.

(2) Consolidated financial statements

- 1) Disposal of a subsidiary in stages not qualified as “bundled transaction” resulting in the Company's loss of control. Before the Company's loss of control, the difference between the disposal consideration and the proportionate share of net assets in the disposed subsidiary from acquisition date or combination date to the disposal date is adjusted to capital reserve (capital premium), if the balance of capital reserve is insufficient to offset, any excess is adjusted to retained earnings.

When the Company loses control, the remained equity is re-measured at the loss-of-control-date fair value. The aggregated value of disposal consideration and the fair value of the remained equity, less the share of net assets in the disposed subsidiary held before the disposal from the acquisition date or combination date to the disposal date is recognized in investment income in the period when the Company loses control over such subsidiary, and meanwhile goodwill is offset correspondingly. Other comprehensive income related to equity investments in former subsidiary is reclassified as investment income upon the Company's loss of control.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

(XII) Long-term equity investments (Continued)

4. Disposal of a subsidiary in stages resulting in the Company's loss of control (Continued)

(2) Consolidated financial statements (Continued)

- 2) In case of "bundled transaction", stages as a whole are considered as one transaction resulting in loss of control in accounting treatment. Before the Company loses control, the difference between the disposal consideration at each stage and the proportionate share of net assets in the disposed subsidiary is recognized as other comprehensive income at the consolidated financial statements and reclassified as profit or loss in the period when the Company loses control over such subsidiary.

(XIII) Fixed assets

1. Recognition principles of fixed assets

Fixed assets are tangible assets held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and expected to be used during more than one accounting year. Fixed assets are recognized if, and only if, it is probable that future economic benefits associated with the assets will flow to the Company and the cost of the assets can be measured reliably.

2. Depreciation method of different categories of fixed assets

Items	Depreciation method	Useful life (years)	Estimated residual value proportion	Annual depreciation rate
Buildings and structures	Straight-line method	30-50	3%	1.94%-3.23%
Machinery and other equipment	Straight-line method	8-22	3%-5%	4.32%-12.13%
Motor vehicles	Straight-line method	8	3%	12.13%

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

(XIII) Fixed assets (Continued)

3. *Recognition and pricing principles of fixed assets rented-in under finance lease*

Finance lease is determined when one or a combination of the following conditions are satisfied: (1) the ownership has been transferred to the lessee when the leasing term is due; (2) the lessee has the option to purchase the leasing asset at a price that is much lower than its fair value, so it can be reasonably determined that the lessee will take the option at the very beginning of the lease; (3) the leasing term accounts for most time of the useful life (ordinarily accounting for 75% or higher) even if the ownership does not transfer to the lessee; (4) the present value of the minimum amount of rent that the lessee has to pay at the first day of the lease amounts to 90% or higher of its fair value at the same date; or the present value of the minimum amount of rent that the lessor collects at the first day of the lease amounts to 90% or higher of its fair value at the same date; and/or (5) the leased assets are of such a specialized nature that only the lessee can use them without major modifications.

Fixed assets rented-in under finance lease are recorded at the lower of fair value and the present value of the minimum lease payment at the inception of the lease, and are depreciated following the depreciation policy for self-owned fixed assets.

(XIV) Construction in progress

1. Construction in progress is recognized if, and only if, it is probable that future economic benefits associated with the item will flow to the Company, and the cost of the item can be measured reliably. Construction in progress is measured at the actual cost incurred to reach its designed usable conditions.
2. Construction in progress is transferred into fixed assets at its actual cost when it reaches its designed usable conditions. When the construction completion cost reaches final estimating and auditing of the construction in progress was not finished while it reaching the designed usable conditions, it is transferred to fixed assets using estimated value first, and then adjusted accordingly when the actual cost is settled, but the accumulated depreciation is not to be adjusted retrospectively.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

(XV) Borrowing costs

1. *Recognition principle of borrowing costs capitalization*

Where the borrowing costs incurred to the Company can be directly attributable to the acquisition and construction or production of assets eligible for capitalization, it is capitalized and included in the costs of relevant assets; other borrowing costs are recognized as expenses on the basis of the actual amount incurred, and are included in profit or loss.

2. *Borrowing costs capitalization period*

- (1) The borrowing costs are not capitalized unless they following requirements are all met: 1) the asset disbursements have already incurred; 2) the borrowing costs have already incurred; and 3) the acquisition and construction or production activities which are necessary to prepare the asset for its intended use or sale have already started.
- (2) Suspension of capitalization: where the acquisition and construction or production of a qualified asset is interrupted abnormally and the interruption period lasts for more than 3 months, the capitalization of the borrowing costs is suspended; the borrowing costs incurred during such period are recognized as expenses, and are included in profit or loss, till the acquisition and construction or production of the asset restarts.
- (3) Ceasing of capitalization: when the qualified asset under acquisition and construction or production is ready for the intended use or sale, the capitalization of the borrowing costs is ceased.

3. *Capitalization rate and capitalized amount of borrowing costs*

For borrowings exclusively for the acquisition and construction or production of assets eligible for capitalization, the to-be-capitalized amount of interests is determined in light of the actual interest expenses incurred (including amortization of premium or discount based on effective interest method) of the special borrowings at the present period minus the income of interests earned on the unused borrowings as a deposit in the bank or as a temporary investment; where a general borrowing is used for the acquisition and construction or production of assets eligible for capitalization, the Company calculates and determines the to-be-capitalized amount of interests on the general borrowing by multiplying the weighted average asset disbursement of the part of the accumulative asset disbursements minus the general borrowing by the capitalization rate of the general borrowing used.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

(XVI) Intangible assets

1. Intangible asset includes land use right. The initial measurement of intangible asset is based its cost.
2. For intangible assets with finite useful lives, its amortization amount is amortized within its useful lives systematically and reasonably, if it is unable to determine the expected realization pattern reliably, intangible assets are amortized by the straight-line method with details as follows:

Items	Amortization period (years)
Land use rights	50

3. Expenses for research and development of internal cases in the research stage shall be recorded into current profit and loss at the occurrence. As for an internal research and development project, expenditure incurred in the research phase is recognized in profit or loss in the period as incurred. Expenses incurred in the development stage are recognized as intangible assets if all of the following conditions are met: (1) the technical feasibility of completing the intangible asset so that it will be available for use or for sale; (2) the intention to complete the intangible asset for use or for sale; (3) how the intangible asset will generate economic benefits including there is evidence that the products produced using the intangible asset has a market or the intangible asset itself has a market; if the intangible asset is for internal use, there is evidence that there exists usage for the intangible asset; (4) the availability of adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; and (5) the expenditures attributable to the development of the intangible asset could be reliably measured.

(XVII) Impairment of part of long-term assets

For long-term assets such as long-term equity investments, fixed assets, construction in progress, intangible assets with finite useful life, etc., if at the balance sheet date there is indication of impairment, the recoverable amount is estimated. For goodwill recognized in business combination and intangible assets with indefinite useful life, no matter whether there is indication of impairment, impairment test is performed annually. Impairment test on goodwill is performed on related group of assets or a portfolio of groups of assets.

When the recoverable amount of such long-term assets is lower than their carrying amount, the difference is recognized as assets impairment loss through profit or loss.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

(XVIII) Employee benefits

1. *Employee benefits include short-term employee benefits, post-employment benefits, termination benefits and other long-term employee benefits.*

2. *Short-term employee benefits*

The Company recognizes, in the accounting period in which an employee provides service, short-term employee benefits actually incurred as liabilities, with a corresponding charge to profit or loss or the cost of a relevant asset.

3. *Post-employment benefits*

The Company classifies post-employment benefit plans as either defined contribution plans or defined benefit plans.

- (1) The Company recognizes in the accounting period in which an employee provides service the contribution payable to a defined contribution plan as a liability, with a corresponding charge to profit or loss or the cost of a relevant asset.

- (2) Accounting treatment by the Company for defined benefit plan usually involves the following steps:

- 1) In accordance with the projected unit credit method, using unbiased and mutually compatible actuarial assumptions to estimate related demographic variables and financial variables, measure the obligations under the defined benefit plan, and determine the periods to which the obligations are attributed. The Company discounts obligations under the defined benefit plan using the discount rate to determine the present value of the defined benefit plan obligations and the current service cost;
- 2) When a defined benefit plan has assets, the Company recognizes the deficit or surplus by deducting the present value of the defined benefit plan obligation from the fair value of defined benefit plan assets as a net defined benefit plan liability or net defined benefit plan asset. When a defined benefit plan has a surplus, the Company measures the net defined benefit plan asset at the lower of the surplus in the defined benefit plan and the asset ceiling;

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

(XVIII) Employee benefits (Continued)

3. *Post-employment benefits (Continued)*

(2) (Continued)

- 3) At the end of reporting period, the Company recognizes the following components of employee benefits cost arising from defined benefit plan: a. service cost; b. net interest on the net defined benefit plan liability (asset); and c. Changes as a result of re-measurement of the net defined benefit liability (asset). Item a and item b are recognized in profit or loss or the cost of a relevant asset. Item c is recognized in other comprehensive income and is not to be reclassified subsequently to profit or loss. However, the Company may transfer those amounts recognized in other comprehensive income within equity.

4. *Termination benefits*

Termination benefits provided to employees are recognized as an employee benefit liability for termination benefits, with a corresponding charge to profit or loss at the earlier of the following dates: 1) when the Company cannot unilaterally withdraw the offer of termination benefits because of an employment termination plan or a curtailment proposal; or 2) when the Company recognizes cost or expenses related to a restructuring that involves the payment of termination benefits.

5. *Other long-term employee benefits*

When other long-term employee benefits provided by the Company to the employees satisfied the conditions for classifying as a defined contribution plan, those benefits are accounted for in accordance with the requirements relating to defined contribution plan. The Company recognizes and measures the net liability or net asset of other long-term employee benefits in accordance with the requirements relation to defined benefit plan. At the end of the reporting period, the Company recognizes the components of cost of employee benefits arising from other long-term employee benefits as the followings: a. service cost; b. net interest on the net liability or net assets of other long-term employee benefits; and c. changes as a result of re-measurement of the net liability or net assets of other long-term employee benefits. As a practical expedient, the net total of the aforesaid amounts are recognized in profit or loss or included in the cost of a relevant asset.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

(XIX) Provisions

1. Provisions are recognized when fulfilling the present obligations arising from contingencies such as providing guarantee for other parties, litigation, products quality guarantee, onerous contract, etc., may cause the outflow of the economic benefit and such obligations can be reliably measured.
2. The initial measurement of provisions is based on the best estimated expenditures required in fulfilling the present obligations, and its carrying amount is reviewed at the balance sheet date.

(XX) Revenue

1. *Revenue recognition principles*

(1) Sale of goods

Revenue from sale of goods is recognized if, and only if, the following conditions are all satisfied: 1) significant risks and rewards of ownership of the goods is transferred to the buyer; 2) the Company retains neither continuing managerial involvement of ownership nor effective control over the goods sold; 3) the amount of revenue can be measured reliably; 4) it is probable that the economic benefits of the transaction will flow to the Company; and 5) the costs of the transaction incurred and to be incurred can be measured reliably.

(2) Rendering of services

When the outcome of the transaction can be estimated reliably (the amount of revenue can be measured reliably, it is probable that the economic benefits will flow to the Company, the percentage of completion of the transaction can be determined reliably, and the costs of the transaction incurred and to be incurred can be measured reliably), revenue from rendering of services is recognized using the percentage of completion method, and the stage of completion is determined at the proportion of costs incurred to the estimated total costs. When the outcome of the transaction cannot be estimated reliably at the balance sheet date, revenue is recognized based on the amount of the costs incurred and the costs incurred are charged off at the same amount when the costs incurred are expected to be recoverable; and no revenue is recognized and the costs incurred are charged off as an expense of the period when the costs incurred are not expected to be recovered.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

(XX) Revenue (Continued)

1. *Revenue recognition principles (Continued)*

(3) Revenue arising from use by others of assets

Revenue arising from use by others of assets is recognized if, and only if, it is probable that economic benefits associated with the transaction will flow to the Company and the amount of the revenue can be measured reliably. Interest income is recognized based on the length of time for which the Company's cash is used by others and the effective interest rate; and royalties are recognized according to the period and method of charging as specified in relevant contract or agreement.

2. *Revenue recognition method adopted by the Company*

Main products of the Company include steel plates, steel sections, wire rods and bar materials. Recognition of product sales revenue shall meet the following conditions: i) the Company has already delivered the products to the acquirer according to the contract agreement; ii) the revenue amount has been recognized; iii) the payment for goods has been received, or the receipt voucher has been obtained, and relevant economic benefits may flow into the Company; and iv) relevant product costs can be reliably measured.

Recognition of OEM business revenue requires the fulfillment of the following conditions: the products have been delivered by the Company to the principal as agreed in the contract and have been accepted by the principal; and the amount has been determined as to product sales revenue, the payment for goods has been received or the receiving vouchers obtained, relevant economic benefits likely to flow in and product-related costs able to be measured reliably.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

(XXI) Government grants

1. *Government grants related to assets*

Government grants related to assets are government grants, with which the Company purchase, construct or otherwise acquire non-current assets. They are recognized as deferred income, and amortized on a straight-line method over the useful lives of the relevant assets, and included in profit or loss. However, those measured at notional amount is directly included into profit or loss.

2. *Government grants related to income*

Government grants related to income are government grants other than those related to assets. Government grants related to income if used for compensating the related future expenses or losses of the Company are recognized as deferred income and are included in profit or loss during the period when the relevant expenses are recognized; if used for compensating the related expenses or losses incurred to the Company are directly included in profit or loss.

(XXII) Deferred tax assets/Deferred tax liabilities

1. Deferred tax assets or deferred tax liabilities are calculated and recognized based on the difference between the carrying amount and tax base of assets and liabilities (and the difference of the carrying amount and tax base of items not recognized as assets and liabilities but with their tax base being able to be determined according to tax laws) and in accordance with the tax rate applicable to the period during which the assets are expected to be recovered or the liabilities are expected to be settled.
2. A deferred tax asset is recognized to the extent of the amount of the taxable income, which it is most likely to obtain and which can be deducted from the deductible temporary difference. At the balance sheet date, if there is any exact evidence that it is probable that future taxable profits will be available against which deductible temporary differences can be utilized, the deferred tax assets unrecognized in prior periods are recognized.
3. At the balance sheet date, the carrying amount of deferred tax assets is reviewed. The carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the benefit of the deferred tax asset to be utilized. Such reduction is subsequently reversed to the extent that it becomes probable that sufficient taxable income will be available.
4. The income tax and deferred tax for the period are treated as income tax expenses or income through profit or loss, excluding those arising from the following circumstances: (a) business combination; and (b) the transactions or items directly recognized in equity.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

(XXIII) Operating leases

1. *Operating leases*

When the Company is the lessee, lease payments are recognized as cost or profit or loss with straight-line method over the lease term. Initial expenses are recognized directly into profit or loss. Contingent rents are charged as profit or loss in the periods in which they are incurred.

When the Company is the lessor, lease income is recognized as profit or loss with straight-line method over the lease term. Initial expenses, other than those with material amount and eligible for capitalization which are recognized as profit or loss by installments, are recognized directly as profit or loss. Contingent rents are charged into profit or loss in the periods in which they are incurred.

2. *Finance leases*

When the Company is the lessee, at the commencement of the lease term, lessees recognize finance leases as assets and liabilities in their balance sheets at amounts equal to the lower of fair value of the leased property and the present value of the minimum lease payments, each determined at the inception of the lease, and recognize the minimum lease payments as the entering value of long-term payable, and treat the difference of the two as unrecognized finance expense. Any initial direct costs of the lessee are added to the amount recognized as an asset. The effective interest method is used to recognize finance expense of the period during the lease term.

When the Company is the lessor, at the commencement of the lease, lessor recognizes the aggregate of minimum lease receipts and initial direct costs, each determined at the inception of the lease, as the entering value of finance lease receivables, and recognize the unguaranteed residual value at the same time. The difference between the aggregate of the minimum lease receipts, the initial direct costs and the unguaranteed residual value, and the sum of their present values is recognized as unrealized finance income. The effective interest method is used to recognize finance income of the period during the lease term.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

(XXIV) Work Safety Fund

As for the work safety fund withdrawn in accordance with the Administrative Measures for the Collection and Utilization of Enterprise Work Safety Funds (Caiqi [2012] No.16) (《企業安全生產費用提取和使用管理辦法》(財企[2012]16號)) jointly issued by the Ministry of Finance and the State Administration of Work Safety, the Company has credited such funds to the cost of relevant products or profit or loss of the current period and recorded them in "Special Reserve". In respect of utilizing work safety funds, when they are classified as revenue expenditures, specific reserve is directly offset. When fixed assets are incurred, they are included in "Construction in Progress" and recognized as fixed assets when the safety project is completed and attains the status of its intended use. They are then offset against specific reserve based on their cost while a corresponding amount is recognized in accumulated depreciation. Such fixed assets are no longer depreciated in subsequent periods.

(XXV) Critical accounting judgements and estimates

In the course of preparing financial statements, the Company has used estimates and assumptions, which may have effects on the application of accounting policies and amount of assets, liabilities, revenue and expenses. Concerning the discrepancy in practice, the Company performs ongoing assessment on key assumptions and key sources of estimation uncertainty. Effects arising from changes in accounting estimates are recognized at the period when such change occurs and subsequent period onwards.

Key sources of estimation uncertainty are:

1. *Recognition of deferred tax assets*

As stated in deferred tax assets/liabilities under Note III (XXII), deferred tax assets are recognized based on the deductible temporary difference (and the difference of the carrying amount and tax base of items not recognized as assets and liabilities but with their tax base being able to be determined according to tax laws) between the carrying amount and the tax base of assets or liabilities and the applicable tax rate at the time when such asset is collected or such liability is liquidated. A deferred tax asset is recognized to the extent of the amount of the taxable income, which it is most likely to obtain and which can be deducted from the deductible temporary difference.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

(XXV) Critical accounting judgements and estimates (Continued)

2. *Provision for bad debts*

As stated in receivables under Note III (X), the Company performs individual impairment test on receivables of individually significant amount and with provision made on an individual basis, and provision for bad debts is made on the difference between the present value of future cash flow and the carrying amount. For receivables using portfolios with similar credit risk features, provisions for bad debts is withdrawn according to its aging, but bad debt provisions shall not be withdrawn for receivables of related parties. For receivables of individually insignificant amount but with provision made on an individual basis, individual impairment test is performed and provision for bad debts is made at the difference between the present value of future cash flow and the carrying amount.

