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)

2018
ANNUAL REPORT

Contents

IMPORTANT NOTICE

I. The board of directors, 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. Ernst & Young Hua Ming LLP issued a standard unqualified audit report for the Company.

IV. Mr. Zhou Zhu Ping, head of the Company, and Mr. Lv Feng, the Chief Financial Officer and 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

According to the auditing by Ernst & Young Hua Ming LLP, the net profit attributable to shareholders of the Company for 2018 amounted to RMB1.788 billion, and the unappropriated profit as at the end of 2018 amounted to RMB-10.290 billion. As the Company recorded a negative unappropriated profit carried forward, the directors suggested not to make profit distribution or transfer capital reserve to share capital pursuant to the Article 250 of the Articles of Association for 2018.

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

During the Reporting Period, there was no major risk warning.

X. Others

☐ Applicable ☑ Not applicable

I. DEFINITIONS

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

Definitions of common terms

Articles of Association	Articles of Association of Chongqing Iron & Steel Company Limited
Board	the board of directors of Chongqing Iron & Steel Company Limited
Changshou Iron & Steel, controlling shareholder	Chongqing Changshou Iron & Steel Company Limited
Chongqing Iron & Steel Group	Chongqing Iron & Steel Company (Group) Limited
Companies Law	the Companies Law of the People's Republic of China
Company, Group, Chongqing Iron & Steel	Chongqing Iron & Steel Company Limited
CSRC	China Securities Regulatory Commission
General Meeting	the general meeting of Chongqing Iron & Steel Company Limited
HKEx	The Stock Exchange of Hong Kong Limited
Reporting Period	From 1 January 2018 to 31 December 2018
RMB, RMB'000, RMB0'000, RMB00'000'000	RMB yuan, RMB thousand yuan, RMB ten thousand yuan, RMB hundred million yuan
Siyuanhe Fund	Siyuanhe (Shanghai) Steel Industry Equity Investment Fund Center (Limited Partnership)
Siyuanhe Industrial Development Fund	Siyuanhe (Chongqing) Iron & Steel Industrial Development and Equity Investment Fund Partnership (LP)
Siyuanhe Investment	Siyuanhe Equity Investment Management Co., Ltd.
SSE	Shanghai Stock Exchange
Supervisory Committee	the supervisory committee of Chongqing Iron & Steel Company Limited

Section II Company Profile and Major Financial Indicators

I. COMPANY INFORMATION

Chinese name	重慶鋼鐵股份有限公司
Abbreviation of Chinese name	重慶鋼鐵
English name	Chongqing Iron & Steel Company Limited
Abbreviation of English name	CISC
Legal representative	Zhou Zhu Ping

II. CONTACT INFORMATION

	Secretary to the Board	**Securities representative**
Name	Meng Xiangyun	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	IR@email.cqgt.cn	IR@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	IR@email.cqgt.cn

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; http://sc.hkex.com.hk (HKEx)
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	*ST Chonggang
H shares	The Stock Exchange of Hong Kong Limited	Chongqing Iron & Steel	01053	None

VI. OTHER RELATED INFORMATION

Accounting firm engaged by the Company (domestic)	Name	Ernst & Young Hua Ming LLP
	Office address	16/F, Ernst & Young Tower, Oriental Plaza, 1 East Chang'an Avenue, Beijing, the PRC
	Name of accountants signing-off the report	Chen Xiaoxiang (陳曉祥), Ai Wei (艾維)

VII. KEY ACCOUNTING DATA AND FINANCIAL INDICATORS FOR THE LAST THREE YEARS

(I) Key Accounting Data

Unit: RMB'000 Currency: RMB

Key accounting data	**2018**	2017	Increase/ decrease from last year *(%)*	2016
Operating income	**22,638,957**	13,236,840	71.03	4,414,902
Net profit attributable to shareholders of the Company	**1,787,906**	320,086	458.57	-4,685,956
Net profit attributable to shareholders of the Company after deducting non-recurring profit and loss	**1,677,588**	-1,870,066	N/A	-5,392,375
Net cash flow generated from operating activities	**1,338,195**	505,815	164.56	-449,021

	At the end of 2018	At the end of 2017	Increase/ decrease from last year *(%)*	At the end of 2016
Net assets attributable to shareholders of the Company	**18,531,665**	16,730,115	10.77	-200,494
Total assets	**26,933,351**	25,012,459	7.68	36,438,454

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

(II) Key Financial Indicators

Key financial indicators	**2018**	2017	Increase/ decrease from last year *(%)*	2016
Basic earnings per share *(RMB per share)*	**0.20**	0.04	400	-0.53
Diluted earnings per share *(RMB per share)*	**0.20**	0.04	400	-0.53
Basic earnings per share after deducting non-recurring profit and loss *(RMB per share)*	**0.19**	-0.21	N/A	-0.60
Weighted average return on net assets *(%)*	**10.14**	-1,290.51	N/A	-284.59
weighted average return on net assets after deducting non-recurring profit and loss *(%)*	**9.52**	7,539.68	N/A	-327.49

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

☐ Applicable ☑ Not applicable

VIII. DIFFERENCE IN ACCOUNTING DATA UNDER 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

IX. MAJOR FINANCIAL DATA OF EACH QUARTER OF 2018

Unit: RMB'000 Currency: RMB

	1st Quarter (January – March)	2nd Quarter (April – June)	3rd Quarter (July – September)	4th Quarter (October – December)
Operating income	5,152,412	5,940,487	6,343,961	5,202,097
Net profit attributable to shareholders of the listed company	350,389	411,571	718,057	307,889
Net profit attributable to shareholders of the listed company after deducting non-recurring profit and loss	353,865	382,231	699,210	242,282
Net cash flow generated from operating activities	-304,134	-997,054	1,740,322	899,061

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

☐ Applicable ☑ Not applicable

X. NON-RECURRING PROFIT AND LOSS ITEMS AND AMOUNTS

☑ Applicable ☐ Not applicable

Unit: RMB'000 Currency: RMB

Non-recurring profit and loss items	**Amount for 2018**	Amount for 2017	Amount for 2016
Gains or losses on disposal of non-current assets	**14,822**	-5,009,485	6
Government grants included in the profit or loss for the period (except for those closely related to the ordinary businesses of the Company, in compliance with the requirements under the State's policies, and continuously entitled to quantitative or qualitative government grants according to certain standards)	**2,729**	94,248	300,228
Capital occupancy fee from non-financial enterprises recognized through profit or loss	**74,888**		
Profit or loss from debt restructuring			450,000
Entity restructuring expenses, i.e. expenses for staff settlement, integration costs, etc		-126,937	
Gains or losses on changes in fair value of financial assets and liabilities held for trading; and investment income from disposal of financial assets and liabilities held for trading and available-for-sale financial assets, excluding those arising from effective hedging related to operating activities	**/**	9,112	
Gains or losses on changes in fair value of financial assets held for trading, derivative financial assets, financial liabilities held for trading, and derivative financial liabilities and investment income from disposal of financial assets held for trading, derivative financial assets, financial liabilities held for trading, derivative financial liabilities and other equity investments, excluding those arising from effective hedging business related to operating activities	**7,021**	/	/
Reversal of impairment provision for receivables tested for impairment on individual basis		/	7,923
Other non-operating income and expenses apart from the above-mentioned	**12,293**	7,223,920	-51,738
Effects of minority interest	**-331**	-706	
Effect of income tax	**-1,104**		
Total	**110,318**	2,190,152	706,419

XI. ITEMS MEASURED AT FAIR VALUE

☑ Applicable ☐ Not applicable

Unit: RMB'000 Currency: RMB

Item	Opening balance	Closing balance	Changes in the reporting period	Effects on profit for the reporting period
Financial assets held for trading		30,000	30,000	0
Other equity investments	0	5,000	5,000	0
Other current assets–notes receivables	0	575,652	575,652	0
Other current assets–bank wealth management products	650,000	0	-650,000	7,021
Total	650,000	610,652	-39,348	7,021

XII. OTHERS

☐ Applicable ☑ Not applicable

XIII. FINANCIAL HIGHLIGHTS

RMB'000

	2014	2015	2016	2017	**2018**
Income and profit					
Income	12,245,057	8,350,022	4,414,902	13,236,840	**22,638,957**
Profit before tax	54,540	(5,969,213)	(4,685,667)	319,810	**1,758,733**
Taxation	2,897	17,973	17	2	**(29,300)**
Profit for the year	51,643	(5,987,186)	(4,685,684)	319,808	**1,788,033**
Attributable to					
Shareholders of the Company	51,431	(5,987,248)	(4,685,956)	320,086	**1,787,906**
Non-controlling interests	212	62	272	(278)	**127**
Earnings per share attributable to shareholders of the Company – Basic *(RMB)*	0.012	(1.35)	(0.53)	0.04	**0.20**
Assets and liabilities					
Non-current assets	34,470,161	34,896,884	33,991,308	20,255,286	**19,421,096**
Current assets	12,682,272	4,331,195	2,447,146	4,757,173	**7,512,255**
Current liabilities	26,858,739	23,206,904	26,130,733	4,810,947	**5,245,076**
Non-current liabilities	10,300,568	12,013,028	10,415,155	3,397,548	**3,156,610**
Net assets	9,993,126	4,008,147	(107,434)	16,803,964	**18,531,665**
Equity attributable to shareholders of the Company	9,973,914	3,988,873	(200,494)	16,730,115	**18,531,665**
Non-controlling interests	19,212	19,274	93,060	73,849	**–**

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

The Company is mainly engaged in the production, processing and sale of steel plates, steel sections, wire rods, bar materials, billets and thin plates; as well as production and sale of coal chemical products and grain slag, etc. The Company has a production capacity of 8.40 million tonnes of steel per year, with the following production lines: 4,100mm wide and thick plate, 2,700mm medium plate, 1,780mm hot rolled sheet, high speed wire rods, bar materials and steel sections.

The Company's products are applied in various industries, such as machinery, architecture, engineering, automobile, motorbike, shipbuilding, offshore oil, gas cylinder, boiler as well as oil and gas pipelines. The Company's steel products used in hull structure, boilers and pressure vessels were rewarded the title of "Chinese brand products" and four other products were rewarded the title of "Chongqing's brand products". The Company successively obtained the following titles of honor: national Labor Day certificate, national implementation of performance excellence model advanced enterprises, Chongqing famous trademark, Chongqing quality benefit enterprise and Chongqing contract-abiding and trustworthy enterprises.

In 2018, the steel industry witnessed a favorable development momentum amidst stabilisation. In particular, there was a notable improvement in market conditions, superior production capacities were fully utilized, and enterprises' economic benefits increased significantly. In the period from January to December 2018, the production of pig iron, crude steel and steel products in China reached 771 million tonnes, 928 million tonnes and 1,106 million tonnes, up 3%, 6.6% and 8.5% as compared with the same period of the previous year, respectively.

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

☐ Applicable ☑ Not applicable

III. ANALYSIS OF CORE COMPETITIVENESS DURING THE REPORTING PERIOD

☑ Applicable ☐ Not applicable

In 2018, the Company, with the market positioning of "taking root in Chongqing, pursuing further development in Sichuan and Chongqing, and branching out across southwest regions" and the vision of "becoming the most competitive iron & steel company in southwest regions, the leader among mainland steel plants characterized by eco-friendly development and active transformation and upgrade and the model for common development of employees and the enterprise", constantly deepened reform and carried out strategies with leading cost and manufacturing technology to make Chongqing Iron & Steel to "Be Strong", "Be Beautiful" and "Be Attractive" and enhance the core competitiveness of the Company.

1. Geographical advantages. The Company is the only iron and steel conglomerate meeting national policies on the industry in Chongqing market and southwestern regions with net inflows of steel. With its proximity to the Yangtze River, the Company enjoys favourable logistic conditions of the port with its products mainly sold in southwestern regions and regions along the Yangtze River. It boasts obvious comparable advantages in regional markets and enjoys bright development prospects.

2. System and mechanism advantage. Siyuanhe Investment, the de facto controller of Chongqing Iron & Steel, fully displayed the advantages of mix ownership, introduced professional managers and established a streamlined and efficient operation system and a market-oriented incentive mechanism for the Company, which resulted in a high level of consistency in respect of interests among staff, management and shareholders, truly allowed the staff to share profits and risks with the Company, and injected vitality and momentum to the sustainable development of the Company.

3. Advantage of the production line. The Company was included amongst the third batch of pilot enterprises of recycling economy by the National Development and Reform Commission and passed the environmental assessment and acceptance of the Ministry of Environmental Protection. With rich production lines, the Company is able to provide a diversified portfolio of products. The production equipment of the Company is above the average level of the country, its product structure meets the development demands in regional markets and the "Sanfeng" brand is highly recognized in regional markets. The Company owned technical achievements with proprietary intellectual property rights such as the "one molten iron tank" in the steel making techno-interface method and dry-type vacuum metallurgical technology ("乾式真空冶金技術").

I. MANAGEMENT DISCUSSION AND ANALYSIS

In 2018, the Company earnestly implemented the strategies of cost leadership and leading manufacturing technologies, and adhered to the operation principle of "achieving full production and sales, low cost and high efficiency". It realised stable and smooth production, advanced a smooth integration of production, supply and sale, and advanced reforms in respect of organizational structure, management processes, job sequences, compensation systems and equity incentives in a systematic way. Through the joint efforts of all employees, the ability to respond to the market was significantly enhanced and the production capabilities were greatly improved, resulting in significant decrease in costs. In addition, the management system was initially set up, profits exceeded expectations, and the production and operation were in a virtuous cycle. During the year, the Company produced 5,677,700 tonnes of iron, 6,381,500 tonnes of steel and 6,110,700 tonnes of steel products, up 47.8%, 55.1% and 56.5% as compared with the same period of the previous year, respectively. The operating income for the year was RMB22.639 billion, representing a year-on-year growth of 71.03%; the gross profit was RMB1.759 billion, representing a year-on-year growth of 449.93%. Production and operation results hit historical records.

(I) "Full-scale production" was realized by leveraging on capabilities of systems

1. Great efforts were made on procurement and supply to secure the supply of raw materials and fuels. The supplier management system was restructured with more efforts placed on the whole-process control over suppliers. With the promotion of strategy and increase in the proportion of direct suppliers, only superior suppliers were retained and the inferior suppliers were phased out. In addition, the Company proactively adjusted the procurement concept from "only pursuit of low procurement price" to "minimum comprehensive utilization costs" and conducted market analysis and material structure analysis regularly to support pricing and strategic procurement.

2. The stress on equipment support underpinned the stable and smooth production. Based on the comprehensive diagnosis of equipment conditions, the functions of equipment were successively supplemented and recovered, which effectively improved the reliability of equipment conditions. The regular maintenance model was optimized, resulting in substantial decrease in unscheduled downtime; regular maintenance projects were better organized and balanced to reduce maintenance time and repeated maintenance work was significantly reduced. Due to the strengthened coordination of inspection and spot-check, the implementation rate of spot-checks increased steadily.

I. MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(I) "Full-scale production" was realized by leveraging on capabilities of systems (Continued)

3. The Company focused on solution of bottlenecks with a view to organizing production in an efficient way. The promotion of pig iron production and optimization of indicators were centered on blast furnace. The implementation of the policy on high-quality raw materials and fuels and establishment of a coal and ore blending system gave rise to the dramatic enhancement of the hot strength of coke, improvement of the quality of sintered ore and adjustment to ore blending structure, laying a foundation for the stable and smooth operation of the blast furnace with lower consumption and higher output. The basic operating system of the blast furnace was adjusted and the technological operation and management of the blast furnace was strengthened. As a result, the main economic and technical indicators including the blast furnace utilization coefficient and the fuel ratio reached the best on the record.

(II) Achieved the target of "full sale" through precise positioning and system restructuring

1. It established a system featured with direct supply, sales and distribution and optimized the channel structure. Through deep analysis on regional markets and customer demands, the Company developed stable customer groups for rolling processing, high-rise architecture and bridge projects, steel structures, pressure vessels and other products. It has established social warehouses and direct sales stores in Chongqing, Chengdu, Kunming and Guiyang to closely follow the market trends, explore demands and discover prices. It also integrated logistics resources and improved the efficiency in the turnover of finished products.

2. It actively expanded marketing channels and achieved sales with premiums. Leveraging on the development opportunities under China's western development strategy and the "Belt and Road" initiatives, it directly supplied steels to Xi'an Silk and Road International Conference Center, Raffles City Chongqing, Chengdu Tianfu International Airport and other key construction projects.

I. MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(III) Restructuring the cost management system and vigorously promoting cost reduction

1. It established and improved cost calculation, indicators, responsibilities, benchmarking, budget, analysis and appraisal as well as other systems, specified and implemented the cost management responsibilities at the grass-root level to lower the focus on cost management and achieve refined granularity in cost calculation. It standardized and set business logics and the principle for cost calculation, strengthened benchmarking analysis and improved performance appraisal to enhance on-site cost improvement.

2. It systematically designed, developed and advanced annual plans on cost reduction and effectively explored internal potential and cost reduction through index subdividing, implementation of responsibilities, tracking and analysis, appraisal and encouragement.

3. It fully carried out systematic cost reduction and technological cost reduction. The Company strengthened the supporting of coking and sintering process and technology and quality benchmarking to smelting processes and systematically designed and advanced systematic cost reduction in pre-ironmaking regions. It also learnt from advanced and mature workmanship and technology in the industry to reduce consumption and cost and focused on professional technology management in all processes to make technical breakthroughs, technical innovation and benchmarking and explore the potential.

(IV) Optimizing product structure with the orientation of market and profitability

1. It closely followed and analyzed market situations, customer demands and cost levels, established and improved the product profitability analysis system to reasonably, dynamically and efficiently allocate production lines and product resources through rapid response internally and efficient coordination externally with the orientation of the profitability order of detailed products.

2. Following the orientation of market demands, the Company fully leveraged on the coordination of production, sales and research to develop products with high added value. It has developed Q345 to Q420 steels for bridges and architecture structures, Q345 to Q690 low-alloy high-strength structural steel, abrasion resistance steel and other products and advanced trial production of high-strength steel for automobile structure. It also achieved mass production of high-grade earthquake resistant steel HRB500E.

I. MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(V) Taking full advantage of systems and mechanisms to advance management transformation

1. To further specify management responsibilities and strengthen professional management function, the Company optimized and consolidated internal organizations of functional and business departments. It also enhanced on-site management, reduced levels of management and introduced the model of “operation areas under the management of factories”.

2. It advanced concentrated and consistent management, improved and renewed certain management processes, re-established an authorization system and concentrated business disposals to renew contract management processes. It systematically sorted and improved systems in the principle of “standardization, prudence, streamlining and high efficiency”.

3. It carried out the grass-root management reform with the “chief operator system” as the driver and implemented on-site management responsibilities to lay a foundation for the full on-site management with “five ancillary systems”.

4. It actively adopted the “horse racing mechanism” in selecting and employing employees. Vice deans of plants, directors of divisions and staff for key technical business positions are determined through open competition.

5. Based on the assessment on the “position value”, the Company systematically sorted and designed the ordering system and the remuneration for positions. It advocated the performance orientation, introduced targeted incentives and incentive and profits sharing schemes on cost reduction and efficiency enhancement linked with cost improvement and operating results and also brought in medium- and long-term employee share ownership and cash incentive programs.

I. MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(VI) Enhancing redline awareness and prioritizing safety and environmental protection

1. It continued the improvement of the comprehensive safety management system of the Company, revised and perfected the management standards and systems, deepened the inspection and governance mechanism on a daily, weekly and monthly basis in detail and consistently conducted inspections on hidden safety hazards. It also strengthened the full-process monitoring on inspection and did not commence the construction of projects under inspection with poor quality, leakage and insufficient safety measures. It also promoted the integration with external businesses, implemented the access system on entering the Company and advanced the "four simultaneous management".

2. It restored the function of environmental facilities and ensured that 100% of environmental facilities are under simultaneous operation under relevant standards. The Company also initiated the upgrading and transformation of the desulfurization system for 2# and 3# sintering machines, which laid a foundation for achieving ultra-low emission in the future. It also strengthened the management on waste water, waste gas and solid waste and recorded no significant environmental pollution accidents. Indicators on pollutant emission have been further improved and RMB760 million have been invested in environmental operation during the year.

(VII) Strengthening corporate culture and team establishment

Advocating the core value of "All for the Benefits of the Enterprise and Staff", the Company strived to create a working atmosphere with smooth communication, transparent decision-making, serving the overall situation, effective implementation and mutual coordination. It established the "strict, careful and rapid" code of conduct, developed a rigorous and meticulous working style and encouraged staff to shoulder responsibilities and take initiatives with the working target of "seeking outstanding performance" endeavouring to build a team with ability, vigor and high efficiency.

II. MAJOR OPERATIONS DURING THE REPORTING PERIOD

During the reporting period, the Company achieved stable and smooth production by embracing the production and operation policy of "full-scale production and sell-through rates, low cost and high efficiency", with significant improvement of major technical-economic indicators, falling costs and beating earnings. The operating income for the year is RMB22.639 billion, representing a year-on-year growth of 71.03%; the gross profit is RMB1.759 billion, representing a year-on-year growth of 449.93%.

(I) Main business analysis

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

Unit: RMB'000

Item	Current period	Corresponding period last year	Change (%)
Operating income	**22,638,957**	13,236,840	71.03
Operating cost	**19,681,846**	13,531,607	45.45
Selling expenses	**88,057**	60,628	45.24
Administrative expenses	**795,392**	574,502	38.45
R&D expenses			
Financial expenses	**183,073**	512,281	-64.26
Net cash flow from operating activities	**1,338,195**	505,815	164.56
Net cash flow from investing activities	**630,605**	6,246,136	-89.90
Net cash flow from financing activities	**-868,219**	-6,625,239	N/A

(1) The increase of operating income was mainly due to the improvement of production and sales, as well as the increasing steel price.

(2) The increase of operating cost was mainly due to the improvement of production and sales.

(3) The increase of selling expenses was mainly due to the improvement of production and sales, as well as the increase of freight charge.

(4) The increase of administrative expenses was mainly due to the provision of employee incentives.

(5) The decrease of financial expenses was mainly due to the significant falling of interest expenses caused by the decrease of debts after the judicial reorganisation.

II. MAJOR OPERATIONS DURING THE REPORTING PERIOD (CONTINUED)

(I) Main business analysis (Continued)

1. Analysis of changes in certain items from Income Statement and Cash Flow Statement (Continued)

(6) The increase of net cash flow from operating activities was mainly due to the increase of operating profit.

(7) The decrease of net cash flow from investing activities was mainly due to the disposal of fixed assets during the judicial reorganisation in 2017.

(8) The increase of net cash flow from financing activities was mainly due to the debt repayment during the judicial reorganisation in 2017.

2. Revenue and cost analysis

☑ Applicable ☐ Not applicable

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

In 2018, the Group realized a total profit of RMB1.759 billion, representing a year-on-year increase of 449.93%, which was mainly due to the following reasons: the selling price of steel products amounted to RMB3,611/tonne, representing a year-on-year increase of 9.56%, and the product portfolio was optimized, achieving an aggregate of an increase of RMB1.901 billion in profit; the increase in prices of raw materials, such as ore, coal, alloy, scrap steel, etc., resulted in a decrease of RMB967 million in profit; the Company implemented the operating principle of achieving full production and sales, improved basic management, realized stable and smooth production and vigorously promoted the cost reduction plan. As a result, critical technical and economic indicators such as the hot strength of coke, tumbler index of sinter, fuel ratio, capacity factor of blast furnace, steel consumption in steelmaking, yield of rolled steel, etc., were all improved significantly and cost consumption levels were reduced substantially, thus resulting in an increase of RMB2.544 billion in profit from cost reduction regarding production process; the year-on-year decrease in the total amount of expenses for the period gave rise to an increase of RMB81 million in profit; and one-off net gain generated from the judicial reorganisation of the Company was RMB2.09 billion in 2017.

II. MAJOR OPERATIONS DURING THE REPORTING PERIOD (CONTINUED)

(I) Main business analysis (Continued)

2. *Revenue and cost analysis (Continued)*

In 2018, the Group's revenue from principal business amounted to RMB22.579 billion, representing a year-on-year increase of 70.90%. In particular, the income from sales of rolled steel billet amounted to RMB21.835 billion, representing an increase of RMB9.654 billion as compared with the same period of previous year. Firstly, the sales volume of rolled steel billet was 6,046,400 tonnes, representing a year-on-year increase of 63.62%, resulting in an increase in the sales income of RMB7.904 billion; secondly, the average sales price of rolled steel billet was RMB3,611/tonne, representing a year-on-year increase of 9.56%, leading to an increase in the sales income of RMB1.750 billion.

Composition of income from principal businesses:

Type	2018 Amount (RMB '000)	2018 Percentage (%)	2017 Amount (RMB '000)	2017 Percentage (%)	Year-on-year increase in amount (%)
Plate	**6,076,840**	**26.91**	2,356,286	17.84	157.90
Hot rolling	**11,714,937**	**51.88**	8,110,234	61.39	44.45
Bars	**2,135,019**	**9.46**	1,102,082	8.34	93.73
Profiles	**1,908,058**	**8.45**	516,509	3.91	269.41
Billet	**–**	**0.00**	95,637	0.72	-100.00
Subtotal	**21,834,854**	**96.71**	12,180,748	92.20	79.26
Other	**743,921**	**3.29**	1,030,608	7.80	-27.82
Total	**22,578,775**	**100.00**	13,211,356	100.00	70.90

II. MAJOR OPERATIONS DURING THE REPORTING PERIOD (CONTINUED)

(I) Main business analysis (Continued)

2. *Revenue and cost analysis (Continued)*

Sales prices of rolled steel billet:

Item	**2018 Sales price** ***RMB/tonne***	2017 Sales price *RMB/tonne*	Year-on-year growth *(%)*	Income increase *(RMB '000)*
Plate	**3,802**	3,275	16.09	841,502
Hot rolling	**3,505**	3,255	7.68	834,047
Bars	**3,663**	3,512	4.30	88,209
Profiles	**3,652**	3,678	-0.71	-13,815
Billet	**–**	3,142	-100.00	–
Subtotal	**3,611**	3,296	9.56	1,749,943

Sales volumes of rolled steel billet:

Item	**Sales volume for 2018** ***(Ten thousand tonnes)***	Sales volume for 2017 *(Ten thousand tonnes)*	Year-on-year growth *(%)*	Income increase *(RMB '000)*
Plate	**159.85**	71.94	122.20	2,879,053
Hot rolling	**334.26**	249.14	34.17	2,770,656
Bars	**58.28**	31.38	85.72	944,728
Profiles	**52.25**	14.04	272.15	1,405,364
Billet	**–**	3.04	-100.00	-95,637
Subtotal	**604.64**	369.54	63.62	7,904,164

II. MAJOR OPERATIONS DURING THE REPORTING PERIOD (CONTINUED)

(I) Main business analysis (Continued)

2. *Revenue and cost analysis (Continued)*

(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	22,578,775	19,651,712	12.96	70.90	45.47	Increase by 15.21 percentage points

Main operations by products

By products	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	21,834,854	18,977,424	13.09	79.26	51.18	Increase by 16.14 percentage points
Other	743,921	674,288	9.36	-27.82	-29.51	Increase by 2.18 percentage points

II. MAJOR OPERATIONS DURING THE REPORTING PERIOD (CONTINUED)

(I) Main business analysis (Continued)

2. Revenue and cost analysis (Continued)

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

Main business by regions

By regions	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	19,750,243	17,190,865	12.96	50.67	28.10	Increase by 15.34 percentage points
Other regions	2,828,532	2,460,847	13.00	2,644.83	2,671.52	Decrease by 0.84 percentage points
Total	22,578,775	19,651,712	12.96	70.90	45.47	Increase by 15.21 percentage points

Explanations on main business by sectors, products and regions

☐ Applicable ☑ Not applicable

II. MAJOR OPERATIONS DURING THE REPORTING PERIOD (CONTINUED)

(I) Main business analysis (Continued)

2. *Revenue and cost analysis (Continued)*

(2) Table of production and sales volume analysis

☑ Applicable ☐ Not applicable

Main products	Production volume	Sales volume	Inventory	Year-on-year increase/ decrease in production volume (%)	Year-on-year increase/ decrease in sales volume (%)	Year-on-year increase/ decrease in inventory (%)
Plate	162.28	159.85	4.61	122.51	122.20	200.33
Hot rolling	335.38	334.26	4.87	33.77	34.17	220.18
Bars	60.24	58.28	2.52	88.43	85.72	338.26
Profiles	53.18	52.25	1.42	266.00	272.15	188.03

Explanations on production and sales volume

As the sales price of steel decreased on a monthly basis in the fourth quarter of 2018, the Company adjusted its sales strategy in a timely manner to cope with market changes, resulting in an increase in the inventory of steel products. Unit for the above table: Ten thousand tons.

II. MAJOR OPERATIONS DURING THE REPORTING PERIOD (CONTINUED)

(I) Main business analysis (Continued)

2. *Revenue and cost analysis (Continued)*

(3) Cost analysis table

Unit: RMB'000

By sectors

By sectors	Cost 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 *(%)*
Iron and steel	Raw material	14,282,976	72.68	7,380,111	54.63	93.53
Iron and steel	Energy	1,679,213	8.55	1,330,279	9.85	26.23
Iron and steel	Labor and other costs	3,689,523	18.77	4,798,742	35.52	-23.11

By products

By products	Cost 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 *(%)*
Rolled steel billet	Raw material and energy costs	18,977,424	96.57	12,552,551	92.92	51.18
Other	Raw material and energy costs	674,288	3.43	956,581	7.08	-29.51

II. MAJOR OPERATIONS DURING THE REPORTING PERIOD (CONTINUED)

(I) Main business analysis (Continued)

2. Revenue and cost analysis (Continued)

(3) Cost analysis table (Continued)

Other explanations on cost analysis

☐ Applicable ☑ Not applicable

(4) Major buyers and major suppliers

☑ Applicable ☐ Not applicable

The sales attributable to the five largest buyers amounted to RMB10,043,947,400, representing 44.37% of the total sales for the year, of which the sales attributable to related parties amounted to nil, representing 0% of the total sales for the year.

The purchase amount attributable to the five largest suppliers amounted to RMB9,417,887,500, representing 48.37% of the total purchase amount for the year, of which the purchase amount attributable to related parties amounted to nil, representing 0% of the total purchase amount for the year.

3. Expenses

☑ Applicable ☐ Not applicable

Unit: RMB'000

Item	Amount for the period	Amount for the previous period	Year-on-year change (%)
Selling expenses	**88,057**	60,628	45.24
Administrative expenses	**795,392**	574,502	38.45
Financial expenses	**183,073**	512,281	-64.26

II. MAJOR OPERATIONS DURING THE REPORTING PERIOD (CONTINUED)

(I) Main business analysis (Continued)

4. *R&D investment*

Table of R&D investment

☑ Applicable ☐ Not applicable

Unit: RMB'000

Expensed R&D investment for the period	491,092
Capitalized R&D investment for the period	
Total R&D investment	491,092
Percentage of the total R&D investment in operating income *(%)*	2.17
Number of R&D personnel of the Company	900
Percentage of R&D personnel in total number of employees *(%)*	12.02
Percentage of capitalized R&D investment in total R&D investment *(%)*	0

Explanation

☐ Applicable ☑ Not applicable

5. *Cash flow*

☑ Applicable ☐ Not applicable

Items from cash flow statement

Unit: RMB'000

Item	Current period	Corresponding period	Main reasons for changes
Net cash flow from operating activities	**1,338,195**	505,815	Increase in operating profit
Net cash flow from investing activities	**630,605**	6,246,136	Disposed of fixed assets during the judicial
Net cash flow from financing activities	**-868,219**	-6,625,239	Repaid debts during the judicial reorganization in 2017
Net increase in cash and cash equivalents	**1,100,581**	123,515	/

II. MAJOR OPERATIONS DURING THE REPORTING PERIOD (CONTINUED)

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

☐ Applicable ☑ Not applicable

(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 the previous period in total assets (%)	Year-on-year change (%)	Explanation
Cash and bank balances	**2,764,631**	**10.26**	2,050,538	8.20	34.82	Expanding scale of both production and sales, strengthened Fund management and planning
Financial assets held for trading	**30,000**	**0.11**		–	n/a	Implementing New Financial Instruments Standards
Notes and trade receivable	**30,340**	**0.11**	167,134	0.67	-81.85	Implementing New Financial Instruments Standards
Prepayments	**908,646**	**3.37**	70,022	0.28	1,197.66	Expanding scale of production and increase in purchasing raw fuel
Other receivables	**10,506**	**0.04**	10,355	0.04	1.46	
Inventories	**3,192,201**	**11.85**	1,330,469	5.32	139.93	Expanding scale of production and significant increase in inventory of raw fuel
Other current assets	**575,931**	**2.14**	1,128,655	4.51	-48.97	Recovery of funds under wealth management and provision for VAT credit
Available-for-sale financial assets		**0.00**	5,000	0.02	-100.00	Implementing New Financial Instruments Standards

II. MAJOR OPERATIONS DURING THE REPORTING PERIOD (CONTINUED)

(III) Analysis of 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 the previous period in total assets (%)	Year-on-year change (%)	Explanation
Long-term equity investments		**0.00**	124,158	0.50	-100.00	Liquidation and cancellation of associated companies
Other equity investments	**5,000**	**0.02**		–	n/a	
Fixed assets	**16,914,109**	**62.80**	17,595,699	70.35	-3.87	
Construction in process	**16,593**	**0.06**	8,695	0.03	90.83	Increase in technical measures
Intangible assets	**2,454,327**	**9.11**	2,521,734	10.08	-2.67	
Deferred tax assets	**31,067**	**0.12**		–	n/a	
Notes and trade payable	**2,946,316**	**10.94**	2,155,294	8.62	36.70	Expanding scale of production and increase in purchasing raw fuel
Advances from customers		**0.00**	187,099	0.75	-100.00	Implementing the New Revenue Standard
Contractual liabilities	**1,004,280**	**3.73**		–	n/a	Implementing the New Revenue Standard
Employee benefits payable	**333,407**	**1.24**	563,547	2.25	-40.84	Payment for the debts to employees related to the judicial reorganisation
Taxes payable	**35,733**	**0.13**	13,095	0.05	172.88	VAT payable in December
Other payables	**354,665**	**1.32**	1,491,912	5.96	-76.23	Payment for guaranteed debts related to the judicial reorganisation
Non-current liabilities due within one year	**410,000**	**1.52**	400,000	1.60	2.50	
Other current liabilities	**160,675**	**0.60**		–	n/a	Implementing the New Revenue Standard
Long-term borrowings	**300,000**	**1.11**	700,000	2.80	-57.14	Repayment of the principal of the CDB loans of RMB0.4 billion
Long-term employee benefits payable	**240,615**	**0.89**	243,190	0.97	-1.06	
Provisions		**0.00**	11,204	0.04	-100.00	
Deferred income	**40,495**	**0.15**	43,154	0.17	-6.16	
Other non-current liabilities	**2,575,500**	**9.56**	2,400,000	9.60	7.31	

II. MAJOR OPERATIONS DURING THE REPORTING PERIOD (CONTINUED)

(III) Analysis of assets and liabilities (Continued)

1. *Assets and liabilities (Continued)*

As at the end of 2018, the Company's gear ratio decreased to 31.19% from 32.82% as at the end of 2017, which was attributable to the significant increase in the profit of the Company.

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

☑ Applicable ☐ Not applicable

Unit: RMB'000

Item	Carrying amount at the end of the period	Carrying amount at the beginning of the period	Note
Cash and bank balances	**795,088**	1,181,576	Note 1
Notes receivables	**20,000**	–	Note 2
Property, plant and equipment – houses and buildings	**1,975,369**	962,898	Note 3
Intangible assets	**2,454,327**	1,405,002	Note 4
Total	**5,244,784**	3,549,476	

Note 1: As at 31 December 2018, the Group's ownership of cash and bank deposits with carrying value of RMB795,088,000 was restricted for issuing bank acceptances and letters of credit. As at 31 December 2017, the Group's ownership of cash and bank deposits with carrying value of RMB1,181,576,000 was restricted for issuing bank acceptances and drawing reorganisation reserves according to the implementation of the reorganisation plan.

Note 2: As at 31 December 2018, the Group's notes receivables with carrying value of RMB20,000,000 (as at 31 December 2017: nil) were pledged for issuing bank acceptances.

Note 3: As at 31 December 2018, the Group's houses and buildings with carrying value of RMB1,975,369,000 (as at 31 December 2017: RMB962,898,000) were pledged for obtaining bank borrowing and working capital loan facilities.

Note 4: As at 31 December 2018, the Group's land use right with carrying value of RMB2,454,327,000 (as at 31 December 2017: RMB1,405,002,000) was pledged for obtaining bank borrowing and working capital loan facilities, and the amortised amount of the land use right was RMB67,407,000 during the current period.

II. MAJOR OPERATIONS DURING THE REPORTING PERIOD (CONTINUED)

(III) Analysis of assets and liabilities (Continued)

3. Other explanations

☐ Applicable ☑ Not applicable

(IV) Analysis on industry operating information

☑ Applicable ☐ Not applicable

In 2018, China continued to advance the supply-side structural reform in the iron and steel industry with the industrial structure obviously enhanced and the market order significantly improved. The economic benefit of the whole industry reached its best level.

(1) The production volume of crude steel hit a record high. In 2018, the production volume of pig iron, crude steel and steel (including recyclable materials) reached 771 million tonnes, 928 million tonnes and 1,106 million tonnes, representing a year-on-year increase of 3.0%, 6.6% and 8.5%, respectively. The production volume of crude steel hit a record high. The total consumption of crude steel reached 870 million tonnes in 2018, increasing 14.8% year on year and hitting a record high. The home-made self-sufficiency ratio exceeded 98%.

(2) Export of steel products continued to plunge significantly. In 2018, China's export of steel products was 69.34 million tones, representing a year-on-year decrease of 8.1%; and the annual amount of steel export was RMB398.5 billion, representing a year-on-year increase of 7.7%. The average export price was RMB5,747/tone, representing a year-on-year increase of 17.2%. In 2018, China's import of steel products was 13.17 million tones, representing a year-on-year decrease of 1.0%; and the annual amount of steel import was RMB108.3 billion, representing a year-on-year increase of 5.5%. The average import price was RMB8,225/tone, representing a year-on-year increase of 6.5%. The steel export is expected to remain stable in 2019.