3. *Provision for inventory write-down*

As stated in inventories under Note III (XI), at the balance sheet date, inventories are measured at the lower of cost or net realizable value; provision for inventory write-down is made on the difference between the cost and the net realizable value. The net realizable value of inventories held for sale is determined based on the amount of the estimated selling price less the estimated selling expenses and relevant taxes and surcharges in the ordinary course of business; the net realizable value of materials to be processed is determined based on the amount of the estimated selling price less the estimated costs of completion, selling expenses and relevant taxes and surcharges in the ordinary course of business; at the balance sheet date, when only part of the same item of inventories have agreed price, their net realizable value is determined separately and is compared with their costs to set the provision for inventory write-down to be made or reversed.

4. *Impairment of long-term assets*

As stated in impairment of part of non-current assets under Note III (XVII), for non-current assets such as long-term equity investments, fixed assets, construction in progress, intangible assets with finite useful life, etc., if at the balance sheet date there is indication of impairment, the recoverable amount is estimated. For goodwill recognized in business combination and intangible assets with indefinite useful life, no matter whether there is indication of impairment, impairment test is performed annually. Impairment test on goodwill is performed on related group of assets or a portfolio of group of assets. When the measurement result indicates that the recoverable amount of such non-current assets is lower than their carrying amount, the carrying amount is reduced to the recoverable amount, and the difference is recognized as assets impairment loss through profit or loss, and provision for impairment loss of assets is made accordingly.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

IV. TAXES

(I) Main taxes and tax rates

Taxes	Tax bases	Tax rates
Value-added tax (VAT)	The taxable revenue from sales of goods or rendering of services	3%, 6%, 13%, 17%
Business tax	The taxable business turnover	5%
Housing property tax	For housing property levied on the basis of price, housing property tax is levied at the rate of 1.2% of the balance after deducting 30% of the cost; for housing property levied on the basis of rent, housing property tax is levied at the rate of 12%	1.2%, 12%
City maintenance and construction tax	Turnover tax payable	7%
Education surcharge	Turnover tax payable	3%
Local education surcharge	Turnover tax payable	2%
Enterprise income tax	Taxable income	15%, 25%

Different enterprise income tax rates applicable to different taxpayers

Name of subject of taxation	Income tax rate
The Company	15%
Jingjiang Sanfeng Steel Processing Distribution Co., Ltd. (靖江三峰鋼材加工配送有限公司)	25%
Jingjiang CIS Huadong Trading Co., Ltd. (靖江重鋼華東商貿有限公司)	25%
Guizhou CIS Iron and Steel Sales Co., Ltd. (貴州重鋼鋼鐵銷售有限責任公司)	25%
Xi'an CIS Sales Co., Ltd. (西安重鋼銷售有限責任公司)	25%
Chongqing CIS Building Materials Sales Co., Ltd. (重慶市重鋼建材銷售有限責任公司)	25%
Chongqing CISL high strength cold rolling steel Co., Ltd (重慶重鋼高強冷軋板材有限公司)	25%

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

IV. TAXES (CONTINUED)

(II) Tax preferential policies

The preferential tax treatment pertaining to China's western development entitled by the Company had been expired on 31 December 2010. By the approval date of the Financial Statement, issued by the State Administration of Taxation ("SAT") in respect of the extension of preferential tax policies pertaining to China's western development, "companies located in the western region that fall into the catalogue of encouraged industries are subject to a reduced Corporate Income Tax rate of 15% from 1 January 2011 to 31 December 2020". The Company anticipates that it is most likely that such preferential policy will continue in the future, thus in this year, the Company's tax rates and preferential tax policies remain unchanged as compared to last year.

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

(I) Notes to items in consolidated balance sheets

1. Cash and bank deposits

(1) Details

Items	Closing balance	Opening balance
Cash on hand	747	1,419
Bank deposits	788,699	91,149
Other monetary funds	313,248	832,903
Total	1,102,694	925,471

(2) Other descriptions

At the end of the period, there are funds with use restriction, refer to Notes to the Financial Statements V (IV) for details.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in consolidated balance sheets (Continued)

2. Notes receivable

(1) Details

Items	Closing balance			Opening balance		
	Book balance	Provision for bad debts	Carrying amount	Book balance	Provision for bad debts	Carrying amount
Bank acceptance	19,435		19,435	45,863		45,863
Total	19,435		19,435	45,863		45,863

(2) Pledged notes

Items	Closing balance of pledged notes
Bank acceptance	900
Subtotal	900

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in consolidated balance sheets (Continued)

2. Notes receivable (Continued)

- (3) Notes receivable has been endorsed or discounted but not yet due at the end of the period

Items	Amount derecognized at the end of the period	Amount remained recognized at the end of the period
Bank acceptance	787,037	
Sub-total	787,037	

The commercial bank is the acceptor of the bank acceptance. As the commercial bank has very high credit, it is of relatively low probability for the failure to pay at the maturity of the bank acceptance. Therefore, the Company derecognized with endorsed or discounted bank acceptance. If the bank acceptance is not paid at the maturity, the Company shall still bear joint liability for the holder according to relevant provisions of the Law of Negotiable Instrument.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in consolidated balance sheets (Continued)

3. Accounts receivable

(1) Details

1) Details on categories

Categories	Book balance		Closing balance Provision for bad debts		Carrying amount
	Amount	Proportion (%)	Amount	Provision proportion (%)	
Receivables of individually significant amount and with provision made on an individual basis					
Receivables with provision made on a collective basis using portfolios with similar credit risk features	421,295	99	165,037	39	256,258
Receivable of individually insignificant amount but with provision made on an individual basis	2,756	1	2,756	100	
Total	424,051	100	167,793	40	256,258

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in consolidated balance sheets (Continued)

3. Accounts receivable (Continued)

(1) Details (Continued)

1) Details on categories (Continued)

Categories	Book balance		Opening balance Provision for bad debts		Carrying Amount
	Amount	Proportion (%)	Amount	Provision proportion (%)	
Receivables of individually significant amount and with provision made on an individual basis	153,935	24	7,923	5	146,012
Receivables with provision made on a collective basis using portfolios with similar credit risk features	492,763	76	135,573	28	357,190
Receivable of individually insignificant amount but with provision made on an individual basis	2,756		2,756	100	
Total	649,454	100	146,252	22	503,202

Note: In current period, the receivables of individually significant amount with provision made on an individual basis decreased, because the Company transferred creditor's rights of Chongqing Safety Industry Development Group Co., Ltd. (重慶安全產業發展集團有限公司) to CISG, refer to Notes to the Financial Statements IX (II) 5 for details.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in consolidated balance sheets (Continued)

3. Accounts receivable (Continued)

(1) Details (Continued)

- 2) In portfolios, accounts receivable with provision made on a collective basis with aging analysis method

Ages	Book balance	Closing balance Provision for bad debts	Provision proportion (%)
Within 3 months (third month inclusive)	40,845		
4–12 months (first year inclusive)	118,435	5,922	5
1–2 years	102,667	25,667	25
2–3 years	3,722	1,861	50
Over 3 years	131,587	131,587	100
Sub-total	397,256	165,037	42

- 3) In portfolios, accounts receivable with provision made on a collective basis with other method

Portfolios	Book balance	Closing balance Provision for bad debts	Provision proportion (%)
Accounts receivable of related parties	24,039		
Sub-total	24,039		

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in consolidated balance sheets (Continued)

3. Accounts receivable (Continued)

(2) Aging Analysis

Ages	Book balance	Closing balance Provision for bad debts	Provision proportion (%)
Within 3 months (third month inclusive)	61,960		
4-12 months (first year inclusive)	119,917	5,922	5
1-2 years	103,852	25,667	25
2-3 years	3,722	1,861	50
Over 3 years	134,600	134,343	99
Total	424,051	167,793	40

Ages	Book balance	Opening balance Provision for bad debts	Provision proportion (%)
Within 3 months (third month inclusive)	311,382		
4-12 months (first year inclusive)	24,600	1,059	4
1-2 years	13,147	958	7
2-3 years	7,433	3,680	50
Over 3 years	292,892	140,555	48
Total	649,454	146,252	23

The aging analysis is based on the month when accounts receivable were recognized. The accounts receivable recognized firstly will be prior settled.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in consolidated balance sheets (Continued)

3. Accounts receivable (Continued)

- (3) Accounts receivable provided for bad debts, collected or reversed for the period

An amount of RMB25,526,000 yuan was withdrawn as bad debt provision and RMB3,985,000 yuan was reversed in the current period.

- (4) Accounts receivable written off in current period

1) Accounts receivable actually written off in current period totaled RMB3,985,000 yuan.

- 2) Significant accounts receivable written off in current period

Debtors	Nature of receivables	Amount written off (RMB'000)	Reasons for written-off
Chongqing Iron & Steel Group Chongqing Trading Co., Ltd (重慶鋼鐵集團重慶貿易有限責任公司)	Payment for goods	3,985	Company cancellation
Sub-total		3,985	

- (5) Five largest accounts receivable by debtor

The subtotal of five largest accounts receivable of the Company at the end of the period is RMB248,591,000 yuan, representing 59% of the total accounts receivable, and the provision of bad debts is RMB28,280,000 yuan.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in consolidated balance sheets (Continued)

4. Prepayments

(1) Aging Analysis

Ages	Closing balance			Opening balance		
	Book balance	Proportion (%)	Carrying Amount	Book balance	Proportion (%)	Carrying Amount
Within 1 year	31,987	86	31,987	33,641	84	33,641
1-2 years	1,843	5	1,843	2,167	5	2,167
2-3 years	1,762	5	1,762	1,095	3	1,095
Above 3 years	1,599	4	1,599	3,021	8	3,021
Total	37,191	100	37,191	39,924	100	39,924

(2) Five largest prepayments by debtor

The subtotal of five largest prepayments of the Company at the end of the period is RMB25,156,000 yuan, representing 68% of the total prepayments.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in consolidated balance sheets (Continued)

5. Other receivables

(1) Details

1) Details on categories

Categories	Book balance		Closing balance Provision for bad debts		Carrying Amount
	Amount	Proportion (%)	Amount	Provision proportion (%)	
Receivables of individually significant amount and with provision made on an individual basis	15,827	21	15,827	100	
Other receivables that were not impaired upon separate impairment test	58,099	77			58,099
Receivable of individually insignificant amount but with provision made on an individual basis	1,131	2	1,131	100	
Total	75,057	100	16,958	23	58,099

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in consolidated balance sheets (Continued)

5. Other receivables (Continued)

(1) Details (Continued)

1) Details on categories (Continued)

Categories	Book balance		Opening balance Provision for bad debts		Carrying Amount
	Amount	Proportion (%)	Amount	Provision proportion (%)	
Receivables of individually significant amount and with provision made on an individual basis	15,827	28	15,827	100	
Other receivables that were not impaired upon separate impairment test	40,376	70			40,376
Receivable of individually insignificant amount but with provision made on an individual basis	1,131	2	1,131	100	
Total	57,334	100	16,958	30	40,376

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in consolidated balance sheets (Continued)

5. Other receivables (Continued)

(1) Details (Continued)

- 2) Receivables of individually significant amount and with provision made on an individual basis at the end of the period

Name of debtor	Book balance	Provision for bad debts	Provision proportion (%)	Reasons for provision made
Chongqing Special Steel Company Limited (重慶特殊鋼股份有限公司)	5,587	5,587	100	Low probability to recover
Chongqing Iron and Steel Industry and Trade (Zhanjiang) Company (湛江重鋼工貿公司)	10,240	10,240	100	Low probability
Sub-total	15,827	15,827	100	

(2) Other receivables categorised by nature

Nature of amount	Closing balance	Opening balance
Payment on account	43,464	26,270
Guarantee deposits and petty cash	14,778	19,084
Others	16,815	11,980
Total	75,057	57,334

(3) Five largest other receivables by debtor

The subtotal of five largest other receivables of the Company at the end of the period is RMB32,765,000 yuan, representing 44% of the total other receivables, and the provision of bad debts is RMB15,827,000 yuan.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in consolidated balance sheets (Continued)

6. Inventories

(1) Details

Items	Closing balance			Opening balance		
	Book balance	Provision for write-down	Carrying Amount	Book balance	Provision for write-down	Carrying Amount
Raw material	386,939		386,939	1,531,485	158,027	1,373,458
Work-in-progress	106,933	35,265	71,668	1,059,771	309,994	749,777
Finished goods	17,202		17,202	183,791	36,619	147,172
Consumables	537,266	40,115	497,151	545,566	40,115	505,451
Total	1,048,340	75,380	972,960	3,320,613	544,755	2,775,858

(2) Provision for inventory write-down

1) Details

Items	Opening balance	Increase		Decrease		Closing balance
		Provision	Others	Reversal or written-off	Others	
Raw material	158,027	463,500		621,527		
Work-in-progress	309,994	113,248		387,977		35,265
Finished goods	36,619	6,033		42,652		
Consumables	40,115					40,115
Sub-total	544,755	582,781		1,052,156		75,380

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in consolidated balance sheets (Continued)

6. Inventories (Continued)

(2) Provision for inventory write-down (Continued)

- 2) Determination basis of net realizable value and reasons for the reversal or written-off of provision for inventory write-down

Items	Determination basis for provision for inventory write-down	Reasons for the reversal or the write-off of provision for inventory write-down in the current period
Raw material	The net realizable value lower than the Carrying amount	Relevant inventories used or disposed already
Work-in-progress	The net realizable value lower than the Carrying amount	Relevant inventories used or disposed already
Finished goods	The net realizable value lower than the Carrying amount	Relevant inventories sold already

7. Other current assets

Items	Closing balance	Opening balance
VAT to be deducted	509	501
Total	509	501

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in consolidated balance sheets (Continued)

8. Available-for-sale financial assets

(1) Details

Items	Closing balance			Opening balance		
	Book balance	Provision for impairment	Carrying Amount	Book balance	Provision for impairment	Carrying Amount
Available-for-sale equity instruments	5,000		5,000	5,000		5,000
Wherein: measured by cost	5,000		5,000	5,000		5,000
Total	5,000		5,000	5,000		5,000

(2) Available-for-sale financial assets measured at cost at the end of period:

Investees	Opening balance	Book balance		Closing balance
		Increase	Decrease	
Xiamen Shipbuilding Industry Co., Ltd (廈門船舶重工股份有限公司)		5,000		5,000
Sub-total		5,000		5,000

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in consolidated balance sheets (Continued)

8. Available-for-sale financial assets (Continued)

(2) Available-for-sale financial assets measured at cost at the end of period: (Continued)

Investees	Provision for impairment			Closing balance	Shareholding proportion in investees (%)	Cash dividend in current period
	Opening balance	Increase	Decrease			
Xiamen Shipbuilding Industry Co., Ltd (廈門船舶重工股份有限公司)					2	
Sub-total					2	

9. Long-term equity investments

(1) Categories

Items	Closing balance			Opening balance		
	Book balance	Provision for impairment	Carrying Amount	Book balance	Provision for impairment	Carrying Amount
Investments in joint ventures	131,015		131,015			
Total	131,015		131,015			

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in consolidated balance sheets (Continued)

9. Long-term equity investments (Continued)

(2) Details

Investees	Opening balance	Increase/decrease			Investment income recognized under equity method	Adjustment in other comprehensive income (%)
		Investments increased	Investments decreased			
Chongqing POSCO CISL automotive steel Co., Ltd (重慶浦項重鋼汽車板有限公司) (Note)		130,416			599	
Total		130,416			599	

Investees	Changes in other equity	Increase/decrease			Closing balance (%)	Closing balance of provision for impairment
		Cash dividend/profit declared for distribution	Provision for impairment	Others		
Chongqing POSCO CISL automotive steel Co., Ltd (重慶浦項重鋼汽車板有限公司)					131,015	
Total					131,015	

Note: POSCO and the Company jointly established and contributed Chongqing POSCO CISL automotive steel Co., Ltd (重慶浦項重鋼汽車板有限公司), refer to Notes to the Financial Statements XI (I) 4 for details.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in consolidated balance sheets (Continued)

10. Fixed assets

(1) Details

Items	Buildings and structures	Machinery and other equipment	Transport facilities	Total
Cost				
Opening balance	13,197,761	21,349,901	21,724	34,569,386
Increase	467,757	-34,828	555	433,484
1) Purchase		1,286		1,286
2) Transfer in from construction in progress	428	431,215	555	432,198
3) Adjustment of assets classification	467,329	-467,329		
Decrease			778	778
1) Disposal or write off			778	778
Closing balance	13,665,518	21,315,073	21,501	35,002,092
Accumulated depreciation				
Opening balance	1,076,541	3,169,697	16,698	4,262,936
Increase	313,740	933,152	1,632	1,248,524
1) Accrual	313,740	933,152	1,632	1,248,524
Decrease			688	688
1) Disposal or write off			688	688
Closing balance	1,390,281	4,102,849	17,642	5,510,772
Provision for impairment (Note)				
Opening balance			56	56
Increase				
1) Provision				
Decrease				
1) Disposal or write off				
Closing balance			56	56
Carrying amount				
Closing balance	12,275,237	17,212,224	3,803	29,491,264
Opening balance	12,121,220	18,180,204	4,970	30,306,394

Note: The Company has engaged an asset evaluation institution to conduct impairment tests on the fixed assets, with 31 December 2016 as the base day. Based on the estimation of the recoverable amount of fixed assets, the management determined that the fixed assets would require no provisions for impairment over the current period.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in consolidated balance sheets (Continued)

10. Fixed assets (Continued)

(2) Fixed assets rented-in under finance leases

Items	Cost	Accumulated depreciation	Provision for impairment	Carrying
Machinery and equipment				
Direct lease	574,000	48,086		525,914
Sub-total	574,000	48,086		525,914

(3) Fixed assets rented-out under operating leases

Items	Carrying amount at the end of the period
Buildings and structures	9,896
Sub-total	9,896

(4) Fixed assets with certificate of titles being unsettled

Items	Carrying Amount	Reason for unsettlement
Workshop in Changshou district	1,290,080	Data in preparation
Sub-total	1,290,080	

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in consolidated balance sheets (Continued)

11. Construction in progress

(1) Details

Items	Closing balance			Opening balance		
	Book balance	Provision for impairment	Carrying Amount	Book balance	Provision for impairment	Carrying Amount
Product restructuring project				46,557		46,557
Equipment upgrade project	10,443		10,443	20,438		20,438
CIS-POSCO cold rolling steel project	302		302			
Others	32,386		32,386	61,954		61,954
Total	43,131		43,131	128,949		128,949

(2) Changes in significant projects for the period

Name of project	Budgets	Opening balance	Increase	Adjustment of previously estimated amount	Transferred to fixed assets	Closing balance
Product restructuring project	6,771,591	46,557	380,671	-38,436	388,792	
CIS-POSCO cold rolling steel project	3,893,140		302			302
Equipment upgrade project	742,474	20,438	8,524		18,519	10,443
Others		61,954	23,474	-28,155	24,887	32,386
Sub-total		128,949	412,971	-66,591	432,198	43,131