(3) Steel prices maintained high levels on the whole. The prices maintained the trend in the second half of 2017 and the overall steel prices maintained relatively high levels in 2018. China's average comprehensive steel price index was 115.8 points, representing a year-on-year increase of 7.6%. In the first half of 2018, the steel price index maintained 110 to 120 points. It continued rising since July and plunged suddenly in November. As at the end of December, China's average comprehensive steel price index hit 107.1 points, representing a decrease of 13% from the highest level during the year.

II. MAJOR OPERATIONS DURING THE REPORTING PERIOD (CONTINUED)

(IV) Analysis on industry operating information (Continued)

(4) The economic benefits of the industry hit a record high. Thanks to the supply-side structural adjustment, the regulation and inspection on environmental protection, the booming market demand and other factors, the steel prices maintained high levels in 2018. The prices of imported iron ores were stable generally and the economic benefits of the industry hit a record high. In 2018, main business income of the iron and steel industry was RMB7.65 trillion, representing a year-on-year increase of 13.8%. The sales income of the key large and medium-sized enterprises was RMB4.13 trillion, representing a year-on-year increase of 13.8%. As at the end of 2018, the gearing ratio of the key large and medium-sized enterprises was 65.02%, representing a year-on-year decrease of 2.6 percentage points.

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 products	Production volume *(tonne)*		Sales volume *(tonne)*		Operating income		Operating cost		Gross profit margin *(%)*	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Plates and strips	**4,976,600**	3,450,800	**4,941,100**	3,425,400	**17,791,777**	10,630,861	**15,308,798**	11,048,362	**13.96**	-3.93
Others	**1,134,200**	465,000	**1,105,300**	454,200	**4,043,077**	1,618,590	**3,668,626**	1,654,208	**9.26**	-2.20

3. Steel Material Sales Based on Sales Channels

☐ Applicable ☑ Not applicable

4. Manufacturing and Sales of Special Steel Products

☐ Applicable ☑ Not applicable

II. MAJOR OPERATIONS DURING THE REPORTING PERIOD (CONTINUED)

(IV) Analysis on industry operating information (Continued)

Steel and Iron Industry Operational Information Analysis (Continued)

5. Supply of Iron Ore

☑ Applicable ☐ Not applicable

Unit: RMB'000

Supply source of iron ore	**Supply volume *(tonne)***		**Expenditure**	
	2018	2017	**2018**	2017
Domestic source	**110,237.04**	12,729.08	**60,516**	7,065
Overseas import	**10,271,542.79**	5,776,135.17	**6,412,843**	3,635,466

6. Others

☐ Applicable ☑ Not applicable

(V) Investment Analysis

1. *General analysis of external equity investment*

☐ Applicable ☑ Not applicable

(1) Significant Equity Investment

☐ Applicable ☑ Not applicable

(2) Significant Non-Equity Investment

☐ Applicable ☑ Not applicable

II. MAJOR OPERATIONS DURING THE REPORTING PERIOD (CONTINUED)

(V) Investment Analysis (Continued)

1. General analysis of external equity investment (Continued)

(3) Financial Assets Measured at Fair Value

☑ Applicable ☐ Not applicable

Unit: RMB'000

Item	31 December 2017	**31 December 2018**	Changes in the reporting period	Effects on the profit for the reporting period
Financial assets held for trading		**30,000**	30,000	0
Other equity investments	0	**5,000**	5,000	0
Other current assets–notes receivables	0	**575,652**	575,652	0
Other current assets –wealth management products from banks	650,000	**0**	-650,000	7,021
Total	650,000	**610,652**	-39,348	7,021

(VI) Major Assets and Equity Disposal

☐ Applicable ☑ Not applicable

II. MAJOR OPERATIONS DURING THE REPORTING PERIOD (CONTINUED)

(VII) Analysis of principal controlled and investee companies

☑ Applicable ☐ Not applicable

Name of subsidiary	Principal place of business	Place of registration	Business nature	Shareholdings		Acquisition method
				Direct	Indirect	
Chonggang Building Materials Sales Co., Ltd.	Changshou Economic Development Zone, Chongqing	Changshou Economic Trading Development Zone, Chongqing		100%	–	Establishment by capital contribution

(VIII) Structured entities under the control of the Company

☐ Applicable ☑ Not applicable

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

(I) Industry Competition Pattern and Development Trend

☑ Applicable ☐ Not applicable

In 2018, the supply side structure reform was deeply promoted by the PRC, which resulted in a significant improvement in the steel industry's earnings. Highly excessive production capacity is the biggest obstacle for the healthy development of the steel industry. As the leader industry of the supply side structure reform, the steel industry continued to cut overcapacity, overfulfilled the target of cutting 30.00 million tonnes of capacity, and completed the maximum cutting target of 150 million tonnes of steel production as stated in the "13th Five-Year Plan" two years in advance.

While the capacity cutting in the steel industry achieved a superior result, there are still many things to be done in the supply side structure reform of the steel industry. Currently, there are still issues in the capacity structure of the steel industry, with pressures resulted from the quick release of the capacity in compliant companies. Meanwhile, there are still issues that distress the development of the industry, such as environment protection problems, irrational layouts and weak innovation.

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

(I) Industry Competition Pattern and Development Trend (Continued)

While consolidating the results of the capacity cutting, the steel industry will be more active in deleveraging, in efforts to reduce capital risks. China Iron and Steel Association (CISA) has proposed that the steel industry should bring the asset to liability ratio down to below 60% in the future 3–5 years, but there are still enterprises in the industry with the ratio above 60%. Therefore, it is necessary to take advantage of the efficiency improvement to deleverage with various measures in 2019.

From a deeper aspect, the steel industry cannot achieve a healthy and sustainable development until it substantially focuses on the improvement of quality and efficiency. In 2018, a research report named China's Steel Industry Transformation and Upgrading Strategy and Path (《中國鋼鐵工業轉型升級戰略和路徑》), which was published by the industry association, proposed the upgrading strategies for the steel industry and the related main paths, and pointed out that enterprises should research its own strategies and paths for upgrading according to its own characters. It is critical for the steel industry to enhance the capability of independent innovation and increase the technological composition in products in order to achieve the goal of transforming from big to strong.

(II) Corporate Development Strategy

☑ Applicable ☐ Not applicable

The Company will strive to become the most competitive steel enterprise in Southwest China, the leading green-friendly, transforming and upgrading inland steel factory, becoming the model for the mutual development of the staff and enterprises, and shaping itself to "Be Strong", "Be Beautiful" and "Be Attractive".

The Company will implement its cost leadership strategy and leading manufacturing technology strategy. In a market with competition from the homogenization of the steel industry, the cost leadership will become the most important competitive strategy for an enterprise. Since the leading manufacturing technologies can decide the competition pattern, the space of cost reduction in the future lies in whether the relevant technologies are in place. On the premise that the users' usage standards can be met, the leadership in the manufacturing technologies can help lower manufacturing costs.

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

(III) Operating plans

☑ Applicable ☐ Not applicable

In 2019, the Company will continue to implement the production and operation policy of "full-scale production and sell-through rates, low cost and high efficiency". Its production will be led by financial budgets. The Company will adapt to the changing market conditions with flexibility, enhance the allocation of resources, strengthen process control, proactively implement its cost leadership strategy and leading manufacturing technology strategy, promote the orderly connection among the production, supply and marketing, and ensure the system runs efficiently. The Company will continue to implement the meticulous management, and enhance its product competitiveness by lowering its administrative expenses to shape a more powerful Chongqing Iron & Steel.

The Company plans to produce 5.86 million tonnes of iron, 6.40 million tonnes of steel and 6.13 million tonnes of steel products, and realize sales volume of 6.20 million tonnes of steel products and sales revenue of RMB22.0 billion (tax exclusive) in the year of 2019.

(IV) Potential risks

☑ Applicable ☐ Not applicable

First, the cost pressure keeps increasing with higher prices of the raw fuel.

Second, there is still an oversupply in the industry, with the increasing downside pressure on the steel price caused by the weakening demand from the downstream industry.

(V) Other

☐ Applicable ☑ Not applicable

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

☐ Applicable ☑ Not applicable

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 Articles of Association laid out detailed requirements on the basic principles, forms and conditions for profit distribution, the consideration and deliberation procedures, as well as decision-making mechanism in respect of the profit distribution plan and adjustment to profit distribution policies.

As audited by Ernst & Young Hua Ming LLP, the net profit attributable to shareholders of the Company in 2018 was RMB1,788 million. As of the end of 2018, the Company's undistributed profit was RMB -10,290 million. Given that the Company's undistributed profit was negative as at the end of 2018, the Board proposed that the Company should not make any distribution of profits, or transfer capital reserve into share capital for the year of 2018 according to Article 250 of the Articles of Association.

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 *(Share)*	Dividends for every 10 shares *(RMB) (tax inclusive)*	Number of shares transferred for every 10 shares *(Share)*	Amount of cash dividends *(tax inclusive)*	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 *(%)*
2018	0	0	0	0	1,787,906	0
2017	0	0	0	0	320,086	0
2016	0	0	0	0	-4,685,956	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 detail

☐ Applicable ☑ Not applicable

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 made in acquisition report or equity change report	Restriction on sale of shares	Changshou Iron & Steel	In 36 months after the date of completion of the implementation of the bankruptcy reorganisation plan of Chongqing Iron & Steel, the shares of Chongqing Iron & Steel held by Changshou Iron & Steel will not be transferred. In five years after the date of completion of the implementation of the bankruptcy reorganisation plan of Chongqing Iron & Steel, the control over Chongqing Iron & Steel will not be transferred, except when Changshou Iron & Steel transfers the controlling interests in Chongqing Iron & Steel to China Baowu Steel Group Corporation Limited or its holding subsidiaries.	From 29 December 2017 to 28 December 2020	Yes	Yes
	Restriction on sale of shares	Siyuanhe Fund	In five years after the date of completion of the implementation of the bankruptcy reorganisation plan of Chongqing Iron & Steel, the controlling interests held by Siyuanhe Fund in Changshou Iron & Steel will not be lost by way of transferring or capital increase or by other means, except (1) when Siyuanhe Fund transfers such controlling interests to China Baowu Steel Group Corporation Limited or its holding subsidiaries; (2) when Siyuanhe Fund transfers equity interests in Changshou Iron & Steel to other entities controlled by Siyuanhe Investment on the premise that Siyuanhe Investment's controlling interests in Changshou Iron & Steel are maintained. On the premise that Siyuanhe Investment's controlling interests in Changshou Iron & Steel are maintained, when Siyuanhe Fund transfers equity interests in Changshou Iron & Steel to other entities controlled by Siyuanhe Investment, Siyuanhe Fund undertakes that the transferees will make undertakings with the same contents as this letter of undertaking. *(Note 1)*	From 29 December 2017 to 28 December 2022	Yes	Yes
	Restriction on sale of shares	Siyuanhe Investment	In five years after the date of completion of the implementation of the bankruptcy reorganisation plan of Chongqing Iron & Steel, Siyuanhe Investment will procure Siyuanhe Fund not to lose the controlling interests in Changshou Iron & Steel by way of transferring or capital increase or by other means, except (1) when Siyuanhe Fund transfers such controlling interests to China Baowu Steel Group Corporation Limited or its holding subsidiaries; (2) when Siyuanhe Fund transfers equity interests in Changshou Iron & Steel to other entities controlled by Siyuanhe Investment on the premise that Siyuanhe Investment's controlling interests in Changshou Iron & Steel are maintained. On the premise that Siyuanhe Investment's controlling interests in Changshou Iron & Steel are maintained, when Siyuanhe Fund transfers equity interests in Changshou Iron & Steel to other entities controlled by Siyuanhe Investment, Siyuanhe Investment undertakes that the transferees will make undertakings with the same contents as the undertakings made by Siyuanhe Fund on maintaining the controlling interest therein. *(Note 1)*	From 29 December 2017 to 28 December 2022	Yes	Yes

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
	Restriction on sale of shares	Siyuanhe Industrial Development Fund	In five years after the date of completion of the implementation of the bankruptcy reorganisation plan of Chongqing Iron & Steel, the controlling interests held by Siyuanhe Industrial Development Fund in Changshou Iron & Steel will not be lost by way of transferring or capital increase or by other means, except (1) when Siyuanhe Industrial Development Fund transfers such controlling interests to China Baowu Steel Group Corporation Limited or its holding subsidiaries;(2) when Siyuanhe Industrial Development Fund transfers equity interests in Changshou Iron & Steel to other entities controlled by Siyuanhe Investment on the premise that Siyuanhe Investment's controlling interests in Changshou Iron & Steel are maintained. On the premise that Siyuanhe Investment's controlling interests in Changshou Iron & Steel are maintained, when Siyuanhe Industrial Development Fund transfers equity interests in Changshou Iron & Steel to other entities controlled by Siyuanhe Investment, Siyuanhe Industrial Development Fund undertakes that the transferees will make undertakings with the same contents as this letter of undertaking. *(Note 2)*	From 29 December 2017 to 28 December 2022	Yes	Yes
	Others	Changshou Iron & Steel	During the period when Changshou Iron & Steel holds the shares of Chongqing Iron & Steel, Changshou Iron & Steel will, in strict compliance with the rules of CSRC, Stock Exchanges, as well as those of the management system of Chongqing Iron & Steel such as the Articles of Association, exercise the shareholders' rights and fulfill the shareholders' obligations in the same manner as other shareholders. Changshou Iron & Steel will not seek improper interests by using the position of shareholders but respect the independence of Chongqing Iron & Steel in terms of its personnel, assets, business, finance, and organization.	1 December 2017	No	Yes
	To solve the horizontal Competition	Changshou Iron & Steel	(1) As of 1 December 2017, Changshou Iron & Steel has not engaged in any business that is the same as or similar to the existing core business of Chongqing Iron & Steel. (2) During the period when Changshou Iron & Steel is the controlling shareholder of Chongqing Iron & Steel, if Changshou Iron & Steel obtains a business opportunity of engaging in the same business as Chongqing Iron & Steel, Changshou Iron & Steel shall concede the business opportunity to Chongqing Iron & Steel and can invest only after Chongqing Iron & Steel has given up such business opportunity. ("engaged/ engaging in" refers to any situations in which the business is conducted directly or indirectly through a controlling entity, excluding minority equity investments that do not generate a controlling position.)	1 December 2017	No	Yes

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
	To solve the horizontal Competition	Siyuanhe Industrial Development Fund	(1) As of 21 December 2018, Siyuanhe Industrial Development Fund has not engaged in any business that is the same as or similar to the existing core business of Chongqing Iron & Steel. (2) During the period when Siyuanhe Industrial Development Fund is the controlling shareholder of Chongqing Iron & Steel, if Siyuanhe Industrial Development Fund obtains a business opportunity of engaging in the same business as Chongqing Iron & Steel, Siyuanhe Industrial Development Fund shall concede the business opportunity to Chongqing Iron & Steel and can invest only after Chongqing Iron & Steel has given up such business opportunity. ("engaged/engaging in" refers to any situations in which the business is conducted directly or indirectly through a controlling entity, excluding minority equity investments that do not generate a controlling position.)	21 December 2018	No	Yes
	To solve the related party transactions	Changshou Iron & Steel	(1) After the implementation of the bankruptcy reorganisation plan of Chongqing Iron & Steel, Changshou Iron & Steel will, in strict accordance with the requirements of laws and regulations such as the Company Law and the relevant provisions of the Articles of Association of Chongqing Iron & Steel, exercise the rights of shareholders, or urge the directors nominated by Changshou Iron & Steel to exercise the rights of directors according to law and to fulfill the obligation to abstain from voting when the general meeting and the Board vote on the related party transactions involving Changshou Iron & Steel. (2) After the implementation of the bankruptcy reorganisation plan of Chongqing Iron & Steel, for the possible related party transactions arising from various reasonable reasons, Changshou Iron & Steel will, according to applicable laws and regulations and on the principles of justice and equity, sign agreements according to law, perform relevant procedures, and perform its obligation of information disclosure in a timely manner, so as to ensure that such transactions will not harm the legitimate rights and interests of Chongqing Iron & Steel and other shareholders.	1 December 2017	No	Yes
Commitment in relation to material assets reorganisation	To solve the horizontal Competition	Chongqing Iron & Steel Group	(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 ways 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. (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. (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.	3 May 2012	No	Yes

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
	To solve the related party transactions	Chongqing Iron & Steel Group	(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 transactions between related parties; (2) To determine the transaction price and sign transaction between related parties 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 related party transactions; (3) To follow procedures of having the shareholders and related Directors to abstain from voting and the independent Directors to express opinions on related party transactions in strict accordance with the Articles of Association of the Parent Company and relevant regulations of regulatory authorities, and to ensure that the procedures for related party transactions are legal and the results of related party transactions are fair and reasonable; (4) To strictly comply with the rules on information disclosure regarding related party transactions.	3 May 2012	No	Yes
	Release of liabilities	Chongqing Iron & Steel Group	(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. (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.	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	Chongqing Iron & Steel Group	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

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)

Note 1: On 27 April 2018, the People's Bank of China, China Banking and Insurance Regulatory Commission, China Securities Regulatory Commission and the State Administration of Foreign Exchange jointly issued the Guideline on Regulating Asset Management Business of Financial Institutions (《關於規範金融機構資產管理業務的指導意見》) (Yin Fa [2018] No. 106) (the "New Regulation on Asset Management"). According to Clause 22 of the New Regulation on Asset Management, asset management products may reinvest in other asset management products provided that the asset management products invested shall not reinvest in other asset management products other than public securities investment funds. Currently, Siyuanhe Fund no longer meets the foregoing requirement of the newly issued New Regulation on Asset Management. Pursuant to the New Regulation on Asset Management, disqualified products shall be rectified within a prescribed period. As a result, Siyuanhe Fund is required to complete relevant rectification as soon as possible based on the requirements of the New Regulation on Asset Management. To ensure the completion of rectification by Siyuanhe Fund in compliance with laws and avoid possible adverse effects on Changshou Iron & Steel or the Company arising therefrom, Siyuanhe Fund proposes to transfer all of its equity interests in Changshou Iron & Steel to other entities controlled by Siyuanhe Investment as soon as possible. The shareholding and governance structure with Changshou Iron & Steel as the controlling shareholder of Chongqing Iron & Steel and Siyuanhe Investment as the de facto controller of Chongqing Iron & Steel will remain unchanged.

In light of the above actual conditions and based on the provisions of the Regulatory Guideline No. 4 for Listed Companies, Each of Siyuanhe Fund and Siyuanhe Investment has made changes to their commitments, which has been considered and approved at the fourth meeting of the eighth session of the Board, the third meeting of the eighth Supervisory Committee and the 2018 second extraordinary general meeting of the Company.

Commitment made by Siyuanhe Fund before changes: "In five years after the date of completion of the implementation of the bankruptcy reorganisation plan of Chongqing Iron & Steel, the controlling interests held by Siyuanhe Fund in Changshou Iron & Steel will not be lost by way of transferring or capital increase or by other means, except when Siyuanhe Fund transfers such controlling interests to China Baowu Steel Group Corporation Limited or its holding subsidiaries."

Commitment made by Siyuanhe Investment before changes: "In five years after the date of completion of the implementation of the bankruptcy reorganisation plan of Chongqing Iron & Steel, Siyuanhe Investment will procure Siyuanhe Fund not to lose the controlling interests in Changshou Iron & Steel by transfer, capital increase or other means, except when Siyuanhe Fund transfers such controlling interests to China Baowu Steel Group Corporation Limited or its controlling subsidiaries."

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)

Note 2: In December 2018, the indirect controlling shareholder of the Company was changed from Siyuanhe (Shanghai) Steel Industry Equity Investment Fund Center (LP) (四源合(上海)鋼鐵產業股權投資基金中心(有限合夥)) to Siyuanhe (Chongqing) Iron & Steel Industrial Development and Equity Investment Fund Partnership (Limited Partnership) (四源合(重慶)鋼鐵產業發展股權投資基金合夥企業(有限合夥)) (For details, please refer to the relevant announcements including the Indicative Announcement on Changes in Indirect Controlling Shareholder published by the Company on 22 December 2018).

Such commitment is Siyuanhe Fund's commitment inherited by Siyuanhe Industrial Development Fund after the changes.

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

☐ Fulfilled ☐ Not Fulfilled ☑ Not Applicable

(III) Performance of result commitment and its impact on goodwill impairment test

☐ Applicable ☑ Not applicable

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

☐ Applicable ☑ Not applicable

IV. EXPLANATION FROM THE COMPANY FOR THE "NON-STANDARD AUDIT OPINION 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 AND ACCOUNTING ESTIMATES OR CORRECTION OF MATERIAL ACCOUNTING ERRORS

(I) Company's analysis and explanation about the reasons for and impact of changes in accounting policy and accounting estimates

☑ Applicable ☐ Not applicable

(1) Changes in accounting policy

In 2017, the Ministry of Finance announced the revised "Accounting Standard for Business Enterprises No. 14–Revenue" (the "New Revenue Standard"), "Accounting Standard for Business Enterprises No. 22–Recognition and measurement for financial instruments", "Accounting Standard for Business Enterprises No. 23–Transfer of financial assets", "Accounting Standard for Business Enterprises No. 24–Hedging" and "Accounting Standard for Business Enterprises No. 37–Presentation of financial instruments" (the "New Financial Instruments Standard"). The Group began to implement the accounting treatment according to the newly revised standards above from 1 January 2018. According to the transitional requirements, the information for the comparable period will not be adjusted and profit or other comprehensive income will be retrospectively adjusted based on the difference between the implementation of the new standards on the first day and the current standards.

1) The New Revenue Standard

The New Revenue Standard establishes a new revenue recognition model for regulating the recognition of the revenue generated from contracts with customers. The method of revenue recognition should reflect the mode in which the entity transfers goods or services to customers. The amount of revenue should reflect the amount that the entity is expected to receive due to the transfer of such goods and services to the customer. At the same time, the New Revenue Standard also regulates the judgements and estimates for each stage. The Group only adjusted the cumulative impact of contracts that have not been completed on 1 January 2018. For changes to contracts that occurred before 1 January 2018, the Group adopted a simplified treatment method that it identifies the performance obligations that have been and have not been fulfilled, determines the transaction price, and allocated the transaction price between fulfilled and outstanding performance obligations for all contracts based on the final arrangement of contract changes.

V. BOARD'S ANALYSIS AND EXPLANATION ABOUT THE REASONS FOR AND IMPACT OF CHANGES IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES OR CORRECTION OF MATERIAL ACCOUNTING ERRORS (CONTINUED)

(I) Company's analysis and explanation about the reasons for and impact of changes in accounting policy and accounting estimates (Continued)

(1) Changes in accounting policy (Continued)

1) The New Revenue Standard (Continued)

The Group's revenue is mainly generated from the sale of goods, the implementation of the New Revenue Standard did not have a significant impact on retain earnings and other comprehensive income as at 1 January 2018.

The impacts of implementing the New Revenue Standard on the consolidated balance sheet items dated 1 January 2018 were as follows:

Unit: RMB'000

Consolidated balance sheet	Carrying amount	Assuming implementing the original standard	Impact on adopting the New Revenue Standard
Advances from customers	–	187,099	(187,099)
Contract liabilities	159,914	–	159,914
Other current liabilities	27,185	–	27,185
Total	187,099	187,099	–

V. BOARD'S ANALYSIS AND EXPLANATION ABOUT THE REASONS FOR AND IMPACT OF CHANGES IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES OR CORRECTION OF MATERIAL ACCOUNTING ERRORS (CONTINUED)

(I) Company's analysis and explanation about the reasons for and impact of changes in accounting policy and accounting estimates (Continued)

(1) Changes in accounting policy (Continued)

1) The New Revenue Standard (Continued)

The impacts of implementing the New Revenue Standard on the consolidated balance sheet items dated 31 December 2018 were as follows:

Unit: RMB'000

Consolidated balance sheet	Carrying amount	Assuming implementing the original standard	Impact on adopting the New Revenue Standard
Advances form customers	–	1,164,955	(1,164,955)
Contract liabilities	1,004,280	–	1,004,280
Other current liabilities	160,675	–	160,675
Total	1,164,955	1,164,955	–

The implementation of the New Revenue Standards did not have a significant impact on the consolidated income statement for 2018.

V. BOARD'S ANALYSIS AND EXPLANATION ABOUT THE REASONS FOR AND IMPACT OF CHANGES IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES OR CORRECTION OF MATERIAL ACCOUNTING ERRORS (CONTINUED)

(I) Company's analysis and explanation about the reasons for and impact of changes in accounting policy and accounting estimates (Continued)

(1) Changes in accounting policy (Continued)

2) The New Financial Instruments Standard

The New Financial Instruments Standard changes the classification and measurement of financial assets and defines three categories for measurement: financial assets are measured at amortized cost; measured at fair value through other comprehensive income; measured at fair value through profit or loss. The above classification shall be made by the entity based on its consideration of its business model and the characteristics of contractual cash flows relating to the financial assets. Equity investments shall be measured at fair value through profit or loss. However, the enterprise can elect to irrevocably designate non-marketable equity instrument investments as financial assets at fair value through other comprehensive income at the initial recognition.

The New Financial Instruments Standard requires "ECLs" model for recognition and measurement of impairments in financial assets instead of "objective evidence of impairment" model. ECLs model is applied in financial assets measured at amortized cost or fair value through other comprehensive income.

The yields of wealth management products held by the Group depends on the yield of the underlying assets. Before 1 January 2018, the Group classified the wealth management products as the financial assets at fair value through profit or loss, presented as other current assets. After 1 January 2018, the Group analyzed that its contractual cash flow was not only representing payment of the principal and the interest based on the outstanding principal, so such wealth management products were classified as the financial assets at fair value through profit or loss, presented as financial assets held for trading.

For the purposes of obtaining contractual cash flow and disposition, the Group managed the business model of the aforesaid notes receivable through the endorsement and discount of some bank acceptances during its daily capital management. Therefore, the Group reclassified such notes receivable as financial assets at fair value through other comprehensive income, presented as other current assets after 1 January 2018.

V. BOARD'S ANALYSIS AND EXPLANATION ABOUT THE REASONS FOR AND IMPACT OF CHANGES IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES OR CORRECTION OF MATERIAL ACCOUNTING ERRORS (CONTINUED)

(I) Company's analysis and explanation about the reasons for and impact of changes in accounting policy and accounting estimates (Continued)

(1) Changes in accounting policy (Continued)

2) The New Financial Instruments Standard (Continued)

From 1 January 2018, the Group designated the equity investments held by the Group as the financial assets at fair value through other comprehensive income, presented as other equity instrument investments.

On the day of initial implementation, the comparison of financial assets that are classified and measured in accordance with the recognition and measurement standards for financial instruments before and after amendments is as follows:

Unit: RMB'000

	Recognition and measurement standards for financial instruments before amendment		**Recognition and measurement standards for financial instruments after amendment**	
The Group	Measurement category	Carrying Amount	**Measurement category**	**Carrying Amount**
Cash and bank branches	At amortized cost (Loans and receivables)	2,050,538	**At amortized cost**	**2,050,538**
Notes and trade receivables	At amortized cost (Loans and receivables)	167,134	**At amortized cost**	**44,038**
			At fair value through other comprehensive income	**123,096**
Other receivables	At amortized cost (Loans and receivables)	10,355	**At amortized cost**	**10,355**
Equity investment	At amortized cost (Available-for-sale assets)	5,000	**At fair value through other comprehensive income (designated)**	**5,000**
Wealth management products	At fair value through profit or loss (trading)	650,000	**At fair value through profit or loss (required by standards)**	**650,000**

V. BOARD'S ANALYSIS AND EXPLANATION ABOUT THE REASONS FOR AND IMPACT OF CHANGES IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES OR CORRECTION OF MATERIAL ACCOUNTING ERRORS (CONTINUED)

(I) Company's analysis and explanation about the reasons for and impact of changes in accounting policy and accounting estimates (Continued)

(1) Changes in accounting policy (Continued)

2) The New Financial Instruments Standard (Continued)

Unit: RMB'000

The Group	Recognition and measurement standards for financial instruments before amendment — Measurement category	Carrying Amount	**Recognition and measurement standards for financial instruments after amendment — Measurement category**	**Carrying Amount**
Cash and bank branches	At amortized cost (Loans and receivables)	1,961,403	**At amortized cost**	**1,961,403**
Notes and trade receivables	At amortized cost (Loans and receivables)	169,949	**At amortized cost**	**46,853**
			At fair value through other comprehensive income	**123,096**
Other receivables	At amortized cost (Loans and receivables)	10,355	**At amortized cost**	**10,355**
Equity investment	At amortized cost (Available-for-sale assets)	5,000	**At fair value through other comprehensive income (designated)**	**5,000**

V. BOARD'S ANALYSIS AND EXPLANATION ABOUT THE REASONS FOR AND IMPACT OF CHANGES IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES OR CORRECTION OF MATERIAL ACCOUNTING ERRORS (CONTINUED)

(I) Company's analysis and explanation about the reasons for and impact of changes in accounting policy and accounting estimates (Continued)

(1) Changes in accounting policy (Continued)

2) The New Financial Instruments Standard (Continued)

On the day of initial implementation, it has no significantly impact on the measurement of the financial assets' carrying amount. The reconciliation between the original carrying value of financial assets and the adjusted new carrying value of financial assets classified and measured in accordance with the recognition and measurement standards for financial instruments after amendment is as follows:

Unit: RMB'000

The Group	Carrying amount according to the original financial instruments standard 31 December 2017	Reclassification	**Carrying amount according to the New Financial Instruments Standard 1 January 2018**
Financial assets at amortized cost			
Cash and bank balances	2,050,538	-	**2,050,538**
Trade receivables	44,038	-	**44,038**
Notes receivable			
Balance presented according to the original financial instruments standard	123,096		
Less: transfer to financial assets at fair value through other comprehensive income (the New Financial Instruments Standard)		(123,096)	
Balance presented according to the New Financial Instruments Standard			**-**
Other receivables	10,355	-	**10,355**
Equity investments			
Balance presented according to the original financial instruments standard	5,000		
Less: transfer to financial assets at fair value through other comprehensive income – equity instruments (designated)		(5,000)	

V. BOARD'S ANALYSIS AND EXPLANATION ABOUT THE REASONS FOR AND IMPACT OF CHANGES IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES OR CORRECTION OF MATERIAL ACCOUNTING ERRORS (CONTINUED)

(I) Company's analysis and explanation about the reasons for and impact of changes in accounting policy and accounting estimates (Continued)

(1) Changes in accounting policy (Continued)

2) The New Financial Instruments Standard (Continued)

Unite: RMB'000

The Group	Carrying amount according to the original financial instruments standard 31 December 2017	Reclassification	**Carrying amount according to the New Financial Instruments Standard 1 January 2018**
Balance presented according to the New Financial Instruments Standard			**-**
Total balance presented of financial assets at amortized cost	2,233,027	(128,096)	**2,104,931**
Financial assets at fair value through other comprehensive income			
Equity investments			
Balance presented according to the original financial instruments standard	-		
Add: transfer (designated) from available-for-sale financial assets (the original financial instruments standard)		5,000	
Balance presented according to the New Financial Instruments Standard			**5,000**
Notes Receivable			
Balance presented according to the original financial instruments standard	-		
Add: transfer (the New Financial Instrument standard) from loans and receivables (the original financial instruments standard)		123,096	
Balance presented according to the New Financial Instruments Standard			**123,096**
Total balance presented of financial assets at fair value through other comprehensive income	-	128,096	**128,096**
Financial assets at fair value through profit or loss			
Wealth management products	650,000	-	**650,000**
Total balance presented of financial assets at fair value through profit or loss	650,000	-	**650,000**
Total	2,883,027	-	**2,883,027**

V. BOARD'S ANALYSIS AND EXPLANATION ABOUT THE REASONS FOR AND IMPACT OF CHANGES IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES OR CORRECTION OF MATERIAL ACCOUNTING ERRORS (CONTINUED)

(I) Company's analysis and explanation about the reasons for and impact of changes in accounting policy and accounting estimates (Continued)

(1) Changes in accounting policy (Continued)

2) The New Financial Instruments Standard (Continued)

Unit: RMB'000

The Company	Carrying amount according to the original financial instruments standard 31 December 2017	Reclassification	**Carrying amount according to the New Financial Instruments Standard** **1 January 2018**
Financial assets at amortized cost			
Cash and bank balances	1,961,403	–	**1,961,403**
Trade receivables	46,853	–	**46,853**
Notes receivable			
Balance presented according to the original financial instruments standard	123,096		
Less: transfer to financial assets at fair value through other comprehensive income (the New Financial Instruments Standard)		(123,096)	
Balance presented according to the New Financial Instruments Standard			**–**
Other receivables	10,355	–	**10,355**
Equity investments			
Balance presented according to the original financial instruments standard	5,000		
Less: transfer to financial assets at fair value through other comprehensive income–equity instruments (designated)		(5,000)	
Balance presented according to the New Financial Instruments Standard			**–**
Total balance presented of financial assets at amortized cost	2,146,707	(128,096)	**2,018,611**

V. BOARD'S ANALYSIS AND EXPLANATION ABOUT THE REASONS FOR AND IMPACT OF CHANGES IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES OR CORRECTION OF MATERIAL ACCOUNTING ERRORS (CONTINUED)

(I) Company's analysis and explanation about the reasons for and impact of changes in accounting policy and accounting estimates (Continued)

(1) Changes in accounting policy (Continued)

2) The New Financial Instruments Standard (Continued)

Unit: RMB'000

The Company	Carrying amount according to the original financial instruments standard 31 December 2017	Reclassification	**Carrying amount according to the New Financial Instruments Standard** **1 January 2018**
Financial assets at fair value through other comprehensive income			
Equity investments – available-for-sale financial assets			
Balance presented according to the original financial instruments standard	–		
Add: transfer (designated) from available-for-sale financial assets (the original financial instruments standard)		5,000	
Balance presented according to the New Financial Instruments Standard			**5,000**
Notes Receivable			
Balance presented according to the original financial instruments standard	–		
Add: transfer (the New Financial Instrument standard) from loans and receivables (the original financial instruments standard)		123,096	
Balance presented according to the New Financial Instruments Standard			**123,096**
Total balance presented of financial assets at fair value through other comprehensive income	–	128,096	**128,096**
Total	2,146,707	–	**2,146,707**

V. BOARD'S ANALYSIS AND EXPLANATION ABOUT THE REASONS FOR AND IMPACT OF CHANGES IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES OR CORRECTION OF MATERIAL ACCOUNTING ERRORS (CONTINUED)

(I) Company's analysis and explanation about the reasons for and impact of changes in accounting policy and accounting estimates (Continued)

(1) Changes in accounting policy (Continued)

2) The New Financial Instruments Standard (Continued)

On the first implementation date, the new loss provision classified and measured under the requirements of revised financial instruments standards did not have significant change as compared to the classification and measurement of the impairment provision for the original financial assets.

3) Changes in presentation of financial statement

To meet the requirements of the Notice on Revising and Issuing Format of 2018 Annual Financial Statements for General Business Enterprises (Cai Kuai [2018] No. 15) (《關於修訂印發2018年度一般企業財務報表格式的通知》(財會[2018]15號)), in the balance sheet, the amounts previously presented in "notes receivable" and "trade receivables" separately shall be presented in the new item "notes and trade receivables"; the amounts previously presented in "interest receivable" and "dividends receivable" shall be presented in "other receivables"; the amounts previously presented in "property, plant, equipment pending for disposal" shall be presented in "property, plant, equipment"; the amounts previously presented in "construction materials" shall be presented in "construction in progress"; the amounts previously presented in "notes payable" and "trade payables" separately shall be presented in "notes and trade payables"; the amounts previously presented in "interest payable" shall be presented in "other payables"; and the amounts previously presented in "special payables" shall be presented in "long-term payables". In the income statement, the new item "research and development expenses" is added to present the expensed expenditures incurred during the research and development process, and the new items of "interest expenses" and "interest income" are added under "finance expenses". The Group has retrospectively adjusted the comparative amounts correspondingly. The changes in accounting policies have had no impact on the net profit and equity in the consolidated and company financial statements.

V. BOARD'S ANALYSIS AND EXPLANATION ABOUT THE REASONS FOR AND IMPACT OF CHANGES IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES OR CORRECTION OF MATERIAL ACCOUNTING ERRORS (CONTINUED)

(I) Company's analysis and explanation about the reasons for and impact of changes in accounting policy and accounting estimates (Continued)

(1) Changes in accounting policy (Continued)

4) Changes in other accounting polices

Since 1 January 2018, the Group has adopted the "ASBE Interpretation No.9 Accounting Treatment on Net Loss of Investment under the Equity Method", "ASBE Interpretation No.10 Depreciation method based on income generated from the use of property, plant and equipment, "ASBE Interpretation No. 11 Amortization method Based on Income generated from the use of intangible assets", and "ASBE Interpretation No. 12 Regarding whether the provider and recipient of the key management personnel service are related parties" (collectively the "Interpretation No. 9–12") promulgated by the Ministry of Finance in 2017. Based on the assessment of the Group, the implementation of the Interpretation No. 9–12 did not have a significant impact on the Group's financial position and operating results.