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in consolidated balance sheets (Continued)

11. Construction in progress (Continued)

(2) Changes in significant projects for the period (Continued)

Name of project	Proportion of accumulated investment to budget (%)	Construction progress (%)	Accumulated Amount of borrowing cost capitalization	Amount of borrowing cost capitalization in current period	Capitalization rate in current period (%)	Source of fund
Product restructuring project	105	100				Loans from financial institutions and self-owned fund
CIS-POSCO cold rolling steel project						Loans from financial institutions and self-owned fund
Equipment upgrade project	107	99				Loans from financial institutions and self-owned fund
Others			846			Loans from financial institutions and self-owned fund
Sub-total			846			

12. Construction materials

Items	Closing balance	Opening balance
Equipment and construction materials	15,126	10,651
Total	15,126	10,651

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in consolidated balance sheets (Continued)

13. Intangible assets

(1) Details

Items	Land use right	Total
Cost		
Opening balance	2,942,233	2,942,233
Increase		
Decrease		
Closing balance	2,942,233	2,942,233
Accumulated amortization		
Opening balance	229,969	229,969
Increase	63,680	63,680
1)Accrual	63,680	63,680
Decrease		
Closing balance	293,649	293,649
Provision for impairment		
Opening balance		
Increase		
Decrease		
Closing balance		
Carrying amount		
Closing balance	2,648,584	2,648,584
Opening balance	2,712,264	2,712,264

(2) Analysis on the carrying amount of the land use right

Items	Closing balance	Opening balance
Except Hong Kong	2,648,584	2,712,264
Wherein: mid-term lease	2,648,584	2,712,264
Sub-total	2,648,584	2,712,264

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in consolidated balance sheets (Continued)

14. Deferred Tax Asset

(1) Unrecognized Deferred Tax Asset

Items	Closing balance	Opening balance
Deductible Losses	9,737,288	6,234,034
Employee termination benefits	276,634	
Assets Impairment	260,187	708,021
Accured Litigation Interest	110,049	
Accured Liability	52,177	
Others	471,920	
Sub-total	10,908,255	6,942,055

(2) Maturity of Deductible Losses within the unrecognized deferred tax asset

Year	Closing Balance	Opening balance
2015		150,131
2016	946,945	946,945
2017	363,526	363,526
2018	2,799,585	2,799,585
2019	465,978	465,978
2020	1,507,869	1,507,869
2021	3,653,385	
Sub-total	9,737,288	6,234,034

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in consolidated balance sheets (Continued)

15. Other non-current assets

Items	Closing balance	Opening balance
Prepayments for constructions		61,399
Guarantee for finance lease	40,200	25,300
VAT to be deducted	1,611,738	1,637,927
Others	5,250	9,000
Total	1,657,188	1,733,626

16. Short-term borrowings

(1) Details

Items	Closing balance	Opening balance
Pledged loans		255,622
Mortgage loans		400,000
Guaranteed loans (<i>Note</i>)	5,362,587	2,581,530
Unsecured loans	338,000	255,000
Total	5,700,587	3,492,152

Note: At the end of period, guaranteed loans with an amount of RMB5,212,587,000 yuan are guaranteed by Chongqing Iron & Steel Group (CISG), refer to Notes to the Financial Statements IX (II) 3 for details.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in consolidated balance sheets (Continued)

16. Short-term borrowings (Continued)

(2) Overdue short-term borrowings

- 1) Balance of overdue short-term borrowings totaled RMB245,747,000 yuan in current period.
- 2) Significant overdue short-term borrowings

Creditors	Closing Balance	Interest Rate	Due Date	Overdue interest rate
The export-import bank of China Chongqing branch (中國進出口銀行重慶分行)	61,338	1.80%	21/10/2016	2.16%
The export-import bank of China Chongqing branch (中國進出口銀行重慶分行)	63,688	1.50%	7/11/2016	1.80%
The export-import bank of China Chongqing branch (中國進出口銀行重慶分行)	58,122	1.80%	18/12/2016	2.16%
The export-import bank of China Chongqing branch (中國進出口銀行重慶分行)	62,599	1.80%	22/12/2016	2.16%
Sub-total	245,747			

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in consolidated balance sheets (Continued)

17. Notes payable

Items	Closing balance	Opening balance
Commercial acceptance bills	651,360	1,770,207
Bank acceptance bills (<i>Note</i>)	981,350	1,893,210
Total	1,632,710	3,663,417

Note: At the end of period, bank acceptance with an amount of RMB669,215,000 yuan are guaranteed by Chongqing Iron & Steel Group (CISG), refer to Notes to the Financial Statements IX (II) 3 for details.

18. Accounts payable

(1) Details

Items	Closing balance	Opening balance
Accounts payable for goods and services	7,043,927	7,520,467
Accounts payable for construction and equipments	2,341,099	3,011,596
Total	9,385,026	10,532,063

(2) Aging analysis

Ages	Closing balance	Opening balance
Within 1 year	2,917,169	5,727,688
1–2 years	2,471,765	2,046,147
2–3 years	1,796,277	2,520,579
Over 3 years	2,199,815	237,649
Total	9,385,026	10,532,063

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in consolidated balance sheets (Continued)

18. Accounts payable (Continued)

(3) Significant accounts payable with age over one year

Items	Closing balance	Reasons for unsettlement
Accounts payable for goods and services	4,341,394	Temporarily not paid
Accounts payable for construction and equipments	2,126,463	Temporarily not paid
Sub-total	6,467,857	

19. Receipts in advance

Items	Closing balance	Opening balance
Payment for goods	1,014,762	653,721
Total	1,014,762	653,721

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in consolidated balance sheets (Continued)

20. Employee benefits payable

(1) Details

Items	Opening balance	Increase	Decrease		Closing balance
			Payment	Other (note)	
Short-term employee benefits	93,561	695,120	527,542	39,596	221,543
Post-employment benefits – defined contribution plans	159,626	109,285	25,613	-39,596	282,894
Termination benefits	58,648		1,830		56,818
Total	311,835	804,405	554,985		561,255

Note: Other comprises withholding employee pension fund and individual housing fund.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in consolidated balance sheets (Continued)

20. Employee benefits payable (Continued)

(2) Details of short-term employee benefits

Items	Opening balance	Increase	Decrease		Closing balance
			Payment	Other	
Wage, bonus, allowance and subsidy	7,681	527,935	411,105	104,804	19,707
Employee welfare fund		6,203	6,203		
Social insurance premium	3,324	81,814	85,067		71
Including: Medical insurance					
premium	17	51,244	51,213		48
Supplementary medical insurance					
premium	5	15,718	15,718		5
Large amount medical insurance					
premium	2	7,869	7,863		8
Work-related injury insurance					
premium	534	4,305	4,830		9
Maternity insurance					
premium	2,766	2,678	5,443		1
Housing fund	71,362	59,816	14,775	-65,208	181,611
Labour union fund and employee education fund	10,786	18,247	9,164		19,869
Others	408	1,105	1,228		285
Sub-total	93,561	695,120	527,542	39,596	221,543

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in consolidated balance sheets (Continued)

20. Employee benefits payable (Continued)

(3) Details of defined contribution plans

Items	Opening balance	Increase	Decrease		Closing balance
			Payment	Other	
Basic pension insurance premium	150,972	104,328	12,003	-39,596	282,893
Supplementary pension insurance premium					
Unemployment insurance premium	8,654	4,957	13,610		1
Sub-total	159,626	109,285	25,613	-39,596	282,894

Pursuant to the Labor Law of the People's Republic of China and relevant laws and regulations, the Company and its subsidiaries in the People's Republic of China participated in defined contribution retirement schemes for its employees. The local government authorities are responsible for the entire pension obligations payable to retired employees who reach retirement age pursuant to relevant regulations or quit the work force due to other reasons. The Company and its subsidiaries have no other obligation to make payment in respect of pension benefits.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in consolidated balance sheets (Continued)

21. Tax payable

Items	Closing balance	Opening balance
Business tax		5,897
Value-added tax (VAT)	22	219
Housing property tax	191	191
Others	22	2,372
Total	235	8,679

22. Interests payable

Items	Closing balance	Opening balance
Interest of borrowings	106,680	20,567
Interest of corporate bonds	10,333	10,333
Total	117,013	30,900

23. Other payables

Items	Closing balance	Opening balance
Payment on account and interest	4,129,270	2,616,804
Guarantee deposits	23,413	34,982
Others	49,698	51,047
Total	4,202,381	2,702,833

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in consolidated balance sheets (Continued)

24. Non-current liabilities due within one year

Items	Closing balance	Opening balance
Long-term loans due within one year	1,506,504	1,568,945
Long-term bonds payable due within one year	1,994,029	
Long-term payables due within one year	4,000	227,305
Total	3,504,533	1,796,250

25. Other current liabilities

Items	Closing balance	Opening balance
Deferred income – government grants	6,865	4,986
Deferred income – unrealized income of sale-and-leaseback transactions	5,366	10,068
Total	12,231	15,054

26. Long-term borrowings

(1) Details

Items	Closing balance	Opening balance
Mortgage and guaranteed loans (Note)	7,779,456	7,968,500
Guaranteed loans (Note)	1,294,000	1,881,488
Total	9,073,456	9,849,988

Note: At the end of period, guaranteed loans with an amount of RMB8,401,456,000 yuan are guaranteed by Chongqing Iron & Steel Group (CISG), refer to Notes to the Financial Statements IX (II) 3 for details.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in consolidated balance sheets (Continued)

26. Long-term borrowings (Continued)

(2) Analysis of long-term borrowings maturity dates

Items	Closing balance	Opening balance
1–2 years	2,192,000	1,472,988
2 to 5 years	5,191,456	5,137,000
Over 5 years	1,690,000	3,240,000
Sub-total	9,073,456	9,849,988
Wherein: Long-term loans due within one year	1,506,504	1,568,945
Long-term loans due over one year	9,073,456	9,849,988

27. Debentures payable

Items	Closing balance	Opening balance
Chongqing Iron & Steel Company Limited 2010 Company Debentures		1,987,882
Total		1,987,882

Note: Chongqing Iron & Steel Company Limited 2010 Company Debentures will mature in December 2017, reclassified to "non-current liabilities due within one year".

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in consolidated balance sheets (Continued)

28. Long-term payable

Items	Closing balance	Opening balance
Financial lease payable	61,944	
Total	61,944	

29. Long-term employee benefits payable

Items	Closing balance	Opening balance
Termination benefits	276,634	
Wherein: Total amount	309,563	
Unrecognized financing charges	-32,929	
Total	276,634	

30. Provisions

Items	Closing Balance	Opening balance	Reasons for balance
Contract Loss to be implemented	52,177		Refer to notes to financial statements XIII (IV)
Total	52,177		

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in consolidated balance sheets (Continued)

31. Deferred income

(1) Details

Items	Opening balance	Increase	Decrease	Closing balance	Reasons for balance
Government grants	94,167	8,410	5,201	97,376	Government grants
Unrealised income of sale-and-leaseback transactions	96,045		6,864	89,181	Sale-and-leaseback transactions
Sub-total	190,212	8,410	12,065	186,557	
Less: Deferred income expected to be realized within one year	15,054	12,231	15,054	12,231	
Total	175,158			174,326	

(2) Details of government grants

Items	Opening balance	Increase	Recognition during the period as non-operating income	Other movements	Closing balance	Related to assets
Grants for construction of environmental protection equipment and facilities	52,729	8,410	2,951		58,188	Related to assets
Grants for recycle heat power station	41,438		2,250		39,188	Related to assets
Sub-total	94,167	8,410	5,201		97,376	

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in consolidated balance sheets (Continued)

32. Other non-current liabilities

(1) Details

Items	Closing balance	Opening balance
Loans from non-financial institutions	776,618	
Total	776,618	

(2) Other descriptions

In July 2015, the Company entered into a Cooperation Agreement with Chongqing Equity Investment Fund Partnership for Strategic Emerging Industries (hereinafter referred to as the "Industrial Fund Business"). Pursuant to the Agreement, the Company will transfer to the Industrial Fund Business the equity income rights of the Company's 23.28% equities held in Chongqing POSCO CISL automotive steel Co., Ltd (重慶浦項重鋼汽車板有限公司) (hereinafter referred to as the "Subject Equities") and of the Company's 42.75% equities held in Chongqing CISL high strength cold rolling steel Co., Ltd (重慶重鋼高強冷軋板材有限公司) (hereinafter referred to as the "Subject Equities"). Both parties have agreed on a consideration of RMB752,436,000 yuan for the transfer of the equity income rights. Also pursuant to the Cooperation Agreement, the Industrial Fund Business is entitled to requiring the future transfer of the abovementioned Subject Equities to it and the Company shall comply unconditionally; both parties agree upon negotiation that the Company is entitled to repurchasing the Subject Equities or their income rights, at a rate of 6.5% per annum. In the meantime, the Company shall pledge its 46.55% equities held in Chongqing POSCO CISL automotive steel Co., Ltd and the 85.5% equities held in Chongqing CISL high strength cold rolling steel Co., Ltd to the Industrial Fund Business. Pledge registration procedures were completed for the 85.5% equities in November 2016 and for the 46.55% equities in January 2017. Chongqing Iron & Steel (Group) Co., Ltd. provides joint liability guarantee for the obligations under the Cooperation Agreement.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in consolidated balance sheets (Continued)

33. Share capital

Items	Opening balance	Variation in the current period (decrease represented with "-")					Closing balance
		New shares issued	Bonus shares	Reserve transferred to shares	Restricted Stock Circulation	Sub-total	
Restricted shares	1,996,182				-1,996,182	-1,996,182	
Shares held by domestic legal persons	1,996,182				-1,996,182	-1,996,182	
Shares held by domestic natural person							
Unrestricted shares	2,439,841				1,996,182	1,996,182	4,436,023
A share	1,901,714				1,996,182	1,996,182	3,897,896
H share	538,127						538,127
Total	4,436,023						4,436,023

34. Capital reserve

(1) Details

Items	Opening balance	Increase	Decrease	Closing balance
Share premium	6,341,095			6,341,095
Other capital reserves	316,519	496,589		813,108
Total	6,657,614	496,589		7,154,203

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in consolidated balance sheets (Continued)

34. Capital reserve (Continued)

(2) Other descriptions

The reasons of increase in other capital reserves in current period as below:

- (1) In 2012, the Company purchased the steelmaking-related assets and ancillary facilities that Chongqing Iron & Steel (Group) Co., Ltd. invested in Changshou New District, in the form of non-public offering, assuming liabilities and cash payment. Considering that no settlement has been made for some engineering construction contracts on the Reference Date and that the final settlement prices of such unsettled contracts may lead to the difference between the liabilities of engineering construction contracts that the Company actually assumed and the total liabilities assumed upon the asset transfer, both parties entered into the Supplemental Agreement which signed in October 2012 to the Agreement on Proposed Acquisition and Environmental Relocation Loss Compensation. Pursuant to the Supplemental Agreement, the Company shall engage qualified accounting firms to conduct special audits on the settlement of the unsettled engineering construction contracts, after the Completion Date and after the settlement is completed for all such unsettled contracts and their final settlement prices are agreed on; based on the special audit report, both parties shall settle the difference between the audited settlement amount of engineering construction contracts less their amount actually paid by Chongqing Iron & Steel (Group) Co., Ltd. as at the Reference Date (on one hand) and the total liabilities that the Company assumed on the Reference Date (on the other hand), in the following manner: if the total liabilities of engineering construction contracts that the Company actually assumed exceed the total liabilities assumed on the Reference Date, Chongqing Iron & Steel (Group) Co., Ltd. shall make full payment to the Company in cash; if the total liabilities of engineering construction contracts that the Company actually assumed are smaller than the total liabilities assumed on the Reference Date, the Company shall not make payment to Chongqing Iron & Steel (Group) Co., Ltd. who shall relinquish its right to seek claims from the Company. In December 2016, both parties confirmed the settlement difference of engineering liabilities for major asset restructuring; the Company credited the recognized engineering payment of RMB495,251,000 yuan (which need not to be paid) to its capital reserve, as a donation from Chongqing Iron & Steel (Group) Co., Ltd.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in consolidated balance sheets (Continued)

34. Capital reserve (Continued)

(2) Other descriptions (Continued)

- (2) As for the deductible VAT input tax of RMB1,338,000 yuan received (the amount in excess of the amount agreed on between the Company and Chongqing Iron & Steel (Group) Co., Ltd. concerning the major asset restructuring), the Company has credited it to the capital reserve, as a donation from Chongqing Iron & Steel (Group) Co., Ltd.

35. Special reserve

Items	Opening balance	Increase	Decrease	Closing balance
Safe production reserve		19,511	19,511	
Total		19,511	19,511	

36. Surplus reserve

Items	Opening balance	Increase	Decrease	Closing balance
Statutory surplus reserve	606,991			606,991
Total	606,991			606,991

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in consolidated balance sheets (Continued)

37. Retained earnings

Items	Current period cumulative	Preceding period comparative
Balance before adjustment at the end of preceding period	-7,711,755	-1,724,507
Adjustment of opening balance (increase+, decrease-)		
Opening balance after adjustment	-7,711,755	-1,724,507
Add: Net profit attributable to the shareholders of the parent company	-4,685,956	-5,987,248
Less: Appropriation to Statutory surplus reserve Dividend payable on ordinary shares		
Closing balance	-12,397,711	-7,711,755

As at 31 December 2016, the company's undistributed deficit amounted to RMB12,397,711,000 yuan, which shall be shared on a pro-rata basis among all shareholders after the issuance of A share in 2007. H shares and A shares rank pari passu in all aspects with each other.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(II) Notes to items in consolidated income statement

1. Operating revenue and operating costs

Items	Current period cumulative		Preceding period comparative	
	Revenue	Cost	Revenue	Cost
Revenue from principal activities	4,389,462	6,151,764	8,322,292	10,504,616
Revenue from other operations	25,440	10,846	27,730	4,593
Total	4,414,902	6,162,610	8,350,022	10,509,209

2. Taxes and surcharges

Items	Current period cumulative	Preceding period comparative
Housing property tax (Note)	22,048	
Land use tax (Note)	28,331	
Stamp duty (Note)	709	
City maintenance and construction tax	96	509
Education surcharges	69	376
Business tax	60	223
Total	51,313	1,108

Note: Pursuant to the "Provisions Concerning the Accounting Treatments on Value-Added Tax" (Caikui [2016] No.22) and "Interpretation of Issues Concerning Provisions Concerning the Accounting Treatments on Value-Added Tax" issued by the Ministry of Finance, Housing property tax, land use tax and stamp duty arising from the period between May and December 2016 were presented in "taxes and surcharges", while those arising for the period prior to May 2016 were presented in "Administrative expenses".