V. BOARD'S ANALYSIS AND EXPLANATION ABOUT THE REASONS FOR AND IMPACT OF CHANGES IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES OR CORRECTION OF MATERIAL ACCOUNTING ERRORS (CONTINUED)

(I) Company's analysis and explanation about the reasons for and impact of changes in accounting policy and accounting estimates (Continued)

(1) Changes in accounting policy (Continued)

4) Changes in other accounting polices (Continued)

The main impact of retrospective adjustments on financial statements caused by the above changes in accounting policies are as follows:

The Group

Unit: RMB'000

2018	Carrying amount according to the original standards 31 December 2017	The impact of the New Revenue Standard Reclassification	The impact of the New Financial Instruments Standard Reclassification	The impact of other changes in presentation of financial statements Reclassification	**Carrying amount according to the new standards 1 January 2018**
Notes receivable	123,096	–	(123,096)	–	**–**
Trade receivables	44,038	–	–	(44,038)	**–**
Notes and trade receivables	–	–	–	44,038	**44,038**
Other current assets	1,128,655	–	123,096	–	**1,251,751**
Available-for-sale financial assets	5,000	–	(5,000)	–	**–**
Other equity investments	–	–	5,000	–	**5,000**
Notes payable	80,700	–	–	(80,700)	**–**
Trade payables	2,074,594	–	–	(2,074,594)	**–**
Notes and trade payables	–	–	–	2,155,294	**2,155,294**
Interest payable	7,174	–	–	(7,174)	**–**
Other payables	1,484,738	–	–	7,174	**1,491,912**
Advances from customers	187,099	(187,099)	–	–	**–**
Contract liabilities	–	159,914	–	–	**159,914**
Other current liabilities	–	27,185	–	–	**27,185**

V. BOARD'S ANALYSIS AND EXPLANATION ABOUT THE REASONS FOR AND IMPACT OF CHANGES IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES OR CORRECTION OF MATERIAL ACCOUNTING ERRORS (CONTINUED)

(I) Company's analysis and explanation about the reasons for and impact of changes in accounting policy and accounting estimates (Continued)

(1) Changes in accounting policy (Continued)

4) Changes in other accounting polices (Continued)

Unit: RMB'000

2017	Before changes in accounting policies 1 January 2017	The impact of changes in accounting policies	After changes in accounting policies 1 January 2017
Notes receivable	19,435	(19,435)	–
Trade receivables	256,258	(256,258)	–
Notes and trade receivables	–	275,693	275,693
Notes payable	1,632,710	(1,632,710)	–
Trade payables	9,385,026	(9,385,026)	–
Notes and trade payables	–	11,017,736	11,017,736
Interest payable	117,013	(117,013)	–
Other payables	4,202,381	117,013	4,319,394

V. BOARD'S ANALYSIS AND EXPLANATION ABOUT THE REASONS FOR AND IMPACT OF CHANGES IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES OR CORRECTION OF MATERIAL ACCOUNTING ERRORS (CONTINUED)

(I) Company's analysis and explanation about the reasons for and impact of changes in accounting policy and accounting estimates (Continued)

(1) Changes in accounting policy (Continued)

4) Changes in other accounting polices (Continued)

The Company

Unit: RMB'000

2018	Carrying amount according to the original standards 31 December 2017	The impact of the New Revenue Standard Reclassification	The impact of the New Financial Instruments Standard Reclassification	The impact of other changes in presentation of financial statements Reclassification	**Carrying amount according to the new standards 1 January 2018**
Notes receivable	123,096	–	(123,096)	–	**–**
Trade receivables	46,853	–	–	(46,853)	**–**
Notes and trade receivables	–	–	–	46,853	**46,853**
Other current assets	478,510	–	123,096	–	**601,606**
Available-for-sale financial assets	5,000	–	(5,000)	–	**–**
Other equity investments	–	–	5,000	–	**5,000**
Notes payable	80,700	–	–	(80,700)	**–**
Trade payables	2,123,370	–	–	(2,123,370)	**–**
Notes and trade payables	–	–	–	2,204,070	**2,204,070**
Interest payable	7,174	–	–	(7,174)	**–**
Other payables	1,479,009	–	–	7,174	**1,486,183**
Advances from customers	185,905	(185,905)	–	–	**–**
Contract liabilities	–	158,893	–	–	**158,893**
Other current liabilities	–	27,012	–	–	**27,012**

V. BOARD'S ANALYSIS AND EXPLANATION ABOUT THE REASONS FOR AND IMPACT OF CHANGES IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES OR CORRECTION OF MATERIAL ACCOUNTING ERRORS (CONTINUED)

(I) Company's analysis and explanation about the reasons for and impact of changes in accounting policy and accounting estimates (Continued)

(1) Changes in accounting policy (Continued)

4) Changes in other accounting polices (Continued)

Unit: RMB'000

2017	Before changes in accounting policies 1 January 2017	The impact of changes in accounting policies	After changes in accounting policies 1 January 2017
Notes receivable	19,435	(19,435)	–
Trade receivables	258,568	(258,568)	–
Notes and trade receivables	–	278,003	278,003
Notes payable	1,632,710	(1,632,710)	–
Trade payables	9,429,515	(9,429,515)	–
Notes and trade payables	–	11,062,225	11,062,225
Interest payable	117,013	(117,013)	–
Other payabless	4,259,548	117,013	4,376,561

V. BOARD'S ANALYSIS AND EXPLANATION ABOUT THE REASONS FOR AND IMPACT OF CHANGES IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES OR CORRECTION OF MATERIAL ACCOUNTING ERRORS (CONTINUED)

(I) Company's analysis and explanation about the reasons for and impact of changes in accounting policy and accounting estimates (Continued)

(1) Changes in accounting policy (Continued)

5) Issued but not yet effective accounting policies

According to "Accounting Standard for Business Enterprises No. 21–Leasing", the lessee is required to recognize all lease under sole balance sheet model. At the commencement date of a lease, a lessee will recognize a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. For short-term and low-value lease, the lessee could choose not to recognize the right-of-use asset and lease liability.

The Group has reappraised all leasing contracts under existing standards. The Group's existing leasing contracts are short-term operating leases commencing from 1 January 2019 and expiring on 31 December 2019, and the Group will adopt the exemption clause for short-term lease. The new lease standard will not have significant impact on the accounting treatment of the Group's existing leasing contracts.

V. BOARD'S ANALYSIS AND EXPLANATION ABOUT THE REASONS FOR AND IMPACT OF CHANGES IN ACCOUNTING POLICY AND ACCOUNTING ESTIMATES OR CORRECTION OF MATERIAL ACCOUNTING ERRORS (CONTINUED)

(II) Company's analysis on the cause and impact of correction of material errors of accounting

☐ Applicable ☑ Not applicable

(III) Communication with the previous accounting firm

☐ Applicable ☑ Not applicable

(IV) Other explanations

☐ Applicable ☑ Not applicable

VI. APPOINTMENT AND REMOVAL OF ACCOUNTING FIRMS

Unit: RMB'000

	Former	Current
Name of the domestic accounting firm	Pan-China Certified Public Accountants (Special General Partnership)	Ernst & Young Hua Ming LLP
Remuneration of the domestic accounting firm	3,600	2,250
Term of service of the domestic accounting firm	3	1

	Name	Remuneration
Accounting firm for audit of internal control	Ernst & Young Hua Ming LLP	700

Explanations for appointment and removal of accounting firms

☑ Applicable ☐ Not applicable

VI. APPOINTMENT AND REMOVAL OF ACCOUNTING FIRMS (CONTINUED)

Upon the consideration and approval at the 2016 Annual General Meeting and the ninth meeting of the seventh session of the Board, Pan-China Certified Public Accountants (Special General Partnership) was appointed as the Company's auditor for financial and internal control in 2017 for a term of one year. In February 2018, Pan-China Certified Public Accountants (Special General Partnership) completed the audit work in 2017, and its term expired on the date of the 2017 Annual General Meeting of the Company. The Company needs to elect and appoint an auditor for financial and internal control for 2018.

Upon the consideration and approval at the 2017 Annual General Meeting and the 15th meeting of the seventh session of the Board, Ernst & Young Hua Ming LLP was appointed as the Company's auditor for financial and internal control in 2018 for a term till the convening of the 2018 Annual General Meeting. The annual remuneration is RMB2.25 million for auditing services and RMB0.7 million for internal control.

Explanations for change of the accounting firm during the auditing period

☐ Applicable ☑ Not applicable

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 occur during the year ☑ No material litigations and arbitrations occur during the year

XI. PUNISHMENT ON THE COMPANY AND ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, CONTROLLING SHAREHOLDERS, DE FACTO CONTROLLERS AND ACQUIRERS AND RECTIFICATION MEASURES

☐ Applicable ☑ Not applicable

XII. INTEGRITY OF THE COMPANY AND ITS CONTROLLING SHAREHOLDERS AND DE FACTO CONTROLLERS DURING THE REPORTING PERIOD

☐ Applicable ☑ Not applicable

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

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

☑ Applicable ☐ Not applicable

Overview of events	Search Index
Employee Share Ownership Plan: in order to fully arouse the enthusiasm of the employees and accomplish shared responsibility, risk and benefits, the Company implemented performance incentive and equity incentive simultaneously and integrated the interests of the management, the core and mainstay personnel and the shareholders, aiming to accomplish mutual development of the employees and the Company and facilitate the long-term and stable development of the Company and improvement of the shareholder value. The Company has prepared the Employee Share Ownership Plan from 2018 to 2020 (Draft) and its summary in accordance with relevant laws, regulations as well as the Articles of Association, which was approved at the 2017 Annual General Meeting and the fifteenth meeting of the seventh session of the Board.	Announcement of Resolutions Passed at the Fifteenth Meeting of the Seventh Session of the Board of Directors (Ann. No.: 2018-018), Summary of Employee Share Ownership Plan from 2018 to 2020 (Draft) (Ann. No.: 2018-022), Announcement of Resolutions Passed at the 2017 Annual General Meeting (Ann. No.: 2018-027) and Employee Share Ownership Plan from 2018 to 2020 published on the website of the Shanghai Stock Exchange (http://www.sse.com.cn), China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily on 22 March and 16 May 2018, respectively.
On 18 December 2018, the Resolution in relation to Employee Share Ownership Plan Phase I of the Company was considered and approved at the fifteenth meeting of the eighth session of the Board, pursuant to which, an incentive fund drawn from the gross profit in the Company's 2018 audited consolidated statement was provided for financing 2018 Employee Share Ownership Plan.	Announcement of Resolutions Passed at the Fifteenth Meeting of the Eighth Session of the Board of Directors (Ann. No.: 2018-045) and Employee Share Ownership Plan Phase I published on the website of the Shanghai Stock Exchange (http://www.sse.com.cn), China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily on 20 December 2018, respectively.

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

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

Overview of events	Search Index
On 19 March 2019, the following resolutions were considered and approved at the first holder's meeting of Employee Share Ownership Plan Phase I: 1. Articles of Association of the Holder's Meeting of Employee Share Ownership Plan Phase I, 2. the Resolution in relation to the Establishment of the Management Committee of Employee Share Ownership Plan Phase I and Authorisation to Handle Related Matters, 3. the Resolution in relation to Election of Members of the Management Committee of Employee Share Ownership Plan Phase I.	Announcement of Resolutions Passed at the First Holder's Meeting of Employee Share Ownership Plan Phase I (Ann. No.: 2019-003) published on the website of the Shanghai Stock Exchange (http://www.sse.com.cn), China Securities Journal, Shanghai Securities News, Securities Times and Securities Daily on 20 March 2019, respectively.

(II) Incentive events not disclosed in provisional 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 CONNECTED TRANSACTIONS

(I) Connected transactions related to day-to-day operation

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

☐ Applicable ☑ Not applicable

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

☑ Applicable ☐ Not applicable

On 13 January 2017, the Company and Chongqing Iron & Steel Group entered into the Service and Supply Agreement between Chongqing Iron & Steel Company (Group) Limited and Chongqing Iron & Steel Company Limited with the term from 13 January 2017 to 31 December 2019. (Refer to the Announcement on Continuing Connected Transactions (No. 2017-008) of the Company dated 14 January 2017 for details). At the fourteenth meeting of the seventh session of the Board held on 28 February 2018, the Proposal on Leasing the Relevant Assets of Related Companies by the Company in 2018 was considered and approved and the Connected Transaction Announcement on Leasing the Relevant Assets of Related Companies (Ann. No.: 2018-015) was disclosed. During the Reporting Period, the actual amounts of connected transactions were within the annual caps, the details of which are as follows:

Type of connected transaction	Pricing principle	Transaction Amount *(Unit: RMB'000)*
Procurement of products and acceptance of services	Market price	2,264,237
Sale of products and provision of services	Market price	409,455
Lease	Market price	998
Renting	Market price	326,271

Note: In December 2017, the First Intermediate People's Court of Chongqing ruled that the Company's reorganization plan has been completed. Following the acquisition of 2,096,981,600 shares of the Company held by Chongqing Iron & Steel Group, Changshou Iron & Steel became the top shareholder of the Company. The controlling shareholder of the Company has been changed from Chongqing Iron & Steel Group to Changshou Iron & Steel. Chongqing Iron & Steel Group no longer acted as the controlling shareholder of the Company. According to Rule 10.1.6(II) of the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange, Chongqing Iron & Steel Group and its subsidiaries were related parties of the Company in the past twelve months, but they were not connected persons of the Company defined under Chapter 14A of the HKEx Listing Rules since the completion of the said share transfer.

XIV. MATERIAL CONNECTED TRANSACTIONS (CONTINUED)

(I) Connected transactions related to day-to-day operation (Continued)

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

The Company's independent non-executive directors reviewed the continuing connected transactions of the Company in the Reporting Period, and confirmed 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.

Ernst & Young Hua Ming LLP, the Company's auditor, was engaged to report on the Company's continuing connected transactions in accordance with Hong Kong Standards on Assurance Engagements 3000 (Revised)-Assurance Engagements Other than Audits or Reviews of Historical Financial Information, with reference to Practice Note 740 Auditor's Letter on Continuing Connected Transactions under the Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young Hua Ming LLP has issued an unqualified conclusions in respect of the continuing connected transactions disclosed by the Company in accordance with 14A.56 of the HKEx Listing Rules. A copy of the auditors' letter was submitted to the HKEx by the Company.

XIV. MATERIAL CONNECTED TRANSACTIONS (CONTINUED)

(I) Connected transactions related to day-to-day operation (Continued)

3. *Matters not disclosed in extraordinary announcements*

☐ Applicable ☑ Not applicable

(II) Connected transactions related to acquisition and disposal of assets and equity interests

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

☐ Applicable ☑ Not applicable

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

☐ Applicable ☑ Not applicable

3. *Events not disclosed in provisional 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 connected transactions related to joint external investment

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

☐ Applicable ☑ Not applicable

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

☐ Applicable ☑ Not applicable

3. *Events not disclosed in provisional announcements*

☐ Applicable ☑ Not applicable

XIV. MATERIAL CONNECTED TRANSACTIONS (CONTINUED)

(IV) Amounts due to or from related parties

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

☐ Applicable ☑ Not applicable

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

☐ Applicable ☑ Not applicable

3. *Events not disclosed in provisional announcements*

☐ Applicable ☑ Not applicable

(V) Others

☐ Applicable ☑ Not applicable

XV. MATERIAL CONTRACTS AND THE IMPLEMENTATION

(I) Trust, contracted businesses and leasing affairs

1. *Trust*

☐ Applicable ☑ Not applicable

2. *Contracted businesses*

☐ Applicable ☑ Not applicable

XV. MATERIAL CONTRACTS AND THE IMPLEMENTATION (CONTINUED)

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

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 connected transaction	Connected relationship
Chongqing Iron & Steel Company Limited	Chongqing Iron & Steel Group Industrial Company Limited	Buildings	3,551	2018.01.01	2018.12.31	316	Leasing contract	Contributing to other business income	Yes	Others
Chongqing Iron & Steel Company Limited	Chongqing Iron & Steel Group Electronics Company Limited	Buildings	2,319	2018.01.01	2018.12.31	190	Leasing contract	Contributing to other business income	Yes	Others
Chongqing Iron & Steel Company Limited	Chongqing Iron & Steel Group Chaoyang Gas Company Limited	Buildings	1,420	2018.01.01	2018.12.31	127	Leasing contract	Contributing to other business income	Yes	Others
Chongqing Iron & Steel Company Limited	Chongqing Iron & Steel Group Construction and Engineering Company Limited	Buildings	4,449	2018.01.01	2018.12.31	101	Leasing contract	Contributing to other business income	Yes	Others
Chongqing Iron & Steel Company Limited	Chongqing Qianxin Energy Environmental Protection Company Limited	Buildings	798	2018.01.01	2018.12.31	71	Leasing contract	Contributing to other business income	Yes	Others
Chongqing Iron & Steel Company Limited	Chongqing Iron & Steel Group Transportation Company Limited	Buildings	738	2018.01.01	2018.12.31	66	Leasing contract	Contributing to other business income	Yes	Others
Chongqing Iron & Steel Company Limited	Chongqing Iron & Steel Group Mining Company Limited	Buildings	710	2018.01.01	2018.12.31	63	Leasing contract	Contributing to other business income	Yes	Others
Chongqing Iron & Steel Company Limited	Chongqing Xin Gang Chang Long Logistics Company Limited	Buildings	532	2018.01.01	2018.12.31	48	Leasing contract	Contributing to other business income	Yes	Others
Chongqing Iron & Steel Company Limited	Chongqing Iron & Steel Group Steel Pipe Company Limited	Buildings	160	2018.06.01	2018.12.31	7	Leasing contract	Contributing to other business income	Yes	Others
Chongqing Iron & Steel Company Limited	Chongqing Dadukou District Qianye Education And Training Company Limited	Buildings	133	2018.01.01	2018.12.31	9	Leasing contract	Contributing to other business income	Yes	Others
Chongqing Iron & Steel Company (Group) Limited	Chongqing Iron & Steel Company Limited	Equipment		2018.01.01	2018.12.31	-141,884	Bank telegraphic money order	Affecting the production costs	Yes	Others
Chongqing Changshou Iron & Steel Company Limited	Chongqing Iron & Steel Company Limited	Equipment		2018.01.01	2018.12.31	-184,387	Bank telegraphic money order	Affecting the production costs	Yes	Controlling shareholder

XV. MATERIAL CONTRACTS AND THE IMPLEMENTATION (CONTINUED)

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

3. *Leasing affairs (Continued)*

Explanations on leasing affairs

Note 1: Some of the aforesaid companies are the subsidiaries of CISG, and under common control of CISG before the reorganisation plan were completed. According to Article 71 of the "Administrative Measures on Information Disclosure of Listed Companies" (Order No. 40 of the CSRC), those companies were disclosed as historical related parties of the Company during the period.

Note 2: In November and December 2017, CISG transferred its 30% equity interest in Chongqing Xingang Changlong Logistics Co., Ltd. and its 35% equity interest in Sanfeng Jingjiang Port Logistics Co., Ltd. to Chongqing Qianxin International Trade Co., Ltd. Respectively. After the completion of the equity transfer, Chongqing Xingang Changlong Logistics Co., Ltd. and Sanfeng Jingjiang Port Logistics Co., Ltd. were no longer affiliated with the Company due to under common control of CISG. Chongqing Xingang Changlong Logistics Co., Ltd., Sanfeng Jingjiang Port Logistics Co., Ltd. and the Company were "the subsidiaries of CISC and under common control of CISG within the past 12 months". According to Article 71 of the "Administrative Measures on Information Disclosure of Listed Companies" (Order No. 40 of the CSRC), those companies were disclosed as historical related parties of the Company during the period.

Note 3: In August 2017, CISG transferred its 40% equity interest in Chongqing Qianxin Energy Environmental Protection Co., Ltd. ("Qianxin Environmental Protection") to Chongqing Qianxin International Trade Co., Ltd. Qianxin Environmental Protection was "a legal person holding more than 5% of the company's shares in the past 12 months", which according to Article 71 of the "Administrative Measures on Information Disclosure of Listed Companies" (Order No. 40 of the CSRC), was disclosed as historical related parties of the Company during the period. As of 31 December 2018, Qianxin Environmental Protection held 4.79% of the shares of the Company due to the reorganisation plan.

In order to raise funds, during the reorganisation period in 2017 administrator conducted a public auction in respect of pre-ironmaking assets (mainly including machinery and equipment of coking plants, sintering plants and smelting plants, etc.), and the second system and related assets (mainly including the machinery and equipment at the second steel making plant and for bar and wire rod and profile steel). Changshou Iron & Steel acquired pre-ironmaking assets at a transaction price of RMB3.9 billion, and CISG acquired second system and related assets at a transaction price of RMB3 billion. As of 31 December 2017, the Company had completed the delivery of the relevant assets to Changshou Iron & Steel and CISG.

XV. MATERIAL CONTRACTS AND THE IMPLEMENTATION (CONTINUED)

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

3. Leasing affairs (Continued)

In February 2018, the Proposal on Leasing the Relevant Assets of Related Companies by the Company in 2018 was considered and approved by the 14th Session of the Seventh Board Meeting. The Board agreed that the Company shall lease the aforesaid pre-ironmaking assets from Changshou Iron & Steel and lease the aforesaid second system and related assets from CISG.

On 27 February 2018, the Group entered into an asset leasing contract with Changshou Iron & Steel to lease the aforesaid pre-ironmaking assets, with a monthly rent of RMB17,875,000 and a lease term from 9 December 2017 to 31 December 2018. On 27 December 2018, the Group renewed the agreement regarding the aforesaid pre-ironmaking assets, with a monthly rent of RMB17,875,000 and a lease term from 1 January 2019 to 31 December 2019. On 27 February 2018, the Group entered into an asset leasing contract with CISG to lease the aforesaid second system assets, with a monthly rent of RMB13,750,000 and a lease term from 1 January 2018 to 31 December 2018.

(II) Guarantee

☐ Applicable ☑ Not applicable

XV. MATERIAL CONTRACTS AND THE IMPLEMENTATION (CONTINUED)

(III) Entrusted cash assets management

1. Entrusted wealth management

(1) General information on entrusted wealth management

☐ Applicable ☑ Not applicable

Others

☐ Applicable ☑ Not applicable

(2) Specific information on individual entrusted wealth management

☐ Applicable ☑ Not applicable

Others

☐ Applicable ☑ Not applicable

(3) Impairment provision for entrusted wealth management

☐ Applicable ☑ Not applicable

2. Entrusted loan

(1) General information on entrusted loan

☐ Applicable ☑ Not applicable

Others

☐ Applicable ☑ Not applicable

(2) Specific information on individual entrusted loan

☐ Applicable ☑ Not applicable

Others

☐ Applicable ☑ Not applicable

(3) Impairment provision for entrusted loan

☐ Applicable ☑ Not applicable

XV. MATERIAL CONTRACTS AND THE IMPLEMENTATION (CONTINUED)

(III) Entrusted cash assets management (Continued)

3. Others

☐ Applicable ☑ Not applicable

(IV) Other significant contracts

☐ Applicable ☑ Not applicable

XVI. EXPLANATION OF OTHER SIGNIFICANT EVENTS

☑ Applicable ☐ Not applicable

(I) Relevant disclosure made according to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange

(1) Compliance with the Corporate Governance Code

To the best 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 Securities on the Hong Kong Stock Exchange during the Reporting Period, and no deviation from the Code has been identified.

(2) Model Code for Securities Transactions by Directors

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 year ended 31 December 2018.

(3) Purchase, Sale or Redemption of Listed Securities of the Company

As at the Reporting Period, the Company did not redeem any of its issued securities, nor purchase or sell any of its listed securities.

XVI. EXPLANATION OF OTHER SIGNIFICANT EVENTS (CONTINUED)

(I) Relevant disclosure made according to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (Continued)

(4) Major acquisition and disposal of subsidiaries and affiliates

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

(5) Interests or Short Positions

As at 31 December 2018, 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").

(6) 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.

(7) 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.

(8) Circulating Market Capitalisation

Based on the publicly available information, as at 31 December 2018 (the last trading day of H Share of 2018), the circulating market capitalisation of H Shares of the Company (circulating H Share capital x closing price of H Shares (HK$1.15)) was approximately HK$619 million; as at 28 December 2018 (the last trading day of A Share of 2018), the circulating market capitalization of A Shares of the Company (circulating A Share capital x closing price of A Shares (RMB1.94)) was approximately RMB16,258 million.

XVI. EXPLANATION OF OTHER SIGNIFICANT EVENTS (CONTINUED)

(I) Relevant disclosure made according to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (Continued)

(9) Final Dividend

The Company's profit distribution policies are set out in detail in the Articles of Association, which provides the principles, forms and conditions of distribution, the justification procedures for distribution scheme and decision-making mechanism, as well as policy adjustments. When determining profit distribution (including dividend payment) and distribution proportion, the Company will follow several major principles including the continuity and stability of profit distribution policies, paying full attention to the reasonable investment return for investors, and considering the long-term interests of the Company, sustainable development and the interests of all shareholders as a whole, and the Board will prepare the proposal for profit distribution according to the operating situations and development, then submit it to the general meetings for approval. Please refer to the profit distribution policies set out in the Articles of Association for more details.

The Company does not have any predetermined dividend distribution proportion or dividend distribution ratio, and the distribution and the amount of dividend will be determined by the Board's discretion as aforesaid.

According to the auditing by Ernst & Young Hua Ming LLP, the net profit attributable to shareholders of the Company for 2018 amounted to RMB1.788 billion, and the unappropriated profit as at the end of 2018 amounted to RMB-10.290 billion. As the Company recorded a negative unappropriated profit as at the end of 2018, the directors suggested not to make profit distribution or transfer capital reserve to share capital in 2018 pursuant to the Article 250 of the Articles of Association.

XVI. EXPLANATION OF OTHER SIGNIFICANT EVENTS (CONTINUED)

(II) Matters relating to the cooperation in purchase and sales

In December 2016, the Company entered into a cooperation framework agreement with Qianxin International, agreeing that the parties thereto would cooperate in the purchase of main materials needed in the production and sales of steel products, and would determine the purchase prices and selling prices following the market pricing principle with an agreed cooperation period of three years from 1 January 2017 to 31 December 2019. In March 2017 and July 2017, the parties entered into a supplemental agreement on the purchase and selling prices, respectively, to set forth details on such major terms as the pricing principle, acceptance and settlement of the transactions relating to ores, coal and metallurgical materials as well as steel products. In December 2017, the parties re-entered into a cooperative framework agreement with an agreed cooperation period of three years, agreeing to terminate the original cooperative framework agreement on 31 December 2017 and specifying the mode of cooperation for 2018 and afterwards. According to the agreement, the parties thereto agreed to negotiate and determine the prices for purchase settlement with reference to the interests on the fund utilised by Qianxin International, and to enter into specific supply and sales agreements separately to specify the rules of operations for supply and sales cooperation. According to the cooperation framework agreement, the total amount of raw materials such as ores and coal purchased by the Company from Qianxin International in 2018 was RMB5,600 million (excluding tax), and the total amount of steel products sold by the Company to Qianxin International was RMB7,225 million (excluding tax). It has been confirmed by both parties that the balance receivable in advance by the Company from Qianxin International as at 31 December 2018 was RMB322 million. The Company entered into a termination agreement with Qianxin International in September 2018 in respect of the above agreements. The transaction mode has been in line with that of other suppliers and customers of the Group since then.

XVI. EXPLANATION OF OTHER SIGNIFICANT EVENTS (CONTINUED)

(III) Termination of significant investment event

On 6 August 2015, the Company reached a primary consensus and signed a project cooperation framework agreement with POSCO Korea Co., Ltd. ("POSCO") for the joint venture project for cold rolling and joint venture project for galvanised 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 Cold Rolling Company and Joint Venture Contract Between Chongqing Iron & Steel Company Limited and POSCO on POSCO CISL respectively. Under the contracts, the parties thereto will establish joint venture companies in Chongqing for the joint venture project for cold rolling and galvanised projects respectively. The total amount of investment at all stages is expected to be 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 POSCO CISL. 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.

In 2017, the Group entered the bankruptcy reorganization procedure and was assessed by the Company's bankruptcy administrator that the Group did not have the ability to continue the above joint venture projects. Therefore, the Company's bankruptcy administrator made the decision to terminate the joint venture contract. In November 2017, the Board of Cold Rolling Company and POSCO CISL decided to dissolve the joint venture company and separately set up a liquidation group to liquidate the joint venture company. In May 2018, Cold Rolling Company and POSCO CISL had completed the cancellation of foreign investment corporation registration, and the relevant disposal amount of RMB785,831,000 had been paid in full to the Chongqing Strategic Emerging Industry Equity Investment Fund Partnership (Limited Partnership) to settle the secured claims.

On 9 March 2016, after the Resolution in Relation to Deregistration of Four Sales Subsidiaries was approved at the 39th written meeting of the seventh session of the Board of Directors of the Company, the Company decided to deregister East China Trading. In October 2018, the Company completed the deregistration procedures of East China Trading with the administration for industry and commerce.

(IV) Lease

As a lessee, under the lease contract with the lessor, the minimum payment for the non-cancellable lease is as follows:

Item	31 December 2018
Within 1 year (including 1 year)	**379,500,000**

XVI. EXPLANATION OF OTHER SIGNIFICANT EVENTS (CONTINUED)

(V) Employee Incentive Funds

On 15 May 2018, at the 2017 annual general meeting of the Company, the proposal for the Employee Share Ownership Plan from 2018 to 2020 (Draft) of Chongqing Iron & Steel Company Limited was approved and the Board of Directors was authorized to deal with matters related to employee share ownership plan. On 18 December 2018, the incentive fund scheme for the year was approved at the fifth meeting of the eighth session of the Board of Directors. According to the plan, the incentive funds will be provided based on 12.5% of the total profit (before withdrawing incentive funds) shown in the audited combined financial statements for the year 2018. 50% of the total incentive funds will be used in the employee share ownership plan, but will be deferred for two years, while the remaining 50% will be used to reward outstanding employees who do not participate in the employee share ownership plan. At the meeting, the management of the Company was authorized to formulate schemes and implement them. The target of the employee share ownership plan includes executive directors, supervisors, senior management, core managerial personnel, technicians and key personnel of the Company with a total number not exceeding 111, including 9 directors, supervisors and senior management. The total number of shares granted to such 9 people accounted for 51% of the total shares of the employee share ownership plan for the current period, while the number of shares held by the remaining eligible participants accounted for 49% of the total shares of the employee share ownership plan for the current period.

XVII. ACTIVE FULFILLMENT OF SOCIAL RESPONSIBILITIES

(I) Poverty Alleviation by the Listed Company

☐ Applicable ☑ Not applicable

XVII. ACTIVE FULFILLMENT OF SOCIAL RESPONSIBILITIES (CONTINUED)

(II) Social Responsibility

☑ Applicable ☐ Not applicable

As the Company regarded corporate social responsibility as an integral part of enterprise management, the Company has made great efforts in corporate governance, employees' rights protection, environmental protection, safety in production and maintenance of public relations in 2018 and gained recognition from the society.

In 2019, the Company shall continuously improve the construction of corporate social responsibility management system, further deepen the concept of corporate social responsibilities, improve the implementation mechanism of corporate social responsibilities, actively repay shareholders and protect the legitimate rights and interests of employees. The Company shall also treat suppliers and customers with integrity, actively participate in social welfare undertakings and ecological environment protection, continue to enhance the image of listed companies and make due contributions to the sustainable development of the entire society.

For details, please refer to the Environmental and Social Responsibility Report for 2018 published on the website of the Shanghai Stock Exchange (http://www.sse.com.cn) on 29 March 2019.

XVII. ACTIVE FULFILLMENT OF SOCIAL RESPONSIBILITIES (CONTINUED)

(III) Environmental Information

I. Explanation on the performance of environmental protection of companies and its key subsidiaries under the classification of key pollutant discharging entity as published by the environmental protection department

☑ Applicable ☐ Not applicable

(1) Pollutant discharging

☑ Applicable ☐ Not applicable

Pollutants generated by the Company mainly include waste gas (including sulfur dioxide, oxynitride and particulate matter) and waste water (including COD and ammonia nitrogen). Information about pollutant discharging is disclosed on the website of the ecology and environment bureau on a regular basis. In 2018, the self-monitoring data of Company on environmental protection met the required standards of the ecology and environment bureau.

(2) Construction and operation of pollution control facilities

☑ Applicable ☐ Not applicable

There was no newly-constructed pollution control facility in 2018. All of the existing pollution control facilities were operated in parallel with our pollution control facilities and were under sound operating condition.

(3) Environmental impact assessment of construction projects and other environmental protection administrative licensing

☐ Applicable ☑ Not applicable

(4) Environmental emergency plan

☑ Applicable ☐ Not applicable

In order to implement the requirements of the laws and regulations on strengthening the environmental protection of enterprises promulgated by the central and local government, the Company has established a sound environmental risk prevention system, formulated the Environmental Emergency Plan of Chongqing Iron & Steel Company Limited (《重慶鋼鐵股份有限公司突發環境事件應急預案》) and filed the same with the ecology and environment bureau in January 2018 and completed the emergency drill in December 2018.

XVII. ACTIVE FULFILLMENT OF SOCIAL RESPONSIBILITIES (CONTINUED)

(III) Environmental Information (Continued)

I. *Explanation on the performance of environmental protection of companies and its key subsidiaries under the classification of key pollutant discharging entity as published by the environmental protection department (Continued)*

(5) Self-monitoring program on environmental protection

☑ Applicable ☐ Not applicable

According to the requirements of the Measures for Self-monitoring and Information Disclosure by the Enterprises Subject to Intensive Monitoring and Control of the State (Trial Implementation) (《國家重點監控企業自行監測及信息公開辦法(試行)》) and the General Rules for Technical Guidance on Self-monitoring of Pollutant Discharging Organizations (《排污單位自行監測技術指南總則(發佈稿)》), the Self-monitoring Program of Chongqing Iron & Steel Company Limited (《重慶鋼鐵股份有限公司自行監測方案》) in 2018 was formulated and filed with the ecology and environment bureau in order to regulate the self-monitoring and information disclosure of the Company and ensure the conscious fulfillment of its legal obligations and social responsibilities. The Company has carried out its self-monitoring work in accordance with such program in 2018.

(6) Other environmental information required to be disclosed

☑ Applicable ☐ Not applicable

II. *Explanation on environmental protection of companies beyond the classification of key pollutant discharging entity*

☑ Applicable ☐ Not applicable

III. *Explanation of reasons for non-disclosure of environmental information by companies beyond the classification of key pollutant discharging entity*

☐ Applicable ☑ Not applicable

IV. *Explanation on development or changes in environmental information disclosed during the Reporting Period*

☐ Applicable ☑ Not applicable

XVII. ACTIVE FULFILLMENT OF SOCIAL RESPONSIBILITIES (CONTINUED)

(IV) Other Explanations

☐ 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

(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

I. CHANGES IN SHARE CAPITAL OF ORDINARY SHARES

(I) Ordinary shares

1. *Statements of movement of ordinary shares*

There was no change in the total number of ordinary shares and the share capital structure of the Company during the reporting period.

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

(II) Information on Changes in Lock-up Shares

☐ Applicable ✓ Not applicable

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	146,983
Total number of ordinary shareholders on the close of the end of month before the disclosure of the Annual Report	147,266
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

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	Number of shares pledged or frozen: Status of shares	Number of shares pledged or frozen: Number	Type of shareholder
Chongqing Changshou Iron & Steel Company Limited	0	2,096,981,600	23.51	0	Pledged	2,096,981,600	Domestic non state-Owned legal person
HKSCC NOMINEES LIMITED	+22,400	531,021,540	5.95	0	Unknown	–	Foreign legal person
Chongqing Qianxin Energy Environmental Protection Company Limited	0	427,195,760	4.79	0	Unknown	–	Unknown
Chongqing Rural Commercial Bank Co., Ltd.	0	289,268,939	3.24	0	Unknown	–	Unknown
Chongqing Guochuang Investment and Management Co., Ltd.	0	278,288,059	3.12	0	Unknown	–	Unknown
Sinosteel Equipment & Engineering Co., Ltd.	0	252,411,692	2.83	0	Unknown	–	Unknown
Bank of Chongqing Co., Ltd	0	226,042,920	2.53	0	Unknown	–	Unknown
Industrial Bank Co., Ltd. Chongqing Branch	0	219,633,096	2.46	0	Unknown	–	Unknown
Agricultural Bank of China Limited Chongqing Branch	0	216,403,628	2.43	0	Unknown	–	Unknown
China Shipbuilding Industry Complete Logistics Co., Ltd. (中船工業成套物流有限公司)	0	211,461,370	2.37	0	Unknown	–	Unknown

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 Changshou Iron & Steel Company Limited	2,096,981,600	RMB denominated ordinary shares	2,096,981,600
HKSCC NOMINEES LIMITED	531,021,540	Overseas listed foreign shares	531,021,540
Chongqing Qianxin Energy Environmental Protection Company Limited	427,195,760	RMB denominated ordinary shares	427,195,760
Chongqing Rural Commercial Bank Co., Ltd.	289,268,939	RMB denominated ordinary shares	289,268,939
Chongqing Guochuang Investment and Management Co., Ltd.	278,288,059	RMB denominated ordinary shares	278,288,059
Sinosteel Equipment & Engineering Co., Ltd.	252,411,692	RMB denominated ordinary shares	252,411,692
Bank of Chongqing Co., Ltd	226,042,920	RMB denominated ordinary shares	226,042,920
Industrial Bank Co., Ltd. Chongqing Branch	219,633,096	RMB denominated ordinary shares	219,633,096
Agricultural Bank of China Limited Chongqing Branch	216,403,628	RMB denominated ordinary shares	216,403,628
China Shipbuilding Industry Complete Logistics Co., Ltd. (中船工業成套物流有限公司)	211,461,370	RMB denominated ordinary shares	211,461,370

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)

The above shareholders' connected relationship or concerted action	There is no connection between Chongqing Changshou Iron & Steel Company Limited, the controlling shareholder of the Company, and the other 9 shareholders, nor are they persons acting in concert regulated in Measures for Management on Information Disclosure of Changes in Shareholdings of Listed Companies' Shareholders. The Company is not aware of any connected relationship among the other 9 shareholders or whether they are acting in concert.
Preferred shareholders with restored voting rights and their shareholding	No

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 Changshou Iron & Steel Company Limited**
Principal or legal representative	Zhou Zhuping
Date of incorporation	12 October 2017
Principal operations	Engaged in technology development, technology transfer, technical services and technical management consultation in the fields of steel, metallurgical mineral, coal, chemical engineering, electric power and transportation; sale of steel raw materials; terminal operation; warehousing service (excluding storage of hazardous articles); leasing of proprietary property and equipment; import and export of goods and technology; and corporate management and consulting services. (The business activities subject to approval according to law in the above scope can be carried out only after being approved by relevant departments)
Equity interests in other controlled and invested domestic and foreign listed companies during the Reporting Period	Nil
Other explanation	Nil

2. Natural persons

☐ Applicable ☑ Not applicable

3. No special explanation regarding the controlling shareholder

☐ Applicable ☑ Not applicable

IV. CONTROLLING SHAREHOLDER AND DE FACTO CONTROLLER (CONTINUED)

(I) Controlling Shareholder (Continued)

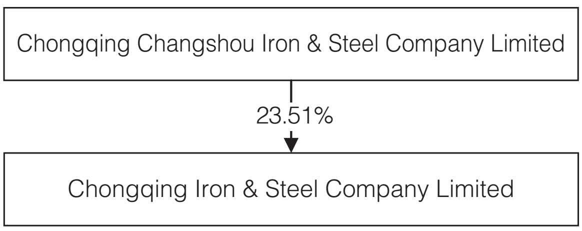
4 *Index and date of changes in controlling shareholder during the Reporting Period*

☑ Applicable ☐ Not applicable

In December 2018, Siyuanhe (Chongqing) Iron & Steel Industrial Development and Equity Investment Fund Partnership (LP) replaced Siyuanhe (Shanghai) Steel Industry Equity Investment Fund Center (Limited Partnership) to be the indirect controlling shareholder of the Company. For details, please refer to the related announcements such as the Indicative Announcement in Relation to Change of Indirect Controlling Shareholder, the Simplified Equity Change Report and the Detailed Equity Change Report 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 22 December 2018.