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(II) Notes to items in consolidated income statement (Continued)

3. Selling expenses

Items	Current period cumulative	Preceding period comparative
Labour cost	15,830	20,560
Transportation expenses	44,064	119,443
Ship inspection expenses	22,207	61,946
Others	26,961	46,605
Total	109,062	248,554

4. Administrative expenses

Items	Current period cumulative	Preceding period comparative
Losses on production stoppage	590,913	402,064
Repair Cost	417,544	475,618
Termination benefits	276,634	
Labour Cost	179,320	154,904
Amortization of intangible assets	63,680	62,160
Taxes	27,133	77,286
Audit and consulting expenses	10,261	25,373
Other	115,314	69,202
Total	1,680,799	1,266,607

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(II) Notes to items in consolidated income statement (Continued)

5. Financial Expenses

Items	Current period cumulative	Preceding period comparative
Interest Expenses	1,143,152	1,232,534
Wherein: Interest of bank loans, overdrafts and other loans that must be paid off within five years	1,060,115	1,027,468
Interest of other loans may not be paid off within five years	83,037	205,066
Interest Income	14,467	21,560
Others	58,888	53,735
Wherein: Net exchange loss	54,502	41,608
Total	1,187,573	1,264,709

6. Impairment losses on assets

Items	Current period cumulative	Preceding period comparative
Bad debts loss	25,526	-112
Inventory write-down loss	582,781	4,344,840
Total	608,307	4,344,728

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(II) Notes to items in consolidated income statement (Continued)

7. Investment Income

(1) Details

Items	Current period cumulative	Preceding period comparative
Investment income from long-term equity investments under equity method	599	
Total	599	

(2) Investment income from non-listed companies and listed companies

Items	Current period cumulative	Preceding period comparative
Investment income from non-listed companies	599	
Sub-total	599	

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(II) Notes to items in consolidated income statement (Continued)

8. Non-operating income

(1) Details

Items	Current period cumulative	Preceding period comparative	Amount recognized as current non-recurring profit or loss
Gains on the disposal of non-current assets	12	419	12
Wherein: Gains on the disposal of fixed assets	12	419	12
Gains on debt restructuring (Note)	450,000	2,350,000	450,000
Government grants	300,228	969,206	300,228
Others	1,207	165	1,207
Total	751,447	3,319,790	751,447

Note: According to the debt exemption agreement signed by the Company and Changshou Chongqing urban and rural development (Group) Co., Ltd. (重慶市長壽區城鄉統籌開發(集團)有限公司), after negotiation between two parties, Changshou Chongqing urban and rural development (Group) Co., Ltd. agreed to exempt the Company's debt of RMB450 million. The company recognized the relevant debt restructuring proceeds of RMB450 million.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(II) Notes to items in consolidated income statement (Continued)

8. Non-operating income (Continued)

(2) Details of government grants

Items	Current period cumulative	Preceding period comparative	Related to assets/income
Grants for environmental protection, energy-saving emission reduction and development of new products	107,730	38,790	Related to income
Grants for distributary personnel	160,000		Related to income
Industrial development funds	21,100	36,000	Related to income
Grants for continuous employment	5,696	6,917	Related to income
Amortization of special funds for environmental governance	2,951	2,289	Related to income
Amortization of grants for recycle heat power station	2,250	2,250	Related to income
Special grants for financial cost		831,160	Related to income
Government grants for environmental relocation		51,800	Related to income
Others	501		Related to income
Sub-total	300,228	969,206	

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(II) Notes to items in consolidated income statement (Continued)

9. Non-operating expenses

Items	Current period cumulative	Preceding period comparative	Amount recognized as current non-recurring profit or loss
Loss on disposal of non-current assets	6	3,909	6
Wherein: loss on disposal of fixed asset	6	3,909	6
Estimated contract loss	52,177		52,177
Others	768	201	768
Total	52,951	4,110	52,951

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(II) Notes to items in consolidated income statement (Continued)

10. Income tax expenses

(1) Details

Items	Current period cumulative	Preceding period comparative
Current income tax expenses	17	857
Deferred income tax expenses		17,116
Total	17	17,973

(2) Reconciliation of accounting profit to income tax expenses

Items	Current period cumulative	Preceding period comparative
Profit before tax	-4,685,667	-5,969,213
Tax rate		
Income tax expenses based on statutory/ applicable tax rate	-702,850	-895,382
Effect of different tax rate applicable to subsidiaries	-128	64
Effects of non-deductible costs, expenses, and losses	391	8,990
Effect of prior income tax reconciliation	9	
Effects of non-taxable income	-90	
Utilization of deductible losses not previously recognized	-73,504	
Effect of deducible temporary differences or deductible losses not recognized	776,189	887,185
Effect of reversal of deducible temporary differences or deductible losses previously recognized		17,116
Total	17	17,973

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(III) Notes to items of the consolidated cash flow statement

1. Other cash receipts related to operating activities

Items	Current period cumulative	Preceding period comparative
Intercourse funds received	13,072,112	11,334,402
Government grants received	303,437	988,226
Guarantee deposits of notes and letter of credit received	300,065	215,662
Others	18,968	38,550
Total	13,694,582	12,576,840

2. Other cash payments related to operating activities

Items	Current period cumulative	Preceding period comparative
Payment of intercourse funds	13,168,393	10,849,718
Payment of bank charges	4,386	12,112
Others	282,807	647,346
Total	13,455,586	11,509,176

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(III) Notes to items of the consolidated cash flow statement (Continued)

3. Other cash receipts related to financing activities

Items	Current period cumulative	Preceding period comparative
Financial funds received from notes and letter of credit	2,221,443	2,739,741
Financial guarantee deposits received	237,783	
Total	2,459,226	2,739,741

4. Other cash payments related to financing activities

Items	Current period cumulative	Preceding period comparative
Financial funds paid to notes and letter of credit	3,066,785	1,082,982
Rentals of finance lease	156,004	952,401
Guarantee deposit of finance lease	40,200	49,297
Guarantee deposit of borrowings	2,000	
Total	3,264,989	2,084,680

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(III) Notes to items of the consolidated cash flow statement (Continued)

5. Supplement information to the cash flow statement

(1) Supplement information to the cash flow statement

Supplementary Information	Current period cumulative	Preceding period comparative
1) Reconciliation of net profit to cash flow from operating activities:		
Net profit	-4,685,684	-5,987,186
Add: Impairment losses on assets	608,307	4,344,728
Depreciation of fixed assets, depletion of oil and gas assets, depreciation of productive biological assets	1,248,524	1,192,708
Amortization of intangible assets	63,680	62,160
Amortization of long-term prepayments		
Losses on disposal of fixed assets, intangible assets and other long-term assets (gains represented with "-")	-6	3,490
Losses on retirement of fixed assets (gains represented with "-")		
Losses on changes in fair value (gains represented with "-")		
Financial expenses (gains represented with "-")	1,179,642	1,212,157
Investment losses (gains represented with "-")		
Decrease in deferred tax assets (increase represented with "-")		17,116
Increase in deferred tax liabilities (decrease represented with "-")		
Decrease in inventories (increase represented with "-")	1,220,117	869,778
Decrease in operating receivables (increase represented with "-")	243,499	-917,062
Increase in operating payables (decrease represented with "-")	-327,100	-2,476,068
Others		
Net cash flow from operating activities	-449,021	-1,678,179

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(III) Notes to items of the consolidated cash flow statement (Continued)

5. Supplement information to the cash flow statement (Continued)

(1) Supplement information to the cash flow statement (Continued)

Supplementary Information	Current period cumulative	Preceding period comparative
2) Significant investing and financing activities not related to cash receipts and payments:		
Conversion of debt into capital		
Convertible bonds due within one year		
Fixed assets rented in under finance leases		
3) Net changes in cash and cash equivalents:		
Cash at the end of the period	745,447	32,376
Less: cash at the beginning of the period	32,376	146,148
Add: Cash equivalents at the end of the period		
Less: Cash equivalents at the beginning of the period		
Net increase in cash and cash equivalents	713,071	-113,772

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(III) Notes to items of the consolidated cash flow statement (Continued)

5. Supplement information to the cash flow statement (Continued)

(2) Components of cash and cash equivalents

Items	Closing balance	Opening balance
1) Cash	745,447	32,376
Wherein: Cash on hand	747	1,419
Bank deposit available on demand for payment	744,700	30,957
Other monetary funds available on demand for payment		
2) Cash equivalents		
Wherein: Bond investments maturing within three months		
3) Cash and cash equivalents at the end of the period	745,447	32,376
Wherein: Cash and cash equivalents of parent company or subsidiaries with use restrictions		

(3) Amount of endorsement of commercial bills not involved in cash inflow or outflow

Items	Current period cumulative
Endorsement amount of commercial bills	2,674,225
Wherein: Payment for goods	2,488,673
Payment for acquisition of fixed assets and other long-term assets	185,552

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(IV) Others

1. Assets with restricted ownership or right of use

Items	Carrying amount at the end of the period	Reasons for restriction
Cash and bank deposits	313,248	Guarantee deposit for notes and letter of credit
Cash and bank deposits	43,999	Frozen accounts by court
Notes receivable	900	Notes Pledged
Available-for-sale financial assets (Note)	5,000	Frozen equity by court
Long-term equity investments		Refer to notes to financial statements V (I) 32
Fixed assets	9,363,064	Mortgaged for bank loans
Fixed assets	525,914	Fixed assets rented-in under finance leases
Fixed assets	425	House property sealed up by court
Intangible assets	2,423,682	Mortgaged for bank loans

Note: Since the Company failed to make the payment after the People's Court of Dadukou District, Chongqing made a judgment of the contractual dispute between the Shanghai Zhiyi International Trade Co., Ltd. (上海致邑國際貿易有限公司) and the Company, Shanghai Zhiyi International Trade Co., Ltd. applied to the court for compulsory execution, and the People's Court of Dadukou District, Chongqing froze the 2% equity of Xiamen Shipbuilding Industry Co., Ltd held by the Company. On 3 March 2017, the Company received the execution ruling from the People's Court of Dadukou District, Chongqing, ordering that the Company shall auction the aforesaid equity.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(IV) Others (Continued)

2. Foreign currency monetary items

Items	Closing balance in foreign currencies	Exchange rate	RMB equivalent
Cash and bank deposits			
Wherein: USD	11,095	6.9370	76,966
HKD	70	0.8945	63
Short-term borrowings			
Wherein: USD	43,871	6.9370	304,333
Non-current liabilities due within one year			
Wherein: USD	80,000	6.9370	554,960

VI. CHANGES IN THE CONSOLIDATED SCOPE

Entities brought into the consolidation scope

Entities	Equity Acquisition method	Equity Acquisition date	Amount of capital contribution	Proportion of capital contribution	Paid-in capital
Chongqing CISL High Strength Cold Rolling Steel Co., Ltd (重慶重鋼高強冷軋板材有限公司)	New established	6 July 2016	1,323,243	90%	661,622

Notes to the Financial Statements

For the year ended 31 December 2016 (Unit: RMB'000)

VII. INTERESTS IN OTHER ENTITIES

(I) Interest in significant subsidiaries

1. Composition of significant subsidiaries

Name of the subsidiary	Main operating place	Place of registration	Business nature	Share holding proportion		Acquisition method
				Direct	Indirect	
Jingjiang Sanfeng Steel Processing Distribution Co., Ltd (靖江三峰鋼材加工配送有限公司)	Jingjiang, Jiangsu Province	Jingjiang, Jiangsu Province	Steel processing and distribution industry	72.86%		Capital contribution to establish
Jingjiang CIS Huadong Trading Co., Ltd (靖江重鋼華東商貿有限公司)	Jingjiang, Jiangsu Province	Jingjiang, Jiangsu Province	Trade industry	100%		Capital contribution to establish
Guizhou CIS Iron and Steel Sales Co., Ltd (貴州重鋼鐵銷售有限責任公司)	Guiyang, Guizhou Province	Guiyang, Guizhou Province	Trade industry	100%		Capital contribution to establish
Xi'an CIS Sales Co., Ltd (西安重鋼銷售有限責任公司)	Beilin District, Xi'an	Beilin District, Xi'an	Trade industry	100%		Capital contribution to establish
Chongqing CIS Building Materials Sales Co., Ltd. (重慶市重鋼建材銷售有限責任公司)	Changshou Economic Development District, Chongqing	Changshou Economic Development District, Chongqing	Trade industry	100%		Capital contribution to establish
Chongqing CISL high strength cold rolling steel Co., Ltd (重慶重鋼高強冷軋板材有限公司)	Changshou Economic Development District, Chongqing	Changshou Economic Development District, Chongqing	Steel manufacturing, research and development services	90%		Capital contribution to establish

2. Significant non-wholly-owned subsidiaries

Name of the subsidiary	Share holding proportion of non-controlling interest	Profit or loss attributable to non-controlling interest	Dividend declared to non-controlling interest	Closing balance of non-controlling interest
Jingjiang Sanfeng Steel Processing Distribution Co., Ltd (靖江三峰鋼材加工配送有限公司)	27.14%	-7		19,267
Chongqing CISL high strength cold rolling steel Co., Ltd (重慶重鋼高強冷軋板材有限公司)	10%	279		73,793

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

(I) Interest in significant subsidiaries (Continued)

3. Main financial information of significant non-wholly-owned subsidiaries

(1) Information of assets and liabilities

Name of the subsidiary	Current assets	Non-current assets	Closing balance			
			Total assets	Current liabilities	Non-current liabilities	Total liabilities
Jingjiang Sanfeng Steel Processing Distribution Co., Ltd (靖江三峰鋼材加工配送有限公司)	63,365	9,281	72,646	1,663		1,663
Chongqing CISL high strength cold rolling steel Co., Ltd (重慶重鋼高強冷軋板材有限公司)	738,399	302	738,701	774		774

Name of the subsidiary	Current assets	Non-current assets	Opening balance			
			Total assets	Current liabilities	Non-current liabilities	Total liabilities
Jingjiang Sanfeng Steel Processing Distribution Co., Ltd (靖江三峰鋼材加工配送有限公司)	5,248	71,236	76,484	5,474		5,474
Chongqing CISL high strength cold rolling steel Co., Ltd (重慶重鋼高強冷軋板材有限公司)						

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

(I) Interest in significant subsidiaries (Continued)

3. Main financial information of significant non-wholly-owned subsidiaries (Continued)

(2) Information of profit or loss and cash flows

Name of the subsidiary	Operating revenue	Current period cumulative		
		Net profit	Total comprehensive income	Cash flows from operating activities
Jingjiang Sanfeng Steel Processing Distribution Co., Ltd (靖江三峰鋼材加工配送有限公司)	25,912	-27	-27	-332
Chongqing CISL high strength cold rolling steel Co., Ltd (重慶重鋼高強冷軋板材有限公司)		2,792	2,792	684

Name of the subsidiary	Operating revenue	Preceding period comparative		
		Net profit	Total comprehensive income	Cash flows from operating activities
Jingjiang Sanfeng Steel Processing Distribution Co., Ltd (靖江三峰鋼材加工配送有限公司)	59,010	230	230	-1,414
Chongqing CISL high strength cold rolling steel Co., Ltd (重慶重鋼高強冷軋板材有限公司)				

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

(II) Interest in joint venture

1. Significant joint ventures

Name of the joint ventures	Main operating place	Place of registration	Business nature	Share holding proportion		Accounting treatment
				(%)		
				Direct	Indirect	
Chongqing POSCO CISL automotive steel Co., Ltd (重慶浦項重鋼汽車板有限公司)	Changshou Economic Development District, Chongqing	Changshou Economic Development District, Chongqing	Steel manufacturing, research and development services	49%		Equity method

2. Main financial information of significant joint ventures

Items	Closing balance /current period cumulative	Opening balance/ preceding period comparative
	Chongqing POSCO CISL automotive steel Co., Ltd (重慶浦項重鋼汽車板有限公司)	Chongqing POSCO CISL automotive steel Co., Ltd (重慶浦項重鋼汽車板有限公司)
Current assets	266,445	
Non-current assets	1,536	
Total assets	267,981	
Current liabilities	602	
Total liabilities	602	
Equity attributable to owners of parent company	267,379	
Proportionate share in net assets	131,015	
Carrying amount of investments in joint ventures	131,015	
Operating revenue		
Net profit	1,223	
Total comprehensive income	1,223	
Dividend from joint ventures received in current period		

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS

The Company's risk management objective is to obtain a balance between risks and benefits, minimize adverse impacts of relevant risks on the Company, and maximize the interest of its shareholders and other equity investors. Based on these objectives, the basic strategies are to identify and analyze all potential risks related to the Company, to set appropriate risk limitations, to manage and monitor all risks timely and effectively, and to control the risks within a limited scope.

The Company is faced with a variety of risks related to financial instruments in the daily activities, mainly including credit risk, liquidity risk and market risk. The management deliberated and approved the management policy for these risks.

(I) Credit risk

Credit risk refers to the risk that a party of the financial instruments suffers from financial losses due to the other party's failure to perform relevant obligations.

The Company's credit risk mainly comes from bank deposits and receivables. To control above risks, the Company took the following measures:

1. *Bank deposits*

The Company deposits its bank balances in financial institutions with relatively high credit levels, hence, its credit risk is relatively low.

2. *Receivables*

The Company will execute credit assessment for the clients who uses credit settlement on a continuous basis. Based on the credit assessment results, the Company will choose to transact with those clients authorized, credible and well-reputed, and conducts ongoing monitoring on receivables, to avoid significant risks in bad debts.

As the Company only conducts business with authorized, credible and well-reputed third parties, normally, the Group does not obtain collateral from customers. The Company manages credit risk aggregated by customers. As at 31 December 2016, 59% of the Company's accounts receivable (61% on 31 December 2015) are due from the five largest customers of the Company. The Company does not hold any guaranty or other credit enhancements for the balance of accounts receivable.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

(I) Credit risk (Continued)

2. Receivables (Continued)

- (1) Analysis of receivables neither past due nor impaired and receivables past due but not impaired are as follows:

Items	Closing balance				Total
	Neither past due nor impaired	Past due but not impaired		Over 2 years	
		within 1 year	1-2 years		
Notes receivable	19,435				19,435
Accounts receivable	61,960	1,482	1,184	258	64,884
Other receivables	58,099				58,099
Sub-total	139,494	1,482	1,184	258	142,418

- (2) Please refer to notes "receivables" of consolidated financial statements for details of receivables with provision for impairment made on individual basis.

(II) Liquidity risk

Liquidity risk is the risk that the Company may encounter deficiency of funds in meeting obligations associated with cash or other financial assets settlement, which is possibly attributable to failure in collecting liabilities from counterparts of contracts, or early redemption of debts, or failure in achieving estimated cash flows.

The Company and its subsidiaries are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands (subject to approval by the Board when the borrowings exceed certain predetermined levels of authority). The Company's liquidity management method is to make sure enough liquidity for the performance of matured debts, so as not to cause any unacceptable loss or any damage to its reputation. As at 31 December 2016, the Company's current liabilities exceeded current assets by RMB23,683,587,000 yuan (2015: the current liabilities exceeded current assets by RMB18,875,709,000 yuan). The management of the Company planned to take a series of measures to guarantee the ability to continue as a going concern, and reduce the liquidity risk as seen in the Notes to the Financial Statements II (II).

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

(II) Liquidity risk (Continued)

Classification of financial liabilities based on the rest maturity date

Items	Carrying amount	Undiscounted contract amount	Closing balance			
			within 1 year	1-2 years	2 to 5 years	Over 5 years
Short-term borrowings	5,700,587	5,823,961	5,823,961			
Notes payable	1,632,710	1,632,710	1,632,710			
Interests payable	117,013	117,013	117,013			
Accounts payable	9,385,026	9,385,026	9,385,026			
Other payables	4,202,381	4,239,777	4,239,777			
Non-current liabilities due within one year	3,504,533	3,556,877	3,556,877			
Long-term borrowings	9,073,456	10,582,393	448,917	2,809,899	5,586,891	1,736,686
Long-term payable	61,944	63,431		63,431		
Other non-current liabilities	776,618	923,343	73,091	48,908	801,344	
Sub-total	34,454,267	36,324,531	25,277,372	2,922,238	6,388,235	1,736,686

Items	Carrying amount	Undiscounted contract amount	Opening balance			
			within 1 year	1-2 years	2 to 5 years	Over 5 years
Short-term borrowings	3,492,152	3,595,974	3,595,974			
Notes payable	3,663,417	3,663,417	3,663,417			
Interests payable	30,900	30,900	30,900			
Accounts payable	10,532,063	10,532,063	10,532,063			
Other payables	2,702,833	2,713,978	2,713,978			
Non-current liabilities due within one year	1,796,250	1,810,849	1,810,849			
Long-term borrowings	9,849,988	11,785,278	464,613	2,068,812	5,979,532	3,272,321
Debentures payable	1,987,882	2,000,000		2,000,000		
Sub-total	34,055,485	36,132,459	22,811,794	4,068,812	5,979,532	3,272,321

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

(III) Market risk

Market risk refers to the risk of fluctuation in the fair value or the future cash flow of financial instruments due to the market price variation. Market risk mainly includes interest risk and foreign exchange risk.

1. Interest risk

Interest risk refers to the risk of fluctuation in the fair value or the future cash flow of financial instruments due to the market interest variation. The market interest rate variation risk faced by the Company mainly correlated with its loans with the interest measured by the floating interest rate.

As at 31 December 2016, balance of borrowings with interest accrued at floating interest rate totaled RMB11,131,595,000 yuan (RMB11,715,462,000 yuan on 31 December 2015). If the interest rates increase/decrease 50 basis points with all other variables unchanged, the financial effect on the Company would be a/an decrease/increase of RMB155,676,000 yuan (31 December 2015: a/an decrease/increase of RMB58,577,000 yuan) in equity, a/an decrease/increase of RMB155,676,000 yuan (In 2015: a/an decrease/increase of RMB58,577,000 yuan) in net profit.

2. Foreign exchange risk

Foreign exchange risk refers to the risk of fluctuation in the fair value or the future cash flow of financial instruments due to the variation in the foreign exchange rate. Foreign exchange risk faced by the Company is mainly correlated with its monetary assets and liabilities in foreign currency. When short-term imbalance occurred to foreign currency assets and liabilities, the Company may trade foreign currency at market exchange rate when necessary, in order to maintain the net risk exposure within an acceptable level.

Please refer to notes “foreign currency monetary items” of consolidated financial statements for details of foreign currency financial assets and liabilities at the end of the period.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

IX. RELATED PARTY AND RELATED PARTY TRANSACTIONS

(I) Information about related parties

1. Information about Parent company

(1) The parent company

Name of the parent company	Place of registration	Business nature	Registered capital	Shareholding proportion over the Company (%)	Shareholding proportion over the Company (%)
Chongqing Iron & Steel (Group) Co., Ltd (重慶鋼鐵(集團)有限責任公司)	Chongqing	Sintering, iron smelting, steel smelting and rolling and the by-products of iron and steel, mining and processing, machinery, electronic, construction, transportation by automobile, refractory materials	1,650,706	47.27	47.27

Chongqing State-Owned Assets Supervision and Administration Commission is the ultimate controlling party of the Company.

- Please refer to notes "Interests in other entities" of consolidated financial statements for details of the Company's subsidiaries.
- Please refer to notes "Interests in other entities" of consolidated financial statements for details of the Company's significant joint ventures.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

IX. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

(I) Information about related parties (Continued)

4. Information about other related parties of the Company

(1) Other related parties of the Company

Name of the other related parties	Relationship between the Company and the other related parties
Chongqing Saving Sanfeng Energy Limited (重慶中節能三峰能源有限公司)	Significant impacted by the parent company
Chongqing Iron & Steel Group San Feng Industrial Company Limited (重慶鋼鐵集團三峰工業有限公司)	Subsidiaries under the control of the parent company
Chongqing Iron & Steel Group Chaoyang Gas Company Limited (重慶朝陽氣體有限公司)	Subsidiaries under the control of the parent company
Chongqing Iron & Steel Group Industrial Company Limited (重慶鋼鐵集團產業有限公司)	Subsidiaries under the control of the parent company
Chongqing Iron & Steel Group Yingsite Mould Company Limited (重慶鋼鐵集團英斯特模具有限公司)	Subsidiaries under the control of the parent company
Chongqing Iron & Steel Group Mining Company Limited (重慶鋼鐵集團礦業有限公司)	Subsidiaries under the control of the parent company
Chongqing Iron & Steel Group Steel Pipe Company Limited (重慶鋼鐵集團鋼管有限責任公司)	Subsidiaries under the control of the parent company
Chongqing Iron & Steel Research Institute (重慶鋼鐵研究所有限公司)	Subsidiaries under the control of the parent company
Chongqing Iron & Steel Group Construction and Engineering Company Limited (重慶鋼鐵集團建設工程有限公司)	Subsidiaries under the control of the parent company
Chongqing Donghua Special Steel Company Limited (重慶東華特殊鋼有限責任公司)	Subsidiaries under the control of the parent company
Chongqing Xin Gang Chang Long Logistics Company Limited (重慶新港長龍物流有限責任公司)	Subsidiaries under the control of the parent company
Chongqing Iron & Steel Group Electronic Company Limited (重慶鋼鐵集團電子有限責任公司)	Subsidiaries under the control of the parent company
Chongqing Iron & Steel Group Transportation Company Limited (重慶鋼鐵集團運輸有限責任公司)	Subsidiaries under the control of the parent company
Chongqing Hongfa Real Estate Development Company (重慶宏發房地產開發公司)	Subsidiaries under the control of the parent company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

IX. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

(I) Information about related parties (Continued)

4. Information about other related parties of the Company (Continued)

(1) Other related parties of the Company (Continued)

Name of the other related parties	Relationship between the Company and the other related parties
Chongqing Iron & Steel Group Doorlead Realty Company Limited (重慶鋼鐵集團朵力房地產股份有限公司)	Subsidiaries under the control of the parent company
Chongqing Iron & Steel (Hong Kong) Company Limited (重慶鋼鐵(香港)有限公司)	Subsidiaries under the control of the parent company
Chongqing Iron & Steel Group Export and Import Company Limited (重鋼進出口公司)	Subsidiaries under the control of the parent company
Chongqing San Gang Steel Company Limited (重慶三鋼鋼業有限責任公司)	Subsidiaries under the control of the parent company
Chongqing Iron & Steel Group Design and Research Institute (重慶鋼鐵集團設計院)	Subsidiaries under the control of the parent company
Chongqing Sanhuan Construct Supervision Consultant Company Limited (重慶三環建設監理諮詢有限公司)	Subsidiaries under the control of the parent company
San Feng Jingjiang Port Logistics Company Limited (三峰靖江港務物流有限責任公司)	Subsidiaries under the control of the parent company
Chongqing Wuxia Mining Industry Incorporated Company (重慶巫峽礦業股份公司)	Subsidiaries under the control of the parent company
Chongqing Xingang Loading and Transportation Company Limited (重慶新港裝卸運輸有限公司)	Subsidiaries under the control of the parent company
Chongqing Iron & Steel Group General Hospital (重鋼總醫院)	Subsidiaries under the control of the parent company
Chongqing Iron & Steel Group Steel Company Limited (重慶鋼鐵集團鋼業有限責任公司)	Subsidiaries under the control of the parent company
Chongqing Iron & Steel Group Zhongxing Industrial Company Limited (重慶鋼鐵集團中興實業有限責任公司)	Subsidiaries under the control of the parent company
Chongqing Iron & Steel Group television station (重慶鋼鐵集團電視臺)	Subsidiaries under the control of the parent company
Chongqing steel structure industry Company Limited (重慶鋼結構產業有限公司)	Subsidiaries under the control of the parent company
Chongqing Iron & Steel Group Refractory material Company Limited (重慶鋼鐵集團耐火材料有限責任公司)	Subsidiaries under the control of the parent company

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

IX. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

(II) Information about related party transactions

1. Purchase and sales of goods, rendering and receiving of services

(1) Details

1) Purchase of goods and receiving of services (excluding tax)

Related party	Content of transaction	Current period cumulative	Preceding period comparative
Chongqing Iron & Steel Group Mining Company Limited (重慶鋼鐵集團礦業有限公司)	Purchase of goods, receiving of services	349,088	997,714
Chongqing Iron & Steel Group Chaoyang Gas Company Limited (重慶朝陽氣體有限公司)	Purchase of goods, receiving of services	263,685	330,350
Chongqing Iron & Steel (Hong Kong) Company Limited (重慶鋼鐵(香港)有限公司)	Purchase of goods	236,510	859,667
Chongqing Saving Sanfeng Energy Limited (重慶中節能三峰能源有限公司)	Purchase of goods	153,878	319,084
Chongqing Iron & Steel Group Industrial Company Limited (重慶鋼鐵集團產業有限公司)	Purchase of goods, receiving of services	112,120	118,380
Chongqing Iron & Steel Group Construction and Engineering Company Limited (重慶鋼鐵集團建設工程有限公司)	Purchase of goods, receiving of services	100,204	120,112
Chongqing Iron & Steel Group Electronic Company Limited (重慶鋼鐵集團電子有限責任公司)	Purchase of goods, receiving of services	93,547	108,487
Chongqing Iron Steel Group Transportation Company Limited (重慶鋼鐵集團運輸有限責任公司)	Purchase of goods, receiving of services	59,838	79,983
Chongqing Iron & Steel Group San Feng Industrial Company Limited (重慶鋼鐵集團三峰工業有限公司)	Purchase of goods, receiving of services	46,202	61,068
Chongqing Iron & Steel Group Design and Research Institute (重慶鋼鐵集團設計院)	Purchase of goods, receiving of services	23,709	99,825
Chongqing Xin Gang Chang Long Logistics Company Limited (重慶新港長龍物流有限責任公司)	Receiving of services	14,913	83,402
Chongqing Sanhuan Construct Supervision Consultant Company Limited (重慶三環建設監理諮詢有限公司)	Purchase of goods, receiving of services	8,233	9,594
Chongqing Iron & Steel Group Refractory material Company Limited (重慶鋼鐵集團耐火材料有限責任公司)	Purchase of goods	4,828	
San Feng Jingjiang Port Logistics Company Limited (三峰靖江港務物流有限責任公司)	Purchase of goods, receiving of services	4,231	28,565

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

IX. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

(II) Information about related party transactions (Continued)

1. Purchase and sales of goods, rendering and receiving of services (Continued)

(1) Details (Continued)

1) Purchase of goods and receiving of services (excluding tax) (Continued)

Related party	Content of transaction	Current period cumulative	Preceding period comparative
Chongqing Iron & Steel Group Steel Company Limited (重慶鋼鐵集團鐵業有限責任公司)	Purchase of goods	2,746	49,971
Chongqing Iron & Steel Research Institute (重慶鋼鐵研究所有限公司)	Purchase of goods, receiving of services	1,985	1,420
Chongqing Iron & Steel Group Steel Pipe Company Limited (重慶鋼鐵集團鋼管有限責任公司)	Purchase of goods	1,262	270
Chongqing Iron & Steel Group Doorlead Realty Company Limited (重慶鋼鐵集團朵力房地產股份有限公司)	Purchase of goods, receiving of services	1,016	2,497
Chongqing Iron & Steel Group General Hospital (重鋼總醫院)	Receiving of services	907	2,299
Chongqing Xingang Loading and Transportation Company Limited (重慶新港裝卸運輸有限公司)	Purchase of goods, receiving of services	400	2,799
Chongqing San Gang Steel Company Limited (重慶三鋼鋼業有限責任公司)	Purchase of goods	332	500
Chongqing Iron & Steel (Group) Co., Ltd (重慶鋼鐵(集團)有限責任公司)	Purchase of goods, receiving of services	99	284
Chongqing Iron & Steel Group television station (重慶鋼鐵集團電視臺)	Purchase of goods, receiving of services	6	877
Chongqing Wuxia Mining Industry Incorporated Company (重慶巫峽礦業股份公司)	Purchase of goods, receiving of services		28,321
Chongqing Iron & Steel Group Zhongxing Industrial Company Limited (重慶鋼鐵集團中興實業有限責任公司)	Purchase of goods, receiving of services		1,794
Total		1,479,739	3,307,263

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

IX. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

(II) Information about related party transactions (Continued)

1. Purchase and sales of goods, rendering and receiving of services (Continued)

2) Sale of goods and rendering of services (Excluding tax)

Related party	Content of transaction	Current period cumulative	Preceding period comparative
Chongqing Iron & Steel Group Chaoyang Gas Company Limited (重慶朝陽氣體有限公司)	Sale of energy, rendering of services	200,675	224,875
Chongqing Iron & Steel Group Industrial Company Limited (重慶鋼鐵集團產業有限公司)	Sale of energy, etc	137,660	103,023
Chongqing steel structure industry co., Ltd (重慶鋼結構產業有限公司)	Sale of steels	50,501	
Chongqing Iron & Steel Group Mining Company Limited (重慶鋼鐵集團礦業有限公司)	Sale of energy, etc)	30,885	44,844
Chongqing Saving Sanfeng Energy Limited (重慶中節能三峰能源有限公司)	Sale of energy	8,752	8,709
Chongqing Iron & Steel Group Construction and Engineering Company Limited (重慶鋼鐵集團建設工程有限公司)	Sale of steels, energy	7,360	68,305
Chongqing Iron & Steel Group Steel Pipe Company Limited (重慶鋼鐵集團鋼管有限責任公司)	Sale of steels	4,659	7,308
Chongqing Iron & Steel Group San Feng Industrial Company Limited (重慶鋼鐵集團三峰工業有限公司)	Sale of steels, energy, etc	3,959	3,157
San Feng Jingjiang Port Logistics Company Limited (三峰靖江港務物流有限責任公司)	Rendering of services	1,057	
Chongqing Iron Steel Group Transportation Company Limited (重慶鋼鐵集團運輸有限責任公司)	Sale of energy, etc, rendering of services	620	151
Chongqing Xin Gang Chang Long Logistics Company Limited (重慶新港長龍物流有限責任公司)	Sale of energy, rendering of services	589	906

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

IX. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

(II) Information about related party transactions (Continued)

1. Purchase and sales of goods, rendering and receiving of services (Continued)

2) Sale of goods and rendering of services (Excluding tax) (Continued)

Related party	Content of transaction	Current period cumulative	Preceding period comparative
Chongqing Iron & Steel Group Electronic Company Limited (重慶鋼鐵集團電子有限責任公司)	Sale of energy	313	448
Chongqing Iron & Steel (Group) Co., Ltd (重慶鋼鐵(集團)有限責任公司)	Sale of energy, etc	281	1,941
Chongqing Iron & Steel Group DoorleadRealty Company Limited (重慶鋼鐵集團朵力房地產股份有限公司)	Sale of steels, etc	124	3,147
Chongqing Iron & Steel Research Institute (重慶鋼鐵研究所有限公司)	Sale of steels		3,176
Total		447,435	469,990

(2) Other descriptions

The transactions stated above constitute the transactions or continued transactions with related parties according to the Listing rules 14A of the Stock Exchange of Hong Kong.

For the purchase price of commodities of the related party, refer to the price or cost plus profit premium for similar transactions between the related party and other third parties, or the suppliers' bid price. The considerations for fixed assets and construction-in-progress purchased from related party or undertaken by related party for construction are determined by the suppliers' bid price.

The price of products sold to related parties are determined with reference to the prices charged by the Company to other third parties or as stipulated by the competent authorities of the Chongqing municipal government.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

IX. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

(II) Information about related party transactions (Continued)

2. Related party leases

(1) The Company as the lessor (tax excluded)

Name of Lessee	Type of assets leased	Lease income for current period	Lease income for preceding period
Chongqing Iron & Steel Group Industrial Company Limited (重慶鋼鐵集團產業有限公司)	Buildings and structures	382	382
Chongqing Iron & Steel Group Chaoyang Gas Company Limited (重慶朝陽氣體有限公司)	Buildings and structures	141	141
Chongqing Iron & Steel Group Transportation Company Limited (重慶鋼鐵集團運輸有限責任公司)	Buildings and structures	83	62
Chongqing Saving Sanfeng Energy Limited (重慶中節能三峰能源有限公司)	Buildings and structures	79	59
Chongqing Xin Gang Chang Long Logistics Company Limited (重慶新港長龍物流有限責任公司)	Buildings and structures	70	70
Chongqing Iron & Steel Group Mining Company Limited (重慶鋼鐵集團礦業有限公司)	Buildings and structures	70	70
Chongqing Iron & Steel Group San Feng Industrial Company Limited (重慶鋼鐵集團三峰工業有限公司)	Buildings and structures	44	44
Chongqing Iron & Steel Group Construction and Engineering Company Limited (重慶鋼鐵集團建設工程有限公司)	Machinery and equipment		17
Total		869	845

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

IX. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

(II) Information about related party transactions (Continued)

2. Related party leases (Continued)

(2) The Company as the lessee

Name of lessor	Types of asset leased	Lease expenses for current period	Lease expenses for the preceding period
Chongqing Iron & Steel Group Doorlead Realty Company Limited (重慶鋼鐵集團朵力房地產股份有限 公司)	Buildings and structures	583	572
Total		583	572

(3) Other descriptions

The transactions stated above constitute the transactions or continued transactions with related parties according to the Listing rules 14A of the Stock Exchange of Hong Kong.