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	**Siyuanhe Equity Investment Management Co., Ltd. (GP)**
Principal or legal representative	Zhou Zhuping
Date of incorporation	14 July 2017
Principal operations	Sponsoring and establishing equity investment enterprises; managing the investment business of equity investment enterprises as trustee and providing related services; and engaging in equity investment consultation. (The business activities subject to approval according to law in the above scope can be carried out only after being approved by relevant departments)
Equity interests in other controlled and invested domestic and foreign listed companies during the Reporting Period	Nil
Other explanation	Nil

2. Natural persons

☐ Applicable ☑ Not applicable

3. No special explanation regarding the controlling shareholder

☐ Applicable ☑ Not applicable

IV. CONTROLLING SHAREHOLDER AND DE FACTO CONTROLLER (CONTINUED)

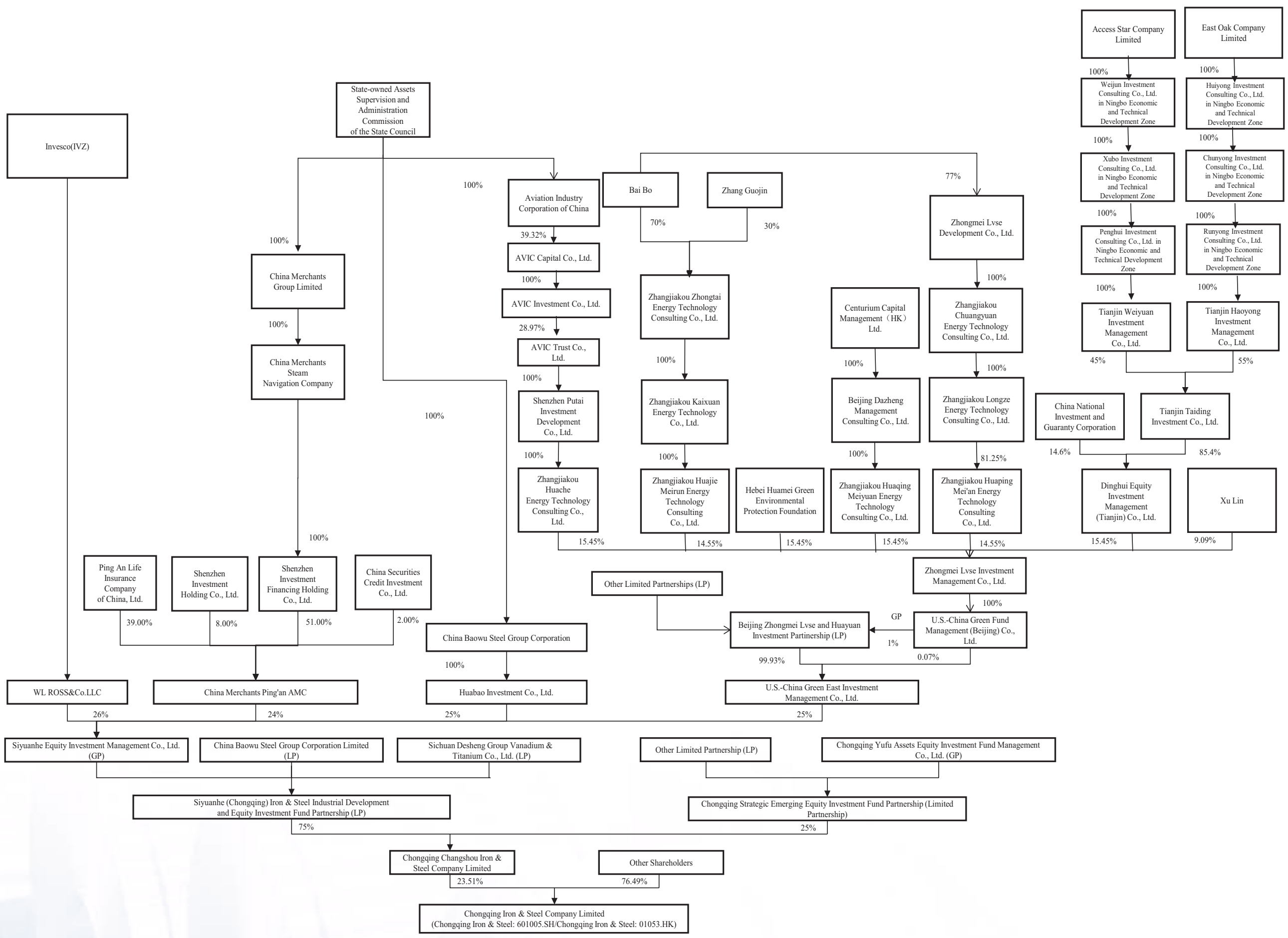
(II) De facto controller (Continued)

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

☐ Applicable ☑ Not applicable

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 Shares

☐ Applicable ☑ Not applicable

I. 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 changes in shareholding	Total remuneration before tax received from the Company during the Reporting Period *(RMB0'000)*	Whether received remuneration from the related parties of the Company
Zhou Zhu Ping	Chairman	M	55	29 January 2018	14 May 2021	0	0	0	/	0	Yes
Li Yong Xian	Vice Chairman, General Manager *(note 1)*	M	58	29 January 2018	14 May 2021	0	0	0	/	553.91	No
Tu De Ling	Vice Chairman	M	55	23 December 2015	14 May 2021	0	0	0	/	177.33	No
Zhang Shuo Gong	Director	M	61	29 January 2018	14 May 2021	0	0	0	/	231.00	No
Zheng Jie	Director	M	44	29 January 2018	14 May 2021	0	0	0	/	0	Yes
Xin Qing Quan	Director (Independent)	M	43	4 December 2014	14 May 2021	0	0	0	/	13.68	No
Xu Yi Xiang	Director (Independent)	M	44	4 December 2014	14 May 2021	0	0	0	/	13.68	No
Wong Chun Wa	Director (Independent)	M	44	4 June 2015	14 May 2021	0	0	0	/	13.68	No
Xiao Yu Xin	Chairman of the Supervisory Committee	M	56	29 January 2018	14 May 2021	0	0	0	/	252.69	No
Lu Jun Yong	Supervisor	M	45	29 January 2018	14 May 2021	0	0	0	/	0	Yes
Yin Dong	Supervisor	M	43	29 January 2018	14 May 2021	0	0	0	/	0	Yes
Xia Tong	Supervisor Representing staff	M	53	15 May 2018	14 May 2021	0	0	0	/	45.46	No
Zhou Ya Ping	Supervisor Representing staff	M	55	15 May 2018	14 May 2021	0	0	0	/	27.82	No
Lv Feng	Deputy General Manager,chief financial officer (financial controller) *(note 2)*	M	39	30 November 2017	14 May 2021	0	0	0	/	253.86	No
Meng Xiang Yun	Deputy General Manager,Secretary to the Board *(note 3)*	F	44	16 August 2018	14 May 2021	0	0	0	/	174.76	No
Wang Bu Lin	Deputy General Manager	M	55	29 October 2018	14 May 2021	0	0	0	/	103.36	No
Zhang Li Quan	Deputy General Manager	M	56	19 December 2018	14 May 2021	0	0	0	/	0	No
Zeng Jing	Deputy General Manager	M	55	19 December 2018	14 May 2021	0	0	0	/	0	No
Liu Da Wei	Resigned Chairman	M	55	23 December 2015	29 January 2018	0	0	0	/	0	Yes
Zhou Hong	Resigned Director	M	56	16 May 2014	29 January 2018	0	0	0	/	0	Yes
Li Ren Sheng	Resigned Director	M	54	1 June 2009	29 January 2018	0	0	0	/	0	No
Zhang Li Quan	Resigned Director	M	56	16 May 2014	29 January 2018	0	0	0	/	7.39	No
Yao Xiao Hu	Resigned Director	M	52	4 December 2014	29 January 2018	0	0	0	/	5.72	No

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	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 changes in shareholding	Total remuneration before tax received from the Company during the Reporting Period *(RMB0'000)*	Whether received remuneration from the related parties of the Company
Hwang Yuh Chang	Resigned Director (Independent)	M	63	29 January 2018	15 May 2018	0	0	0	/	3.18	No
Zheng Yu Chun	Resigned Director (Independent)	M	55	15 May 2018	20 December 2018	0	0	0	/	10.50	No
Xia Tong	Resigned Chairman of the Supervisory Committee	M	53	13 June 2013	29 January 2018	0	0	0	/	5.72	No
Li Zheng	Resigned Supervisor	M	56	18 August 2010	29 January 2018	0	0	0	/	0	Yes
Xu Chun	Resigned Supervisor Representing staff	M	45	1 November 2016	15 May 2018	0	0	0	/	16.21	No
Jia Zhi Gang	Resigned Supervisor Representing staff	M	49	21 August 2017	15 May 2018	0	0	0	/	14.56	No
Tu De Ling	Resigned Financial Controller	M	55	23 December 2015	13 February 2018	0	0	0	/	0	No
Li Ren Sheng	Resigned Deputy General Manager	M	54	30 November 2017	18 December 2018	0	0	0	/	169.98	No
Yu Hong	Resigned Secretary to the Board	F	51	30 November 2017	18 December 2018	0	0	0	/	253.91	No
Total	/	/	/	/	/	0	0	0	/	2,348.40	/

Note 1: Starting date of the tenure of Mr. Li Yong Xian as the General Manager is 30 November 2017.

Note 2: Starting date of the tenure of Mr. Lv Feng as the chief financial officer (financial controller) is 27 February 2018.

Note 3: Starting date of the tenure of Ms. Meng Xiang Yun as the Secretary to the Board is 19 December 2018.

Note 4: Remunerations for the Company's newly appointed and resigned directors, supervisors and senior management are remunerations actually received by them during their tenures of such positions in the Company in the Reporting Period.

Note 5: For details of the stock ownership plan for directors, supervisors and senior management, please refer to "Section V. XVI (5)" of this report.

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 Zhu Ping	born in March 1963, is a senior accountant. He currently serves as the chairman and secretary of the Party Committee of Chongqing Iron & Steel Company Limited, the chairman and general manager of Chongqing Changshou Iron & Steel Company Limited (重慶長壽鋼鐵有限公司), a director and CEO of Siyuanhe Equity Investment Management Co., Ltd. (四源合股權投資管理有限公司) and the chairman of investment decision making committee of Siyuanhe (Shanghai) Steel Industry Equity Investment Fund (四源合(上海)鋼鐵產業股權投資基金). Mr. Zhou previously served as the secretary to the board of directors of Baoshan Iron & Steel Co., Ltd., general manager of Baosteel Group Enterprise Development Corporation, president of Baosteel Development Co. Ltd., the chairman of Baosteel Finance Co., Ltd, deputy general manager of Ouyeel Co., Ltd., deputy general manager of Baosteel Group Corporation and chairman of Baosteel Metal Co., Ltd., secretary of the Party Committee of the financial system of China Baowu Steel Group Corporation, the chairman of Fortune Investment Co., Ltd. and the chairman of the 8th session of the supervisory committee of China Pacific Insurance (Group) Co., Ltd. Mr. Zhou has extensive experience in corporate governance, corporate management, capital operation, corporate finance and accounting, funds management, cost management and capital budget management. Mr. Zhou graduated from Zhejiang College of Metallurgical Economics in 1982.
Li Yong Xiang	born in October 1960, is a senior engineer. Mr. Li currently serves as the vice chairman, general manager and deputy secretary to the Party Committee of Chongqing Iron & Steel Company Limited. Mr. Li successively served as the deputy plant director, plant director and secretary of Party Committee of the smelting plant of Meishan Metallurgical Company; a director and the deputy general manager of Shanghai Meishan (Group) Company; a director, the deputy general manager and the general manager of Meishan Company of Baosteel Group; and a director, the general manager and the chairman of Meishan Iron & Steel Company of Baosteel. Mr. Li served as the deputy general manager of Baosteel and the chairman of Meishan Iron & Steel Company from 2008 to 2016. Since October 2016, he has served as a director and the chief executive officer of B.M. Holding (Group) Co., Ltd. Mr. Li has rich experience in production, operation and organization of iron and steel enterprises. Mr. Li graduated from Northeastern University in 1982. From August 1996 to February 1997, he studied at the Department of Business Administration at West Virginia State University, the United States, as a visiting scholar; in 2001, he was awarded the degree of EMBA by China Europe International Business School; in 2003, he obtained the master's degree in metallurgical engineering from Northeastern University.

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
Tu De Ling	born in January 1963, is the vice chairman of Chongqing Iron & Steel Company Limited. 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 Chongqing Iron & Steel Group in 1988 and successively served as the deputy head of the financial division of the Company, head of the Financial Division and chief accountant of the Company, chairman of Chongqing Iron & Steel Electronic Company (重鋼電子公司), the commander of the environmental relocation headquarters and a 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), and the financial controller of the Company.
Zhang Shuo Gong	born in August 1957, is a senior engineer and a director of Chongqing Iron & Steel Company Limited. Mr. Zhang successively served as the department head of the engineering and technology department of Baoshan Iron & Steel Company Limited, the deputy general manager of Baosteel Engineering & Technology Group Co., Ltd., an executive director and the general manager of Shanghai Baosight Software Co. Ltd. and a director of Shanghai Baosight Software Co. Ltd. Mr. Zhang has rich experience in production, management and operation of iron and steel enterprises. Mr. Zhang graduated from Tongji University with a bachelor's degree in industrial electrical automation technology in 1982.
Zheng Jie	born in October 1974, is a registered holder of CFA. He currently serves as a director of Chongqing Iron & Steel Company Limited, a supervisor of Siyuanhe Equity Investment Management Co., Ltd. (四源合股權投資管理有限公司) and a principal of WL Ross ＆Co. LLC responsible for sourcing, structuring, evaluating and managing investments across a range of industries. Mr. Zheng joined WL Ross in 2009. Since then he has predominantly focused on investments in chemicals and industrials, energy, financial services, metals and mining, and transportation. He currently serves as the senior advisor of the Management Committee for Huaneng Invesco WLR Clean Energy Fund and Solar Industry Investment Fund. Mr. Zheng has more than 15 years of principal investing experience. Prior to joining WL Ross & Co., Mr. Zheng was an associate at Fore Research & Management, a hedge fund focusing on credit and distressed investments. From 1998 to 2001, he worked at the Asset Management Division of Everbright Securities in China, investing in domestic equity market. Mr. Zheng earned his B.S. in Thermal Power Machinery and Installation and master's degree in Technical Economics of the Management Department from Shanghai Jiao Tong University, and his M.B.A. in Analytical Finance and Accounting from The University of Chicago.

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
Xin Qing Quan	born in August 1975, is an independent director of Chongqing Iron & Steel Company Limited. He is a professor of accounting, a doctoral tutor and the head of the Accounting Department in the School of Economics and Business Administration of Chongqing University, the Changjiang (Yangtze River) Scholar award 2016 by the Ministry of Education, a special researcher of Chinese Government Auditing Research Center (中國政府審計研究中心), 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.
Xu Yi Xiang	born in February 1974, is an independent director of Chongqing Iron & Steel Company Limited. He is a professor in the School of Economics of Southwest University of Political Science and Law and a doctoral tutor. 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 served as a part-time lawyer in Dentons (Chongqing) (北京大成(重慶)律師事務所) as well as an arbitrator of Hainan Arbitration Commission. Mr. Xu graduated from The Eberhard Karls Universität Tübingen 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, environmental laws and practical operations.
Wong Chun Wa	born in June 1974, is an independent director of Chongqing Iron & Steel Company Limited, director of ACT Business Consultants Limited, director of RIW C.P.A. Limited, and an independent non-executive director of China Zhongwang Holdings Limited. Mr. Wong worked at KPMG and Ernst & Young, and was an independent non-executive director and supervisor of Maanshan Iron & Steel Co. Ltd. Mr Wong was awarded a bachelor's degree in accounting by the Hong Kong Polytechnic University in 1996 and is a certified public accountant in Hong Kong, a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

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
Xiao Yu Xin	born in October 1962, currently serves as the chairperson of the supervisory committee, the deputy secretary of the Party committee, as well as the secretary of the disciplinary committee of Chongqing Iron & Steel Company Limited. He also serves as a supervisor of Chongqing Changshou Iron & Steel Company Limited. Mr. Xiao once served as the head of the operation improvement department and marketing director of Shanghai Baosight Software Co. Ltd., informatization manager and person in charge of administrative expenses check-up and improvement project group of Baosteel Group, manager at director level of the strategic management department of Baosteel Corporation and the general manager in charge of post-investment management of Siyuanhe Equity Investment Management Co., Ltd. Mr. Xiao graduated from the Thermophysical Engineering Department of Zhejiang University with a bachelor degree in cryogenic engineering and subsequently pursued a master's degree in management engineering at the University of Science and Technology Beijing. From 1987 to 1996, he taught at the University of Science and Technology Beijing and subsequently served as a teaching assistant, lecturer, deputy director and associate professor of the Department of Management. From 1996 to 2000, he was dispatched to Keele University in the United Kingdom with the sponsorship from the government for cooperative research and a doctoral degree; and later successfully obtained a doctoral degree (during this period, he remained as an associate professor at the Department of Management of the University of Science and Technology Beijing). From 2000 to 2003, he served as a senior lecturer at the Business School of the University of Sunderland in the United Kingdom. From 2003 to 2007, he served as a senior lecturer of management at the Business School of University of Aberdeen (during this period, he was elected as a professor of School of Humanity Science and Law, University of Science and Technology Beijing in September 2006).

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
Lu Jun Yong	born in November 1973, is a supervisor of Chongqing Iron & Steel Company Limited. He currently serves as a director and a deputy general manager of Chongqing Changshou Iron & Steel Company Limited, a deputy general manager and chief risk officer of Siyuanhe Equity Investment Management Co., Ltd. (四源合股權投資管理有限公司), and an executive director and a member of the investment decision making committee of Siyuanhe (Shanghai) Steel Industry Equity Investment Fund (四源合(上海)鋼鐵產業股權投資基). Mr. Lu previously served as the vice president, a member of the executive committee and of the investment review committee, and the person in charge of legal affairs of Golden Concord Group Holdings Limited (協鑫(集團)控股有限公司), the second largest new energy company in the world; the vice president and the person in charge of legal affairs of Hywin Financial Holding Group Co., Ltd. (上海海銀金融控股集團有限公司), one of the top three wealth management companies in the PRC; head of the department of legal affairs of Baoshan Iron & Steel Company Limited; and deputy head (in charge of work) of the legal affair department and the head of the litigation management office and contract management office of Baosteel Group Corporation (寶鋼集團有限公司). Mr. Lu Jun Yong obtained a bachelor's degree in law (specialising in international economic law) from East China University of Political Science and Law in 1996 and a master's degree in law (specialising in international economic law) from Shanghai University of International Business and Economics in 2005. He has passed National Bar Examination (全國律師資格考試) in 1996 and the national practice qualification examination for enterprise legal advisers (全國企業法律顧問執業資格考試) in 1998.