3. Related party guarantees

(1) The Company and its subsidiaries as the guarantor

Guaranteed party	Amount guaranteed	Commencement date	Maturity date	Performance of guarantee completed or not
San Feng Jingjiang Port Logistics Company Limited (三峰靖江港務物流有限責任公司)	759,294	17/4/2012	3/8/2024	No
Total		759,294		

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

IX. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

(II) Information about related party transactions (Continued)

3. Related party guarantees (Continued)

(2) The Company and its subsidiaries as the guarantee

Guarantors	Amount guaranteed	Commencement date	Maturity date	Performance of guarantee completed or not	Remarks
Chongqing Iron & Steel (Group) Co., Ltd (重慶鋼鐵(集團) 有限責任公司)	5,212,587	7/8/2015-30/12/2016	21/10/2016-29/12/2017	No	Short-term borrowings
Chongqing Iron & Steel (Group) Co., Ltd (重慶鋼鐵(集團) 有限責任公司)	669,215	7/7/2016-15/12/2016	8/1/2017-20/9/2017	No	Notes payable
Chongqing Iron & Steel (Group) Co., Ltd (重慶鋼鐵(集團) 有限責任公司)	250,000	25/2/2016	7/6/2017	No	Other payables
Chongqing Iron & Steel (Group) Co., Ltd (重慶鋼鐵(集團) 有限責任公司)	1,510,504	13/8/2009-31/10/2016	10/2/2017-25/12/2017	No	Non-current liabilities within one year
Chongqing Iron & Steel (Group) Co., Ltd (重慶鋼鐵(集團) 有限責任公司)	8,401,456	13/8/2009-31/10/2016	10/1/2018-20/9/2022	No	Long-term borrowings
Chongqing Iron & Steel (Group) Co., Ltd (重慶鋼鐵(集團) 有限責任公司)	61,944	6/10/2016	6/4/2018	No	Long-term payable
Chongqing Iron & Steel (Group) Co., Ltd (重慶鋼鐵(集團) 有限責任公司)		(Note)		No	Long-term equity investments, other non-current liabilities

Note: refer to Notes V (I) 32 of the Financial Statements for details.

(3) Other Descriptions

The transactions stated above constitute the transactions or continued transactions with related parties according to the Listing rules 14A of the Stock Exchange of Hong Kong.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

IX. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

(II) Information about related party transactions (Continued)

4. Other cash flows between related parties

Related party	Amount borrowed	Amount returned	Interest in the current period
Chongqing Iron & Steel (Group) Co., Ltd (重慶鋼鐵(集團)有限責任公司)	2,168,314	295,468	17,281
Wherein: Borrowings	792,000	150,000	17,281
Chongqing Iron & Steel Group Doorlead Realty Company Limited (重慶鋼鐵集團朵力房地產股份有 限公司)	235,296	235,296	
Wherein: Borrowings	235,296	235,296	
Chongqing Iron & Steel Group Steel Company Limited (重慶鋼鐵集團鋼鐵業有限責任公司)	212,754	212,754	
Wherein: Borrowings	212,754	212,754	
Chongqing Iron & Steel Group Electronic Company Limited (重慶鋼鐵集團電子有限責任公司)	17,000	17,000	
Chongqing Saving Sanfeng Energy Limited (重慶中節能三峰能源有限公司)	325,000	325,000	
Chongqing Iron & Steel Group Mining Company Limited (重慶鋼鐵集團礦業有限公司)	850,137	680,880	
Chongqing Iron & Steel Group Chaoyang Gas Company Limited (重慶朝陽氣體有限公司)	(Note 1)		
Chongqing Iron & Steel Group Transportation Company Limited (重慶鋼鐵集團運輸有限責任公司)	(Note 2)		

Note 1: The other cash flows between the Company and Chongqing Iron & Steel Group Chaoyang Gas Company Limited mainly temporarily borrowed to repay the bank loans; the monthly average balance of funds occupied is RMB1,054,913,000 yuan.

Note 2: The cash flows between the Company and Chongqing Iron & Steel (Group) Transportation Company Limited were mainly the temporary transfer of money for the fund security, and the monthly amount incurred was RMB866,924,000 yuan.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

IX. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

(II) Information about related party transactions (Continued)

4. Other cash flows between related parties (Continued)

The transactions stated above constitute the transactions or continued transactions with related parties according to the Listing rules 14A of the Stock Exchange of Hong Kong.

5. Settlement of liabilities with creditor's rights

The Company entered into the Agreement on Settlement of Liabilities with Creditor's Rights with CISG in December 2016, agreeing that the Company should transfer its creditor's right totaling RMB153,935,000 yuan held in Chongqing Safety Industry Development Group Co., Ltd. (重慶安全產業發展集團有限公司) to CISG to offset the liabilities owed to CISG. The transfer of creditor's right was approved by resolution of the 76th meeting of the 7th Session of Board Meeting of the Company.

6. Remuneration of Key Management Personnel

Items	Current Period cumulative	Preceding Period comparative
Remuneration of Key Management Personnel	2,026	2,191

7. Emoluments of Directors and supervisors

Items	Current period cumulative			Total	
	Fees	Wage, bonus, allowance, and subsidy	Pension insurance premium		Other social insurance premium
Executive Directors:					
Li Rensheng		142	36	49	227
Zhang Liquan		119	36	49	204
Yao Xiaohu		119	36	49	204
Xu Yixiang	74				74
Xin Qingquan	74				74
Zhou Hong (Note 11)					
Tu Deling		97	36	49	182
Liu Dawei (Note 11)					
Wang Zhenhua	74				74

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

IX. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

(II) Information about related party transactions (Continued)

7. Emoluments of Directors and supervisors (Continued)

Items	Current period cumulative			Total	
	Fees	Wage, bonus, allowance, and subsidy	Pension insurance premium		Other social insurance premium
Supervisors:					
Xia Tong		141	36	49	226
Dou Hui (Note 2)		76	30	41	147
Chen Hong		100	36	49	185
Tu Chun (Note 1)		18	6	8	32
Xie Chuanxin (Note 11)					
Li Zheng (Note 11)					
Senior management:					
You Xiao'an		108	36	49	193
Zeng Jing		119	36	49	204
Total	222	1,039	324	441	2,026

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

IX. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

(II) Information about related party transactions (Continued)

7. Emoluments of Directors and supervisors (Continued)

Items	Fees	Wage, bonus, allowance, and subsidy	Pension insurance premium	Other social insurance premium	Total
Executive Directors:					
Li Rensheng		172	34	42	248
Zhang Liquan		155	34	42	231
Yao Xiaohu		155	34	42	231
Liu Tianni (Note 3)	37				37
Xu Yixiang	74				74
Xin Qingquan	74				74
Zhu Jianpai (Note 4, 11)					
Zhou Hong (Note 11)					
Tu Deling (Note 5)					
Liu Dawei (Note 6, 11)					
Wang Zhenhua (Note 7)	37				37
Supervisors:					
Xia Tong		178	34	42	254
Dou Hui		122	34	42	198
Chen Hong		116	34	42	192
Xie Chuanxin (Note 8, 11)					
Li Zheng (Note 11)					
Li Meijun (Note 9)					
Senior management:					
You Xiao'an		115	34	42	191
Zhang Zongming (Note 10)		115	34	42	191
Zeng Jing		157	34	42	233
Total	222	1,285	306	378	2,191

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

IX. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

(II) Information about related party transactions (Continued)

7. *Emoluments of Directors and supervisors (Continued)*

- Note 1:* On 31 October 2016, Mr. Tu Deling was appointed as supervisor of employee's representative of the 7th Supervisory Committee of the Company.
- Note 2:* On 31 October 2016, Mr. Dou Hui resigned from the duties of supervisor of employee's representative of the Company due to work assignments.
- Note 3:* On 4 June 2015, Mr. Liu Tianni resigned from the duties of independent director of the Company upon the expire of his term of office.
- Note 4:* On 28 July 2015, Mr. Zhu Jianpai resigned of the duties of the Director, Chairman, chairman of the Strategic Committee, chairman of the Nomination Committee and member of the Remuneration and Review Committee.
- Note 5:* On 23 December 2015, Mr. Tu Deling was appointed as Executive Director of the 7th Board of Directors, Deputy Chairman, member of the Remuneration and Review Committee and the head of accounting department.
- Note 6:* On 23 December 2015, Mr. Liu Dawei was appointed as Non-executive Director of the 7th Board of Directors, Chairman, member and Chairman of the Strategic Committee, and member and Chairman of the Nomination Committee.
- Note 7:* On 4 June 2015, Mr. Wang Zhenhua was appointed as Director of the 7th Board of Directors of the Company.
- Note 8:* On 23 December 2015, Mr. Xie Chuanxin was appointed as supervisor of shareholders' representative of the Supervisory Committee of the Company.
- Note 9:* On 20 October 2015, Mr. Li Meijun resigned the duties of supervisor of shareholders' representative of the Company due to personal reasons.
- Note 10:* On 16 December 2015, Mr. Zhang Zongming resigned the duties of the head of accounting department due to personal reasons.
- Note 11:* According to the service agreement signed with the Company in 2015, Mr. Zhu Jianpai, Mr. Li Zheng, Mr. Zhou Hong, Mr. Liu Dawei and Mr. Xie Chuanxin will no longer receive any wages from the Company during the term of office (till 2017 annual general meeting).

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

IX. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

(II) Information about related party transactions (Continued)

8. *Five highest paid employees*

The five employees whose emoluments were the highest for the year include three Directors (three in 2015), one supervisor (one in 2015) and one senior management. Refer to Section IX (II) 7 of Notes to the Financial Statements for detailed remunerations.

9. *Other related-party transactions*

(1) Non-planned and unified social insurance management

The Company has joined the supplementary pension insurance plan implemented by Chongqing Iron & Steel Group and paid supplementary pension insurance premium. The total pension insurance premium of the Company is calculated and contributed on the basis of the salary paid during the year and the basic pension insurance premium contribution percentage as stipulated by the State, in which, after deducting the basic pension insurance premium payable to the social security authorities, the remaining balance is passed on to Chongqing Iron & Steel Group as the supplementary pension insurance premium for retired employees of the Company for centralized administration, and in turn, Chongqing Iron & Steel Group will pay relevant supplementary pension to the retired employees of the Company. Pursuant to an agreement related to the entrusted administration of the retired personnel signed by the Company and Chongqing Iron & Steel Group, the Company shall pay supplementary pension insurance premium to Chongqing Iron & Steel Group, and the retired personnel of the Company is entitled to supplementary pension benefits. Supplementary pension paid by Chongqing Iron & Steel Group to the retired personnel of the Company include: food subsidy, subsidy for utilities, seniority payments, birthday expenses, living expenses for dependents of deceased retired employees, Chinese New Year bonuses. The above expenses are funded by the supplementary pension insurance premium paid by the Company to Chongqing Iron & Steel Group, with shortfalls borne by Chongqing Iron & Steel Group.

Pursuant to the relevant requirements, the Company makes contributions to the supplementary medical insurance premium centrally managed by Chongqing Iron & Steel Group. Such contributions are used for the payment of medical expenses of the Company's employees with heavy individual financial burdens and retired personnel.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

IX. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

(II) Information about related party transactions (Continued)

9. Other related-party transactions (Continued)

(1) Non-planned and unified social insurance management (Continued)

Pursuant to the relevant requirements, the Company pays for the labor union fee centrally managed by Chongqing Iron & Group. Such contributions are used for the payment of the operation expenses of the labor union of the Company.

During 2016, the above supplementary pension insurance premium, supplementary medical insurance premium and part of the labor union fee contributed by the Company to Chongqing Iron & Steel Group for centralized administration amounted to RMB22,022,000 yuan (2015: RMB43,289,000 yuan).

Pursuant to the “Reply to the Request of Chongqing Iron & Steel (Group) Co.,Ltd. Regarding the Split Medical Insurance Premium” issued by the Chongqing Medical Insurance Management Center in October 2008, the split administration of medical insurance premium of the Company and Chongqing Iron & Steel Group is not advisable for the time being. According to the “Agreement on Withholding and Remitting Basic Medical Insurance” and the “Agreement on Withholding and Remitting Large Amount of Large Amount Medical Insurance” entered into between the Company and Chongqing Iron & Steel Group, the Company’s basic medical insurance and large amount medical insurance are calculated and contributed to Chongqing Iron & Steel Group on the basic salary accrued during the year and the percentage as stipulated by the State, and in turn paid by Chongqing Iron & Steel Group to the Medical Insurance Management Center on behalf of the Company. During 2016, the basic medical insurance premium and the large amount medical insurance premium collected and paid by the Company through Chongqing Iron & Steel Group amounted to RMB59,004,000 yuan (2015: RMB78,604,000 yuan). Chongqing Iron & Steel Group has not charged any handling fee for the above transactions.

The transactions stated above constitute the transactions or continued transactions with related parties according to the Listing rules 14A of the Stock Exchange of Hong Kong.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

IX. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

(III) Balance due to or from related parties

1. Balance due from related parties

Items	Related party	Closing balance		Opening balance	
		Book balance	Provision for bad debts	Book balance	Provision for bad debts
Accounts receivable					
	Chongqing Iron & Steel Group Industrial Company Limited (重慶鋼鐵集團產業有限公司)	18,971		11,833	
	Chongqing Iron & Steel Group Yingsite Mould Company Limited (重慶鋼鐵集團英斯特模具有限公司)	2,756	2,756	2,756	2,756
	Chongqing Iron & Steel Group Chaoyang Gas Company Limited (重慶朝陽氣體有限公司)	2,095			
	Chongqing Iron & Steel Group Steel Pipe Company Limited (重慶鋼鐵集團鋼管有限責任公司)	1,482		1,268	
	Chongqing Iron & Steel Research Institute (重慶鋼鐵研究所有限公司)	1,184		1,162	
	Chongqing Iron & Steel Group San Feng Industrial Company Limited (重慶鋼鐵集團三峰工業有限公司)	252		5,869	
	Chongqing Xin Gang Chang Long Logistics Company Limited (重慶新港長龍物流有限責任公司)	39		76	
	Chongqing Iron & Steel Group Doorlead Realty Company Limited (重慶鋼鐵集團朵力房地產股份有限公司)	11		4	
	Chongqing Iron & Steel Group Mining Company Limited (重慶鋼鐵集團礦業有限公司)			2,046	
	Chongqing Iron & Steel Group Transportation Company Limited (重慶鋼鐵集團運輸有限責任公司)			45	
	Chongqing Hongfa Real Estate Development Company (重慶宏發房地產開發公司)	5		5	
	Sub-total	26,795	2,756	25,064	2,756

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

IX. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

(III) Balance due to or from related parties (Continued)

1. Balance due from related parties (Continued)

Items	Related party	Closing balance		Opening balance	
		Book balance	Provision for bad debts	Book balance	Provision for bad debts
Prepayments					
	San Feng Jingjiang Port Logistics Company Limited (三峰靖江港務物流有限責任公司)	1,579			
	Chongqing Iron & Steel Research Institute (重慶鋼鐵研究所有限公司)	1,073			
	Chongqing Iron & Steel Group San Feng Industrial Company Limited (重慶鋼鐵集團三峰工業有限公司)			1,700	
Sub-total		2,652		1,700	
Other non-current assets					
	San Feng Jingjiang Port Logistics Company Limited (三峰靖江港務物流有限責任公司)			61,399	
Sub-total				61,399	

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

IX. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

(III) Balance due to or from related parties (Continued)

2. Balance due to related parties

Items	Related party	Closing balance	Opening balance
Notes payable			
	Chongqing Saving Sanfeng Energy Limited (重慶中節能三峰能源有限公司)	500,000	500,000
	Chongqing Iron & Steel Group Chaoyang Gas Company Limited (重慶朝陽氣體有限公司)	545,250	523,500
	Chongqing Iron & Steel Group Mining Company Limited (重慶鋼鐵集團礦業有限公司)	177,960	679,180
	Chongqing Iron & Steel Group Industrial Company Limited (重慶鋼鐵集團產業有限公司)	37,000	
	Chongqing Iron & Steel Group San Feng Industrial Company Limited (重慶鋼鐵集團三峰工業有限公司)	13,000	
	Chongqing Iron & Steel Group Electronic Company Limited (重慶鋼鐵集團電子有限責任公司)	2,000	
	Chongqing Xin Gang Chang Long Logistics Company Limited (重慶新港長龍物流有限責任公司)		77,220
	Chongqing Wuxia Mining Industry Incorporated Company (重慶巫峽礦業股份有限公司)		43,510
Sub-total		1,275,210	1,823,410

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

IX. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

(III) Balance due to or from related parties (Continued)

2. Balance due to related parties (Continued)

Items	Related party	Closing balance	Opening balance
Accounts payable			
	Chongqing Iron & Steel Group Mining Company Limited (重慶鋼鐵集團礦業有限公司)	652,552	642,722
	Chongqing Iron & Steel (Group) Co., Ltd. (重慶鋼鐵(集團)有限責任公司)	159,947	159,966
	Chongqing Saving Sanfeng Energy Limited (重慶中節能三峰能源有限公司)	150,519	130,304
	Chongqing Iron & Steel Group Electronics Company Limited (重慶鋼鐵集團電子有限責任公司)	68,359	17,389
	Chongqing Sanhuan Construct Supervision Consultant Company Limited (重慶三環建設監理諮詢有限公司)	45,627	39,770
	Chongqing Iron & Steel Group Design and Research Institute (重慶鋼鐵集團設計院)	29,211	148,083
	Chongqing Iron & Steel Group Construction and Engineering Company Limited (重慶鋼鐵集團建設工程有限公司)	21,617	357,049
	San Feng Jingjiang Port Logistics Company Limited (三峰靖江港務物流有限責任公司)		6,343
	Chongqing Iron & Steel Group Refractory material Company Limited (重慶鋼鐵集團耐火材料有限責任公司)	5,649	
	Chongqing Iron & Steel Group Steel Company Limited(重慶鋼鐵集團鋼鐵有限公司)	3,213	
	Chongqing Iron & Steel Group Doorlead Realty Company Limited (重慶鋼鐵集團朵力房地產股份有限公司)	621	
	Chongqing Iron & Steel Group Transportation Company Limited (重慶鋼鐵集團運輸有限責任公司)	263	
	Chongqing Iron & Steel Group Industrial Company Limited (重慶鋼鐵集團產業有限公司)	5	3,445
	Chongqing Iron & Steel (Hong Kong) Company Limited (重慶鋼鐵(香港)有限公司)		35,670
	Others		1
Sub-total		1,137,583	1,540,742

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

IX. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

(III) Balance due to or from related parties (Continued)

2. Balance due to related parties (Continued)

Items	Related party	Closing balance	Opening balance
Receipts in advance			
	Chongqing Iron & Steel Group Construction and Engineering Company Limited (重慶鋼鐵集團建設工程有限公司)	131,945	
	Chongqing steel structure industry Company Limited (重慶鋼結構產業有限公司)	31,122	
	Chongqing San Gang Steel Company Limited (重慶三鋼鋼業有限責任公司)	1,050	1,050
	Chongqing Iron & Steel Group Mining Company Limited (重慶鋼鐵集團礦業有限公司)	761	1,099
	Chongqing Iron & Steel Research Institute (重慶鋼鐵研究所有限公司)	4	4
	Chongqing Iron & Steel Group Industrial Company Limited (重慶鋼鐵集團產業有限公司)		662
	Chongqing Iron & Steel export and import company (重鋼進出口公司)		3
Sub-total		164,882	2,818

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

IX. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

(III) Balance due to or from related parties (Continued)

2. Balance due to related parties (Continued)

Items	Related party	Closing balance	Opening balance
Other payables			
	Chongqing Iron & Steel (Group) Co., Ltd. (重慶鋼鐵(集團)有限責任公司)	2,764,637	891,781
	Chongqing Iron & Steel Group Chaoyang Gas Company Limited (重慶朝陽氣體有限公司)	432,144	555,205
	Chongqing Sanhuan Construct Supervision Consultant Company Limited (重慶三環建設監理諮詢有限公司)	4,656	4,713
	Chongqing Iron & Steel Group Doorlead Realty Company Limited (重慶鋼鐵集團朵力房地產股份有限公司)	2,966	2,965
	San Feng Jingjiang Port Logistics Company Limited (三峰靖江港務物流有限責任公司)	899	1,916
	Chongqing Iron & Steel Group Mining Company Limited (重慶鋼鐵集團礦業有限公司)	479	198,782
	Chongqing Donghua Special Steel Company Limited (重慶東華特殊鋼有限責任公司)		20,865
	Chongqing Iron & Steel Group Transportation Company Limited (重慶鋼鐵集團運輸有限責任公司)		5,357
	Chongqing Iron & Steel Group Industrial Company Limited (重慶鋼鐵集團產業有限公司)		3,814
	Chongqing Iron & Steel Group Construction and Engineering Company Limited (重慶鋼鐵集團建設工程有限公司)		479
Sub-total		3,205,781	1,685,877

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

X. CAPITAL MANAGEMENT

The Company's primary objectives of capital management are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders, by pricing products and services commensurately with the level of risk and by ensuring access to finance at reasonable financial costs.

The Company defines "capital" as shareholders' equity less unrecognized proposed dividends distributions. The Company's capital excludes balances of related party transactions.

The Company's capital structure is regularly reviewed and managed to achieve an optimal structure and returns to shareholders. The factors considered by the Company include: the Company's fund demands in the future, capital efficiency, actual and expected profitability, expected cash flow, and estimated capital expenditures. If any change of the economic conditions influences the Company, the Company will adjust its capital structure.

The Company supervises its capital structure through adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes short-term borrowings, long-term borrowings, debentures payable, and finance lease payables) plus unrecognized proposed dividends distributions, less related-party loans with no fixed repayment terms and cash and cash equivalents.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

X. CAPITAL MANAGEMENT (CONTINUED)

The adjusted net debt-to-capital ratio is as follows:

Items	Closing balance	Opening balance
Current liabilities		
Short-term borrowings	5,700,587	3,492,152
Long-term borrowings due within one year	1,506,504	1,568,945
Finance lease payable due within one year	4,000	227,305
Debentures payable due within one year	1,994,029	
Sub-total	9,205,120	5,288,402
Non-current liabilities		
Long-term borrowings	9,073,456	9,849,988
Debentures payable		1,987,882
Long-term payables – finance lease payable	61,944	
Other Non-current liabilities	776,618	
Sub-total	9,912,018	11,837,870
Total debts	19,117,138	17,126,272
Add: dividends proposed for distribution		
Less: Cash and cash equivalents	745,447	32,376
Adjusted net debt	18,371,691	17,093,896
Shareholders' equity	-107,434	4,008,147
Less: dividends proposed for distribution		
Adjusted capital	-107,434	4,008,147
Adjusted net debt-to-capital ratio	-171.00	4.26

The management of the company adopted a series of measures to ensure the company's sustainable operation ability according to the actual situation, refer to Notes II (II) of the Financial Statements for details. The Board made a sufficient and detailed assessment for the sustainable operation ability of the Company, including the review of the working capital prospects formulated by the management in 12 months by the end of 31 December 2017, so as to make sure the needs of working capital, payment of matured debts and capital expenditures.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

XI. COMMITMENTS AND CONTINGENCIES

(I) Significant commitments

1. *Outsourcing contract with significant amount that was signed and performing or commencing to perform*

Items	Current period cumulative	Preceding period comparative
Outsourcing contract with significant amount that was signed and performing or commencing to perform	659,299	3,367,637
Total	659,299	3,367,637

2. *Signed lease contract under the performance or commencing to perform and its financial impacts*

Items	Current period cumulative	Preceding period comparative
Signed lease contract under the performance or commencing to perform		230,493
Total		230,493

3. The Company and POSCO jointly established Chongqing CISL high strength cold rolling steel Co., Ltd (hereinafter referred to as the Cold Rolling Company). The registered capital of the Cold Rolling Company was RMB1,470,270,000 yuan, and the Company held 90% of its equity interest. As at 31 December 2016, the Company had made an initial capital contribution of RMB661,621,500 yuan in time. According to the Articles of Association, the Company shall make the second capital contribution totaling RMB396,972,900 yuan prior to 6 May 2017, and the remaining contribution of RMB264,648,600 yuan before 6 October 2017.

4. The Company and POSCO jointly established Chongqing POSCO CISL automotive steel Co., Ltd (hereinafter referred to as the Automotive steel Company). The registered capital of the Automotive steel Company was RMB532,310,000 yuan, and the Company held 49% of its equity interest. As at 31 December 2016, the Company had made an initial capital contribution of RMB130,416,000 yuan in time. According to the Articles of Association, the Company shall make the second capital contribution totaling RMB78,249,600 yuan prior to 6 May 2017, and the remaining contribution of RMB52,166,400 yuan before 6 October 2017.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

XI. COMMITMENTS AND CONTINGENCIES (CONTINUED)

(II) Contingencies

1. *Contingent liabilities incurred by pending lawsuit/arbitration and the financial effect*

As at the end of the period, the amount of the pending litigation of the Company was RMB2.43 billion, and the carrying amount of the pending litigation payable was RMB1.2 billion. The litigation of which the involved amount exceeding RMB10,000,000 yuan are as follows:

- (1) In September 2016, Chongqing Saving Sanfeng Energy Limited (hereinafter referred to as Sanfeng) filed a suit against the Company to Chongqing Municipal High People's Court, requesting the court to make a ruling on the joint and several payment of the electricity fees for processing, compensation and liquidated damages totaling RMB1.93 billion (calculated up to 30 June 2016) by the Company and Chongqing Iron & Steel (Group) Co., Ltd., including electricity fees for processing totaling RMB1.117 billion, the compensation of RMB124 million and the liquidated damages of RMB689 million. The Company didn't accept the calculation method of processing expenses, the compensation or the liquidated damages since it deemed that the performance was affected by the obvious changes in situations including the release of the new Environmental Protection Law and the compulsory requirement on the reduction of emission of SO₂-related wastes in the steel industry, and the claim made by Sanfeng was not fair. As at 31 December 2016, the court session hadn't been opened. The electricity fees for processing payable was approximately RMB650 million.

On 29 March 2017, the parties thereto reached an accommodation and entered into an agreement that the Company pay the arrears totaling RMB642 million and Sanfeng apply to Chongqing Municipal High People's Court for the withdrawal of lawsuit after the Company making the payment as agreed. As of the date of approval of this financial report, the Company hadn't made the payment in full amount and Sanfeng hadn't applied for withdrawal of lawsuit.

- (2) In November 2016, Chongqing Wei Jin Environmental Protection Technology Co., Ltd. (重慶偉晉環保科技有限公司) filed a suit against the Company over the processing expenses in arrear to Chongqing Municipal High People's Court, requesting the court to make a ruling on the processing expenses totaling RMB210,048,530 yuan and the corresponding fund possession fee and liquidated damages. As at 31 December 2016, the case was still in trial.
- (3) In August 2016, Huanggang Chu He Metal Material Co., Ltd. (黃岡楚和金屬材料有限公司) filed a suit against the Company over the contract payment in arrear to Huanggang Intermediate People's Court, requesting the court to make a ruling on the contract payment totaling RMB72,559,060 yuan and the interest thereon. As at 31 December 2016, the case was still in trial.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

XI. COMMITMENTS AND CONTINGENCIES (CONTINUED)

(II) Contingencies (Continued)

1. *Contingent liabilities incurred by pending lawsuit/arbitration and the financial effect (Continued)*

- (4) In February 2016, Liaoning Qing Hua Fireproofing Co., Ltd. (遼寧青花耐火材料股份有限公司) filed a suit against the Company over the payment for goods in arrear to Dashiqiao People's Court in Liaoning, requesting the court to make a ruling on the contract payment totaling RMB53,796,000 yuan and the interest thereon. As at 31 December 2016, the case was still in trial.
- (5) In September 2016, Beijing Shougang International Engineering Technology Co., Ltd. (北京首鋼國際工程技術有限公司) and Beijing JC Energy & Environment Engineering Co., Ltd (北京中日聯節能環保工程技術有限公司) filed a suit against the Company over the project payment in arrear to Chongqing Municipal First Intermediate People's Court, requesting the court to make a ruling on the project payment totaling RMB55,417,500 yuan and the interest thereon and the corresponding fund possession fee. As at 31 December 2016, the case was still in trial.
- (6) In November 2016, Wuhan Iron & Steel Engineering Technology Co., Ltd. (武漢鋼鐵工程技術集團有限責任公司) filed a suit against the Company over the project payment in arrear to Chongqing Municipal First Intermediate People's Court, requesting the court to make a ruling on the project payment totaling RMB18,752,030 yuan and the interest thereon. As at 31 December 2016, the case was still in trial.
- (7) In October 2016, China Metallurgical Construction Engineering Group Co. Ltd. (中冶建工集團有限公司) filed an arbitration application to Chongqing Arbitration Commission, requesting the arbitration commission to support its request that the Company shall pay the project payment in arrear of RMB13,292,080 yuan and the warranty fee of RMB4,763,810 yuan. As at 31 December 2016, the case was still under arbitration.
- (8) In September 2015, Shanghai Pudong Development Bank Co., Ltd. Beijing Branch (上海浦東發展銀行股份有限公司北京分行) filed a suit against Beijing Shuoren Hitech Energy Technology Co., Ltd. (北京碩人海泰能源科技有限公司) over the arrears to the People's Court of Xicheng District, Beijing City. Since Beijing Shuoren Hitech Energy Technology Co., Ltd pledged the receivables of the Company for guarantee, the court was requested to make a ruling that the Company should repay the borrowings totaling RMB14,803,430 yuan, and the corresponding interest, penalty interest and compound interest owed by Beijing Shuoren Hitech Energy Technology Co., Ltd as the third defendant.

2. *Contingent liabilities incurred by providing debt guarantees for other entities and the financial effect*

For relevant matters about the guarantee provided for related parties, refer to note IX (II) 3 "related parties and related-party transactions" of the Financial Statements for details.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

XII. EVENTS AFTER BALANCE SHEET DATE

1. On 29 March 2017, the Company and Sanfeng reached an accommodation and entered into an agreement as seen in the notes to the financial statements XI (II) 1 (1).
2. Since the Company failed to make the payment of RMB12,158,800 yuan after the People's Court of Changshou District, Chongqing City made a ruling on the dispute over the purchase and sales contract between Chongqing Maikai Transmission Equipment Co., Ltd. (重慶市邁凱傳動設備有限公司) and the Company, Chongqing Maikai Transmission Equipment Co., Ltd. applied to the court for compulsory execution. In February 2017, the People's Court of Changshou District, Chongqing City froze 90% equity of Chongqing CISL high strength cold rolling steel Co., Ltd held by the Company, and the freezing period is from 8 February 2017 to 7 February 2020.

As of the date of approval of this financial report, the Company has no other significant non-adjusted matters among the events after balance sheet date need to be disclosed.

XIII. OTHER SIGNIFICANT EVENTS

(I) Segment information

1. *Identification basis and accounting policies for reportable segments*

The Company will determine different segments based on the internal organizational structure, management requirements and internal report system. The Company's operating segments refer to those components meeting the following conditions at the same time:

- (1) The segment may generate revenue and incur expenses in daily activities;
- (2) The segment's operating results are regularly assessed by the Group's management to allocate its resources and assess its performance;
- (3) The segment's financial position, operation result, cash flow and other accounting information can be obtained by analysis.

The Company will determine its reportable segments on the basis of its product segments. The assets and liabilities used with various segments shall be distributed among different segments according to different proportions.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

(I) Segment information (Continued)

2. Financial information of reportable segments

Items	Iron and Steel segment	Steel Processing segment	Inter-segment offset	Total
Revenue from principal activities	4,388,066	25,912	-24,516	4,389,462
Cost of principal operations	6,152,052	24,228	-24,516	6,151,764
Total assets	36,476,736	72,646	-110,928	36,438,454
Total liabilities	36,604,154	1,663	-59,929	36,545,888

3. Information of significant customers

The Company has 1 customer (During 2015: 2) from which the operating incomes reach or exceed 10% of the Company's total operating income. The operating income from this customer represents about 22% (During 2015: 28%) of the Company's total operating income.

The customer which the operating income reach or exceed 10% of the Company's total operating income stated below:

Name of Customer	Operating income	Proportion of total operating income of the Company (%)
Customer 1	971,482	22
Total	971,482	22

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

(II) Significant assets restructuring

On 4 June 2016, the Company released the Announcement of Suspension of Share Trading for Significant Assets Restructuring, and the ultimate controlling party Chongqing State-Owned Assets Supervision and Administration Commission planned for the significant assets restructuring of the Company. On August 31, 2016, the Company entered into the Framework Agreement of Significant Assets Restructuring (hereinafter referred to as the Framework Agreement) with Chongqing Yu Fu Holding Group Co., Ltd. (重慶渝富控股集團有限公司) (hereinafter referred to as Yu Fu Holding) upon approval by resolution of the 62nd meeting of the 7th Session of Board Meeting, reaching an initial intention on the significant assets restructuring. As of the date of approval of this financial report, the significant assets restructuring was still under planning.

(III) Termination of non-public issuance

On 9 September 2015, the relevant proposals such as the Proposal concerning the Non-public Issuance of Shares to Specific Groups were adopted at the 3rd meeting of the 7th Session of Board Meeting, and the Company planned to make non-public issuance of no more than 1,285,388,601 shares to eight subscribers including Chongqing Yu Fu Assets Management Group Co., Ltd. (重慶渝富資產經營管理集團有限公司) and Chongqing Energy Investment Group Co., Ltd. (重慶市能源投資集團有限公司) according to the proposal. On November 30, 2015, China Securities Regulatory Commission formally accepted the application for the non-public issuance of A shares made by the Company. Since June 2, 2016, the Company has suspended its shares from trading and has been making preparations for significant assets restructuring. In the light of this, it is expected that the Company's non-public issuance of shares will not meet the conditions and requirements of relevant laws and regulations governing non-public issuance of shares by listed companies. On 3 August 2016, the Proposal concerning the Termination of Non-public Issuance of A Shares was adopted at the 58th meeting of the 7th Session of Board Meeting that the Company would terminate the non-public issuance of shares and make an application to CSRC to terminate the review on the Company's application materials for non-public issuance of shares in 2015. On 30 August 2016, the Company received the Notification of CSRC concerning the Termination of Review of Administrative License Application issued by CSRC, deciding to terminate the review of the administrative license application.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

(IV) Significant cooperation agreement

1. OEM cooperation

On 18 April, 2016, the Company and Panhua Group Co., Ltd. (攀華集團有限公司) (hereinafter referred to as Panhua Group) signed an OEM Agreement (hereinafter referred to as the Agreement). Under the Agreement, Panhua Group entrusts the Company to process and produce hot-rolled coil with a daily processing quantity of 8,000 tons of hot-rolled coil. Panhua Group shall supply ore and coal needed in the production, whereas the Company is responsible for other raw and ancillary materials and labor costs incurred in the production process. As per the Agreement, the processing expenses shall be calculated as per RMB900/ton (tax included). The Company covenants that No. 1 and No. 3 blast furnace will only be used in the production for Panhua Group. The valid period of the agreement is temporarily determined as two years. The agreement was adopted by resolution of the 43rd meeting of the 7th Session of Board Meeting.

On 31 December 2016, the Company entered into an OEM Supplementary Agreement with Panhua Group, agreeing unanimously that the former agreement shall be terminated on 31 December 2016 and the hot-rolled coil shall be delivered as per the surplus materials supplied, and confirming the quantity of materials accumulatively supplied by Panhua Group, quantity of products accumulatively delivered by the Company, quantity of surplus materials supplied, and mode of processing. As at 31 December 2016, the Company calculated and predicted that the contract losses would be RMB52,177,100 yuan as per the surplus materials confirmed and the quantity of hot-rolled coil to be delivered.

2. Cooperation in purchase and sales

On 30 December 2016, the Company entered into a Cooperation Framework Agreement with Chongqing Qianxin International Trade Co., Ltd. (重慶千信國際貿易有限公司) (hereinafter referred to as Qianxin Company), agreeing that the parties thereto shall have cooperation in the purchase of main materials needed in the production and the sales of steel products with a temporarily determined cooperation period of three years from January 1, 2017 to 31 December 2019. The parties thereto agree to determine the purchase price and sales price following the market pricing principle. During the cooperation period, Qianxin Company provides materials for the Company according to the purchase plan, the Company agrees to give priority to Qianxin Company in the supply of steel products, and the parties thereto make settlement by the year. The Company agrees to take the materials in stock including raw materials and finished products as the floating mortgage to Qianxin Company for the unpaid purchase price. The agreement was adopted at the 80th meeting of the 7th Session of Board Meeting.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

(V) Significant investment event

On 6 August 2015, the Company reached a primary consensus and signed a cooperation framework agreement with POSCO Korea Co., Ltd. (韓國株式會社POSCO) (hereinafter referred to as POSCO) for the joint venture project for cold rolling and joint venture project for galvanized projects in Chongqing. On 6 April 2016, the Company and POSCO signed the Joint Venture Contract Between Chongqing Iron & Steel Company Limited and POSCO on Chongqing CISL high strength cold rolling steel Co., Ltd and Joint Venture Contract Between Chongqing Iron & Steel Company Limited and POSCO on Chongqing POSCO CISL automotive steel Co., Ltd respectively. Under the contracts, the parties thereto will establish joint venture companies in Chongqing for the joint venture project for cold rolling and galvanized projects respectively. The total amount of investment at all stages is RMB6,235.27 million, and the total amount of investment at the time of establishment is RMB3,230.77 million. The parties thereto agree to make capital contribution in cash, of which the Company will contribute 90% of the capital of Cold Rolling Company and 49% of the capital of Automotive Steel Company. The above joint venture contract was adopted at the 41st meeting of the 7th session of the Board and the annual shareholders' meeting in 2015. As at 31 December 2016, the Company actually contributed RMB661,621,500 yuan to the Cold Rolling Company and RMB130,416,000 yuan to Automotive Steel Company.

(VI) Matters about share pledge by controlling shareholders

As at 31 December 2016, CISG totally hold 2,096,981,600 A shares of the Company, accounting for 47.27% of the total shares of the Company, including 952,000,000 shares accumulatively pledged (accounting for 45.40% of the total shares held by CISG and 21.46% of the total share capital of the Company).

(VII) Material uncertainty related to going concern

In 2016, the net loss attributable to the owners of the Parent Company was RMB4.686 billion, the net cash outflow from operating activity was RMB0.449 billion; as at 31 December 2016, total equity attributable to the owners of the Parent Company was RMB-0.20 billion, the debt to assets ratio was 100.29%, with current liabilities exceeded current assets by RMB23.684 billion, including financial liabilities (including corporate bonds) due within one year amounting to RMB9.205 billion. Some bank accounts of the Company were frozen by the court due to litigation. The amount involved in litigation was approximately RMB3.8 billion, including an amount of pending litigation of RMB2.43 billion. The above indicated the existence of a material uncertainty which may cast significant doubt upon the Company's ability to continue as a going concern, as a result of which the Company may not be able to liquid its assets or pay off its debts during the ordinary course of business.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

XIV. NOTES TO MAJOR ITEMS IN THE PARENT COMPANY'S FINANCIAL STATEMENTS

(I) Notes to items in the Parent Company's balance sheets

1. Accounts receivable

(1) Details

1) Details on categories

Categories	Closing balance				Carrying amount
	Book balance		Provision for bad debts		
	Amount	Proportion (%)	Amount	Provision proportion (%)	
Receivables of individually significant amount and with provision made on an individual basis					
Receivables with provision made on a collective basis using portfolios with similar credit risk features	423,313	99	164,745	39	258,568
Receivable of individually insignificant amount but with provision made on an individual basis	2,756	1	2,756	100	
Total	426,069	100	167,501	39	258,568

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

XIV. NOTES TO MAJOR ITEMS IN THE PARENT COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in the Parent Company's balance sheets (Continued)

1. Accounts receivable (Continued)

(1) Details (Continued)

1) Details on categories (Continued)

Categories	Opening balance				Carrying amount
	Book balance		Provision for bad debts		
	Amount	Proportion (%)	Amount	Provision proportion (%)	
Receivables of individually significant amount and with provision made on an individual basis (Note)	153,935	25	7,923	5	146,012
Receivables with provision made on a collective basis using portfolios with similar credit risk features	475,300	75	135,573	28	339,727
Receivable of individually insignificant amount but with provision made on an individual basis	2,756		2,756	100	
Total	631,991	100	146,252	23	485,739

Note: In current period, the receivables of individually significant amount with provision made on an individual basis decreased, because the Company transferred creditor's rights of Chongqing Safety Industry Development Group Co., Ltd. (重慶安全產業發展集團有限公司) to CISG, refer to Notes to the Financial Statements IX (II) 5 for details.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

XIV. NOTES TO MAJOR ITEMS IN THE PARENT COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in the Parent Company's balance sheets (Continued)

1. Accounts receivable (Continued)

(1) Details (Continued)

- 2) In portfolios, accounts receivable with provision made on a collective basis with aging analysis method

Ages	Closing balance		
	Book balance	Provision for bad debts	Provision proportion (%)
Within 3 months (third month inclusive)	40,551		
4–12 months (first year inclusive)	118,317	5,916	5
1–2 years	101,524	25,381	25
2–3 years	3,722	1,861	50
Over 3 years	131,587	131,587	100
Sub-total	395,701	164,745	42

- 3) In portfolios, accounts receivable with provision made on a collective basis with other method

Portfolios	Closing balance		
	Book balance	Provision for bad debts	Provision proportion (%)
Accounts receivable of related parties	27,612		
Sub-total	27,612		

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

XIV. NOTES TO MAJOR ITEMS IN THE PARENT COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in the Parent Company's balance sheets (Continued)

1. Accounts receivable (Continued)

(2) Aging Analysis

Ages	Closing balance		
	Book balance	Provision for bad debts	Provision proportion (%)
Within 3 months (third month inclusive)	61,667		
4–12 months (first year inclusive)	121,518	5,916	5
1–2 years	104,562	25,381	24
2–3 years	3,722	1,861	50
Over 3 years	134,600	134,343	99
Total	426,069	167,501	39

Ages	Opening balance		
	Book balance	Provision for bad debts	Provision proportion (%)
Within 3 months (third month inclusive)	293,919		
4–12 months (first year inclusive)	24,600	1,060	4
1–2 years	13,147	958	7
2–3 years	7,433	3,680	50
Over 3 years	292,892	140,554	48
Total	631,991	146,252	23

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

XIV. NOTES TO MAJOR ITEMS IN THE PARENT COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in the Parent Company's balance sheets (Continued)

1. Accounts receivable (Continued)

(3) An amount of RMB25,234,000 yuan was withdrawn as bad debt provision and an amount of RMB3,985,000 yuan were reversed in the current period.

(4) Accounts receivable written off in current period

1) Accounts receivable actually written off in current period totaled RMB3,985,000 yuan.

2) Significant accounts receivable written off in current period

Debtors	Nature of receivables	Amount written off (RMB'000)	Reasons for written-off
Chongqing Iron & Steel Group Chongqing Trading Co., Ltd. (重慶鋼鐵集團重慶貿易有限責任公司)	Payment for goods	3,985	company cancellation
Sub-total		3,985	

(5) Five largest accounts receivable by debtor

The subtotal of five largest accounts receivable of the parent company at the end of the period is RMB248,591,000 yuan, representing 58% of the total accounts receivable, and the provision of bad debts is RMB28,280,000 yuan.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

XIV. NOTES TO MAJOR ITEMS IN THE PARENT COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in the Parent Company's balance sheets (Continued)

2. Other receivables

(1) Details

1) Details on categories

Categories	Closing balance				Carrying amount
	Book balance		Provision for bad debts		
	Amount	Proportion (%)	Amount	Provision proportion (%)	
Receivables of individually significant amount and with provision made on an individual basis	15,827	21	15,827	100	
Other receivables that were not impaired upon separate impairment test	58,084	77			58,084
Receivable of individually insignificant amount but with provision made on an individual basis	1,131	2	1,131	100	
Total	75,042	100	16,958	23	58,084

Categories	Opening balance				Carrying amount
	Book balance		Provision for bad debts		
	Amount	Proportion (%)	Amount	Provision proportion (%)	
Receivables of individually significant amount and with provision made on an individual basis	15,827	28	15,827	100	
Other receivables that were not impaired upon separate impairment test	40,228	70			40,228
Receivable of individually insignificant amount but with provision made on an individual basis	1,131	2	1,131	100	
Total	57,186	100	16,958	30	40,228

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

XIV. NOTES TO MAJOR ITEMS IN THE PARENT COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in the Parent Company's balance sheets (Continued)

2. Other receivables (Continued)

(1) Details (Continued)

- 2) Receivables of individually significant amount and with provision made on an individual basis at the end of the period

Name of debtor	Book balance	Provision for bad debts	Percentage (%)	Reasons for provision made
Chongqing Special Steel Company Limited (重慶特殊鋼股份有限公司)	5,587	5,587	100	Low probability to recover
Chongqing Iron and Steel Industry and Trade(Zhanjiang) Company (湛江重鋼工貿公司)	10,240	10,240	100	Low probability to recover
Sub-total	15,827	15,827	100	

(2) Other receivables categorised by nature

Nature of amount	Closing balance	Opening balance
Payment on account	43,464	26,270
Guarantee deposits and petty cash	14,763	18,936
Others	16,815	11,980
Total	75,042	57,186

(3) Five largest other receivables by debtor

The subtotal of five largest other receivables of the parent company at the end of the period is RMB32,765,000 yuan, representing 44% of the total other receivables of the parent company, and the provision of bad debts is RMB15,827,000 yuan.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

XIV. NOTES TO MAJOR ITEMS IN THE PARENT COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in the Parent Company's balance sheets (Continued)

3. Long-term equity investments

(1) Details

Items	Closing balance		Carrying amount	Opening balance	
	Book balance	Provision for impairment		Book balance	Provision for impairment
Investment in subsidiaries	762,622		762,622	101,000	
Investment in joint ventures	131,015		131,015		
Total	893,637		893,637	101,000	

(2) Investments in subsidiaries

Investees	Closing balance			Closing balance	Provision for impairment made in current period	Closing balance of provision for impairment
	Opening balance	Increase	Decrease			
Jingjiang Sanfeng Steel Processing Distribution Co., Ltd. (靖江三峰鋼材加工配送有限公司)	51,000			51,000		
Jingjiang CIS Huadong Trading Co., Ltd. (靖江重鋼華東商貿有限公司)	50,000			50,000		
Guizhou CIS Iron and Steel Sales Co., Ltd. (貴州重鋼鋼鐵銷售有限責任公司) (Note 1)						
Xi'an CIS Sales Co., Ltd. (西安重鋼銷售有限責任公司) (Note 1)						
Chongqing CIS Building Materials Sales Co., Ltd. (重慶市重鋼建材銷售有限責任公司) (Note 1)						
Chongqing CISL high strength cold rolling steel Co., Ltd. (重慶重鋼高強冷軋板材有限公司) (Note 2)		661,622		661,622		
Sub-total	101,000	661,622		762,622		

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

XIV. NOTES TO MAJOR ITEMS IN THE PARENT COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in the Parent Company's balance sheets (Continued)

3. Long-term equity investments (Continued)

(3) Investments in joint venture

Investees	Opening balance	Increase/Decrease			Investment income recognized under equity method	Adjustment in other comprehensive income
		Investments increased	Investments decreased			
Chongqing POSCO CISL automotive steel Co., Ltd (重慶浦項重鋼汽車板有限公司) (Note 3)		130,416			599	
Total		130,416			599	

Investees	Changes in other equity	Increase/Decrease			Closing balance	Closing balance of provision for impairment
		Cash dividend/ profit declared for distribution	Provision for impairment	Others		
Chongqing POSCO CISL automotive steel Co., Ltd (重慶浦項重鋼汽車板有限公司) (Note 3)					131,015	
Total					131,015	

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

XIV. NOTES TO MAJOR ITEMS IN THE PARENT COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

(I) Notes to items in the Parent Company's balance sheets (Continued)

3. Long-term equity investments (Continued)

(4) Investments in unlisted and listed companies

Items	Closing balance	Opening balance
Investments in unlisted companies	893,637	101,000
Total	893,637	101,000

Note 1: The Company contributed to establish Guizhou CIS Iron and Steel Sales Co., Ltd (貴州重鋼鋼鐵銷售有限責任公司), Xi'an CIS Sales Co., Ltd (西安重鋼銷售有限責任公司) and Chongqing CIS Building Materials Sales Co., Ltd (重慶市重鋼建材銷售有限責任公司), the subscription amount is 10 million respectively, as of the balance sheet date, the Company has not yet paid the subscription amount.

Note 2: POSCO and the Company jointly established and contributed Chongqing CISL high strength cold rolling steel Co., Ltd (重慶重鋼高強冷軋板材有限公司), refer to Notes to the Financial Statements XI (I) 3 for details.

Note 3: POSCO and the Company jointly established and contributed Chongqing POSCO CISL automotive steel Co., Ltd (重慶浦項重鋼汽車板有限公司), refer to Notes to the Financial Statements XI (I) 4 for details.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

XIV. NOTES TO MAJOR ITEMS IN THE PARENT COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

(II) Notes to items in the Parent Company's income statement

1. Operating revenue and operating costs

Items	Current period cumulative		Preceding period comparative	
	Revenue	Cost	Revenue	Cost
Revenue from principal activities	3,863,585	5,630,122	7,970,749	10,168,062
Revenue from other operations	25,440	10,846	27,730	4,592
Total	3,889,025	5,640,968	7,998,479	10,172,654

2. Investment income

Items	Current period cumulative	Preceding period comparative
Investment income from long-term equity investments under cost method		1,279
Investment income from long-term equity investments under equity method	599	
Total	599	1,279

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

XV. OTHER SUPPLEMENTARY INFORMATION

(I) Non-recurring profit and loss

Items	Amount	Remarks
Profit/loss on disposal of non-current assets, including write-off of provision for asset impairment	6	
Unauthorized or informal approval documents or one-off tax refunds and exemptions on tax		
Government grants recognized in the profit or loss for the period (except for those closely related to the operating activities of the Company, incompliance with the requirements under the State's policies, and continuously entitled to quantitative or qualitative government grants according to certain standards)	300,228	
Capital occupancy fee from non-financial enterprises recognized through profit or loss		
Gains on acquisition of subsidiaries, joint ventures and associates due to the surplus of acquisition-date fair value of net identifiable assets in acquiree over the acquisition cost		
Profit or loss of non-monetary assets exchange		
Profit or loss on assets consigned to the third party for investment or management		
Provision of impairment of assets due to force majeure such as suffering from natural disaster		
Profit or loss from debt restructuring	450,000	
Entity restructuring expenses, i.e. expenses for staff settlement, integration costs, etc		
Profit or loss from transactions with obvious unfair transaction price		
Net profit or loss for the current period on subsidiaries acquired through business combination under common control from the beginning of the period to the combination date		
Profit or loss arising from contingencies which are non-operating activities		

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

XV. OTHER SUPPLEMENTARY INFORMATION (CONTINUED)

(I) Non-recurring profit and loss (Continued)

Items	Amount	Remarks
Gains on changes in fair value of financial assets and liabilities which are measured by the fair value and with the variation recognized into current profit and loss; and investment income from disposal of available-for-sale financial assets, financial assets and liabilities which are measured by the fair value and with the variation recognized into current profit and loss, excluding those arising from effective hedging business related to operating activities		
Reversal of impairment provision for receivables tested for impairment on individual basis	7,923	
Profit and loss obtained by externally designated loans		
Profit or loss from changes in fair value of investment real estate with subsequent measurement at the fair value mode		
Profit or loss on reconciliation of current period profit or loss following legal and regulative requirements		
Custodian fee income arising from consigned operations		
Other non-operating income and expenses other than the aforesaid items	-51,738	
Other profit or loss item that satisfied the definition of non-recurring profit or loss		
Sub-total	706,419	
Less: enterprise income tax affected (decrease in enterprise income tax represented with "-")		
Effects on non-controlling interest (after tax)		
Net non-recurring profit or loss attributable to shareholders of the parent company	706,419	

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

XV. OTHER SUPPLEMENTARY INFORMATION (CONTINUED)

(II) Return on net assets and earnings per share

1. Details

Profit of the reporting period	Weighted average RONA (%)	Earnings per share (yuan/share)	
		Basic Earnings per share	Diluted Earnings per share
Net profit attributable to ordinary shareholders of the Company	-284.59%	-1.06	-1.06
Net profit attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss	-327.49%	-1.22	-1.22

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

XV. OTHER SUPPLEMENTARY INFORMATION (CONTINUED)

(II) Return on net assets and earnings per share (Continued)

2. Calculation process of weighted average RONA

Items	Symbols	Current period cumulative
Net profit attributable to ordinary shareholders of the Company	A	-4,685,956
Non-recurring profit and loss	B	706,419
Net profit attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss	C=A-B	-5,392,375
Opening balance of net assets attributable to ordinary shareholders of the Company	D	3,988,873
Net assets attributable to ordinary shareholders of the Company increased by the issuance of new shares or conversion of debts into shares	E	
The accumulative number of months from the next month of the increased net assets to the end of the reporting period	F	
Net assets attributable to ordinary shareholders of the Company decreased by share repurchase or cash dividends appropriation	G	
The accumulative number of months from the next month of the decreased net assets to the end of the reporting period	H	
Others Received donation form Chongqing Iron & Steel (Group) Co., Ltd Donation of CISG to the Company	I1	1,338
The accumulative number of months from the next month of the increased/decreased net assets to the end of the reporting period	J1	6
Received donation form Chongqing Iron & Steel (Group) Co., Ltd	I2	495,251
The accumulative number of months from the next month of the increased/decreased net assets to the end of the reporting period	J2	
The number of months in the reporting period	K	12
Weighted average net assets	$L=D+A/2+E \times F/K - G \times H/K \pm I \times J/K$	1,646,564
Weighted average RONA	$M=A/L$	-284.59%
Weighted average RONA after deducting non-recurring profit or loss	$N=C/L$	-327.49%

Notes to the Financial Statements (Continued)

For the year ended 31 December 2016 (Unit: RMB'000)

XV. OTHER SUPPLEMENTARY INFORMATION (CONTINUED)

(II) Return on net assets and earnings per share (Continued)

3. Basic earnings per share and diluted earnings per share

(1) Calculation process of basic earnings per share

Items	Symbols	Current period cumulative
Net profit attributable to ordinary shareholders of the Company	A	-4,685,956
Non-recurring profit and loss	B	706,419
Net profit attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss	C=A-B	-5,392,375
Opening balance of total shares	D	4,436,023
Number of shares increased due to conversion of reserve to share capital or share dividend appropriation	E	
Number of shares increased by the issuance of new shares or conversion of debt into shares	F	
The accumulative number of months from the next month of the increased shares to the end of the reporting period	G	
Number of the shares decreased by repurchase, etc.	H	
The accumulative number of months from the next month of the decreased shares to the end of the reporting period	I	
Number of reduced shares in the reporting period	J	
The number of months in the reporting period	K	12
Weighted average of outstanding ordinary shares	$L=D+E+F \times G/K - H \times I/K - J$	4,436,023
Basic earnings per share	$M=A/L$	-1.06
Basic earnings per share after deducting non-recurring profit or loss	$N=C/L$	-1.22

(2) The calculation process of diluted earnings per share

The calculation process of diluted EPS is basically the same as that of basic EPS.

Chongqing Iron & Steel Company Limited

March 30, 2017

Section XIV Documents Available for Inspection

Document available for inspection	Accounting statements contained with signatures of the legal representative, the person in charge of the accounting function and the person in charge of the accounting department and company seal.
Document available for inspection	Auditor Report contained with seal of accounting firm, signature of certified public accountant and company seal.
Document available for inspection	All documents and announcements of the Company disclosed in newspapers designated by China Securities Regulatory Commission during the Reporting Period.

Chairman: **Liu Da Wei**

The date of approval by the Board for submission: 30 March 2017

REVISION

Applicable

Not applicable