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
Yin Dong	born in November 1975, is a supervisor of Chongqing Iron & Steel Company Limited. He currently serves as a director and a deputy general manager of Chongqing Changshou Iron & Steel Company Limited and the chief financial officer of Siyuanhe Equity Investment Management Co., Ltd. (四源合股權投資管理有限公司). Mr. Yin once served as the comprehensive cost analyst of Baoshan Iron & Steel Co., Ltd., operation director of the steel products division and project manager of the car body preparation division of Shanghai Baosteel International Economic & Trading Co., Ltd., the chief financial officer of Niagara Machinery Products Co., Ltd. (尼亞加拉機械製品有限公司), chief financial officer of segments, deputy head of the finance department and head of audit and supervision department of Baosteel Metal Company Limited (寶鋼金屬有限公司) ("Baosteel Metal"). In addition, he successively hold concurrent posts as a supervisor of Baosteel Metal, a deputy general manager of Jiangsu Baosteel Precision Steel Wire Co., Ltd. (江蘇寶鋼精密鋼絲有限公司), and a supervisor of Baosteel Packaging Company Limited (寶鋼包裝) (an A-shares listed company). Mr. Yin has extensive experience in merger and acquisition, financial management, budget and cost management. Mr. Yin graduated from East China University of Science and Technology in 1997, majoring in management engineering, he then obtained an EMPAcc degree from Shanghai National Accounting Institute/The Chinese University of Hong Kong in 2015.
Xia Tong	born in January 1965, is a senior engineer and a staff representative supervisor, Chairman of the labour union and deputy Secretary of the disciplinary committee of Chongqing Iron & Steel Company Limited. Mr. Xia once served as secretary to the Board and head of the Managerial Office (Office of the Board of Directors) of Chongqing Iron & Steel (Group) Co., Ltd., party secretary of the Environmental Relocation Headquarters of Chongqing Iron & Steel. He 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 in 1987 and holds a master degree in engineering.

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 Ya Ping	born in May 1963, is an assistant policy advisor. He is currently a staff representative supervisor and Party secretary of the Heavy Plate Plant of Chongqing Iron & Steel Company Limited. Mr. Zhou served as the shift supervisor of the control room of the Company's Medium Plate Plant, the deputy head and chief steel rolling operator at the hot rolling workshop of the Medium Plate Plant, the secretary of the party branch and assistant chief operator of the hot rolling operation area for the heavy plate production line of the Heavy Plate Plant, the chief operator and the secretary of the party branch of the hot rolling operation area for the medium plate production line of the Heavy Plate Plant. Mr. Zhou was awarded the honor of National Labor Model in 2005 and was elected as a representative of the 17th CPC National Congress in May 2007. He was awarded the honor of "Heroes and Models with Outstanding Contribution" during the celebration of the 60th anniversary of the liberation of Chongqing and was elected as a representative of the 18th CPC National Congress in May 2012.
Lv Feng	born in December 1979, is an accountant. He is currently a deputy general manager, chief financial officer (financial controller) and a member of the Party Committee of Chongqing Iron & Steel Company Limited. Mr. Lv had been the assistant budget analysis manager of the Finance Department of Baoshan Iron and Steel Co., Ltd., the comprehensive analysis manager dispatched to the Manufacturing Department, the comprehensive analysis manager of the Budget Team, the finance chief dispatched to the Smelting Plant; Mr. Lv was dispatched to Guangdong Baosteel Property Co., Ltd (廣東寶鋼置業有限公司) where he acted as the head of the Finance Department, deputy general manager and deputy general manager (in charge of work) from 2012 to 2017; he has been the deputy general manager (in charge of work) of the Assets Operation Center of Shanghai Baoland Property Co., Ltd (上海寶地置業有限公司) and the deputy general manager (in charge of work) of Guangdong Baosteel Property Co., Ltd since February 2017. Mr. Lv Feng graduated from the Accounting Department of the School of Management of University of Jinan in 2002. He also obtained a master's degree in accounting from Shanghai University of Finance and Economics through on-the-job education and EMBA degree in real estate from Sun Yat-sen University.

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
Meng Xiang Yun	born in November 1974, is a PRC certified public accountant, a PRC asset appraiser, a PRC certified tax agent (non-practising member), member of the Association of Chartered Certified Accountants (ACCA) and the tenth session of the National Leading Accounting Talent (Enterprise Class) Project of the Ministry of Finance of the PRC (in progress) and a senior accountant. Ms. Meng currently serves as a deputy general manager and the secretary to the Board of Chongqing Iron & Steel Company Limited and formerly served as a senior audit manager of Zhonghua Certified Public Accountants of BDO International, the chief financial officer of Shang Gong Group Co., Ltd. (上工申貝(集團)股份有限公司) and the financial supervisor of Durkopp Adler, its German subsidiary. Since 2009, Ms. Meng has been serving as the chief accountant of Baosteel Group Co., Ltd. (寶鋼集團有限公司) and acting as a director of Baosteel Development Co., Ltd. (寶鋼發展有限公司), a director of Shanghai Environment and Energy Exchange Company Limited (上海環境能源交易所股份有限公司) and an independent director of CTS International Logistics Corporation Limited (港中旅華貿國際物流股份有限公司) during the period. She has been acting as the chief financial officer of Shanghai Runliangtai Internet of Things Technology Partnership (L.P.) (上海潤良泰物聯網科技合夥企業(有限合夥)) and the chairman of the supervisory committee of Shenzhen Sunsea Communication Technology Co., Ltd. (深圳日海通訊技術股份有限公司) since 2015. Ms. Meng obtained a bachelor's degree in accounting from Beijing Wuzi University (北京物資學院) in 1996 and a master's degree in management from Shanghai Academy of Social Sciences in 1999.
Wang Bu Lin	born in August 1963, is a senior engineer and currently serves as a deputy general manager of Chongqing Iron & Steel Company Limited. Mr. Wang served as officer assistant, deputy officer and Party branch secretary of overhaul shop of smelting plant, head of mechanics division of smelting plant, officer of equipment division, assistant plant director of smelting plant of Shanghai Meishan Iron and Steel Co., Ltd. ("Meishan Iron and Steel Company"), and head and deputy head of equipment division of Meishan Iron and Steel Company. As Mr. Wang has been committed to the equipment management of steel enterprises and lean operation, he has a deep understanding of and extensive experience in modern equipment management. Mr. Wang graduated from Beijing Steel and Iron Institute in 1987 with a bachelor's degree, majoring in Metallurgy Machinery, and obtained a master's degree of Business Administration from Nanjing University in 2001.

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
Zhang Li Quan	born in August 1962, is a senior engineer and currently serves as the deputy general manager of Chongqing Iron & Steel Company Limited. Mr. Zhang joined Chongqing Iron & Steel in 1987 and served from time to time as the deputy head of the Iron Works, head of the Sintering Plant, the director of the Production and Direction Center, as well as the deputy general manager, a director and the assistant to the general manager of the Company. Mr. Zhang has a solid professional foundation and working experience in a number of positions. In addition, he has extensive experience in on-site production and management in large iron and steel enterprises. Mr. Zhang obtained a bachelor's degree in nonferrous metallurgy from Kunming Institute of Technology in 1987 and a master's degree in business administration from Chongqing University in 2004.
Zeng Jing	born in October 1963, is a senior engineer and currently serves as the deputy general manager of Chongqing Iron & Steel Company Limited. Mr. Zeng joined the Company in 1985 and served from time to time as the head of the management division of, as well as the director assistant, the deputy director and director of the steel research institute under the Company, the associate chief of Chongqing Iron & Steel Technical Centre, and the deputy general manager and the assistant to the general manager of the Company. As Mr. Zeng has been committed to the technological, quality and marketing work in iron and steel enterprises, he has accumulated extensive experience in the research and development of products and process technology, technological quality control, and technology marketing. Mr. Zeng obtained a bachelor's degree in metallurgy and material engineering in 1985 and a master's degree in material engineering in 2006, respectively, from Chongqing University.

Other explanations

☐ Applicable ☑ Not applicable

(II) Share option granted to Director, Supervisor 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
Zhou Zhu Ping	Chongqing Changshou Iron & Steel Company Limited	Chairman and General Manager	October 2017	/
Xiao Yu Xin	Chongqing Changshou Iron & Steel Company Limited	Supervisor	October 2017	/
Lu Jun Yong	Chongqing Changshou Iron & Steel Company Limited	Director and Deputy General Manager	October 2017	/
Yin Dong	Chongqing Changshou Iron & Steel Company Limited	Director and Deputy General Manager	October 2017	/
Explanation of positions held at shareholders	Nil			

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
Zhou Zhu Ping	Siyuanhe Equity Investment Management Co., Ltd.	CEO and Director	July 2017	/
Zhou Zhu Ping	Siyuanhe (Shanghai) Steel Industry Equity Investment Fund	Chairman of investment decision making committee	September 2017	/
Zheng Jie	Siyuanhe Equity Investment Management Co., Ltd.	Supervisor	December 2018	/
Zheng Jie	WL Ross & Co. LLC	Principal	April 2009	/
Xin Qing Quan	the School of Economics and Business Administration of Chongqing University	Professor and doctoral tutor	September 2013	/
Xin Qing Quan	Chinese Government Auditing Research Center (中國政府審計研究中心)	Special researcher	/	/
Xin Qing Quan	Department of Finance and Insurance of Lingnan University in Hong Kong	Senior assistant researcher	/	/
Xin Qing Quan	Chongqing International Consultation Investment Group (重慶國際諮詢投資集團)	External director	/	/
Xu Yi Xiang	the School of Economics Law of Southwest University of Political Science and Law	Professor and doctorate tutor	February 2010	/
Xu Yi Xiang	Hainan Arbitration Commission	Arbitrator (Part-time)	2013	/

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

(II) Positions held at other entities (Continued)

Name	Name of other entities	Positions held at other entities	Starting date of the tenure	Ending date of the tenure
Xu Yi Xiang	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	Deputy director	2013	/
Xu Yi Xiang	Chongqing Damei Law Firm (重慶達美律師事務所)	Part-time lawyer	April 2014	/
Wong Chun Wa	China Zhongwang Holdings Limited	Independent non-executive Director	August 2008	/
Wong Chun Wa	ACT Business Consultants Ltd.	Director	December 2006	/
Wong Chun Wa	RIW C.P.A. Limited	Director	/	/
Lu Jun Yong	Siyuanhe Equity Investment Management Co., Ltd.	Deputy General Manager and Chief risk officer	July 2017	/
Lu Jun Yong	Siyuanhe (Shanghai) Steel Industry Equity Investment Fund	Director, a member of the investment decision making committee	September 2017	/
Yin Dong	Siyuanhe Equity Investment Management Co., Ltd.	General manager (in charge of finance)	July 2017	/
Hwang Yuh Chang	OPPLE Lighting Co., Ltd	Director (Independent)	May 2017	/
Hwang Yuh Chang	Baoshan Iron & Steel Company Limited	Director (Independent)	April 2012	May 2018
Hwang Yuh Chang	China Europe International Business School	Professor	April 2013	/
Zheng Yu Chun	China Steel Development & Research Institute	Deputy manager	2006	/
Zheng Yu Chun	Xinxing Ductile Iron Pipes Co. Ltd.	Director (Independent)	March 2015	December 2018
Explanation of positions held in other entities	Nil			

III. REMUNERATIONS OF DIRECTORS, SUPERVISOR AND SENIOR MANAGEMENT

☑ Applicable ☐ Not applicable

Procedure for determining remunerations of Directors, Supervisors and Senior Management	The Remuneration and Evaluation Committee expresses their opinions on the remuneration plan for Directors, Supervisors and Senior Management then submit it to the general meeting, the Board and the Supervisory Committee for consideration and approval.
Basis for determining remunerations of Directors, Supervisors and Senior Management	1. The 2017 annual general meeting of the Company approved the remuneration plan for Directors and Supervisors, which reads as follows: (1) Executive Directors and Supervisors do not receive Directors' and Supervisors' remuneration from the Company or its subsidiaries, but receive emolument based on their specific management functions in the Company. The emolument consists of annual basic salary, performance-related incentive, company-performance related incentive and equity incentive, which is determined by the Board of the Company based on the remuneration standards for Directors and Supervisors of the Company as approved at the general meeting with reference to their functions, responsibilities and the results of the Company. The annual remuneration for independent non-executive Directors is RMB180,000 (before tax). (2) Non-executive directors and external supervisors do not receive remuneration from the Company. In order to facilitate better performance of duties by the Directors, Supervisors and Senior Management, the Company decided to arrange liability insurance for its Directors, Supervisors and Senior Management. 2. In 2018, the Company put into practice the management principle of taking performance results as the number one valuation standard and had the senior management team entered into the 2018 performance targets undertaking. The performances will be valuated based on the fulfillment level of the undertakings for each month, quarter and year, and remunerations will be paid based on the valuation.

III. REMUNERATIONS OF DIRECTORS, SUPERVISOR AND SENIOR MANAGEMENT (CONTINUED)

Remunerations payable to Directors, Supervisors and Senior Management	For directors and supervisors who receive remuneration from corporate shareholders or other connected entities during this year, their annual remuneration shall be determined by the corporate shareholders or other connected entities. Total remunerations (before tax) actually received by and payable to Directors, Supervisors and senior management from the Company during this year amounted to RMB23,484,000.
Total remunerations actually received by all Directors, Supervisors and Senior Management at the end of the Reporting Period	RMB23,484,000

IV. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

☑ Applicable ☐ Not applicable

Name	Position	Change	Reason for change
Zhou Zhu Ping	Chairman	Election	Newly elected in January 2018
Li Yong Xian	Vice Chairman	Election	Newly elected in January 2018
Zhang Shuo Gong	Director	Election	Newly elected in January 2018
Zheng Jie	Director	Election	Newly elected in January 2018
Xiao Yu Xin	Chairman of the Supervisory Committee	Election	Newly elected in January 2018
Lu Jun Yong	Supervisor	Election	Newly elected in January 2018
Yin Dong	Supervisor	Election	Newly elected in January 2018
Xia Tong	Supervisor Representing staff	Election	Newly elected in May 2018
Zhou Ya Ping	Supervisor Representing staff	Election	Newly elected in May 2018
Lv Feng	Chief financial officer (financial controller)	Appointment	Newly appointed in February 2018
Meng Xiang Yun	Deputy General Manager/Secretary to the Board	Appointment	Newly appointed in August/December 2018
Wang Bu Lin	Deputy General Manager	Appointment	Newly appointed in October 2018
Zhang Li Quan	Deputy General Manager	Appointment	Newly appointed in December 2018
Zeng Jing	Deputy General Manager	Appointment	Newly appointed in December 2018
Liu Da Wei	Chairman	Resigned	Resigned in January 2018
Zhou Hong	Director	Resigned	Resigned in January 2018
Li Ren Sheng	Director	Resigned	Resigned in January 2018
Zhang Li Quan	Director	Resigned	Resigned in January 2018
Yao Xiao Hu	Director	Resigned	Resigned in January 2018
Hwang Yuh Chang	Director (Independent)	Resigned	Resigned in May 2018
Zheng Yu Chun	Director (Independent)	Resigned	Resigned in December 2018
Xia Tong	Chairman of the Supervisory Committee	Resigned	Resigned in January 2018
Li Zheng	Supervisor	Resigned	Resigned in January 2018
Xu Chun	Supervisor Representing staff	Resigned	Resigned in May 2018
Jia Zhi Gang	Supervisor Representing staff	Resigned	Resigned in May 2018
Tu De Ling	Financial Controller	Resigned	Resigned in February 2018
Li Ren Sheng	Deputy General Manager	Resigned	Resigned in December 2018
Yu Hong	Secretary to the Board	Resigned	Resigned in December 2018

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

☑ Applicable ☐ Not applicable

On 2 November 2016, the Company received the Disciplinary Action Decision Notice [2016] No. 47 from Shanghai Stock Exchange (SSE): Circularized Criticism Decision for Chongqing Iron &Steel Company Limited and Related Responsible Persons. The Company failed to disclose the performance preannouncement for the year 2015 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 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 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). 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 Stock 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.

VI. EMPLOYEES OF THE PARENT COMPANY AND MAJOR SUBSIDIARIES

(I) Employees

Number of in-service employees of the Parent Company	6,443
Number of in-service employees of major subsidiaries	0
Total number of in-service employees	6,443
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	5,417
Sales staff	52
Technical staff	366
Finance staff	46
Administrative staff	562
Total	6,443

Education background

Education level	**Number of people**
Doctor's degree	4
Master's degree	154
Undergraduate	860
Associate diploma	1,854
Polytechnic school level	508
Secondary technical school level and below	3,063
Total	6,443

Note: the above number of in-service employees is the number of in-service persons of the Company as at the end of December 2018.

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, subsidies and allowances (including middle-and night-shift allowances, lunch fees, high temperature allowance) and bonus.

The Company determines the system, method and level of remuneration payment within the budgeted total amount of salary based on the Company's economic benefits and status as well as appraisal results.

The Company implements a minimum salary system, and provides a remuneration of not lower than the minimum salary standard prescribed by Chongqing municipal government for employees who offer normal labor in legitimate working time (including the trial period, probationary period and inspection period).

(III) Training program

☑ Applicable ☐ Not applicable

The Company has put in place a training management system and formulated an annual training plan, 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 talents with competence, vitality and high efficiency, which will ensure employees' career development and the Company's sustainable development.

According to the Company's production and operation as well as development requirements for the quality of staff members, in the year 2018, centralized training, mentoring system and technical seminar approaches were applied to the Company's employee training program in a bid to fully develop the employees' technical skills and further enhance the technologies, skills and management innovation abilities of those attending different functions. We carried out technical expert seminars, job skill exchange and demonstration, and case study to provide guidance for employees to actively participate in tackling technical problems as well as technical innovation and innovation management so that the Company could create a large talent pool of high-level technicians and management personnel.

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

(IV) Outsourcing

☐ Applicable ☑ Not applicable

VII. OTHERS

☐ Applicable ☑ Not applicable

I. EXPLANATION FOR ISSUES RELATED TO CORPORATE GOVERNANCE

☑ Applicable ☐ Not applicable

(I) Corporate Governance

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 X 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 whole year ended 31 December, 2018.

To the best of knowledge of the board of directors (the "Board"), the Company had complied with the requirements of the "Corporate Governance Code", Appendix XIV 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, it shall comply with the requirements of the Code of Corporate Governance for Listed Companies of the China Securities Regulatory Commission (the "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.

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

(I) 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.

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 requirements of the Company Law and the Articles of Association without overriding the general meetings to directly or indirectly intervene 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 in accordance with 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 resolutions 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 8 members, including 3 independent directors, 2 of whom are professional accountants. 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.

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

(I) 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 in accordance with 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 managements.

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: during production and operation of the Company, as the internal mechanism of self-regulation and self-restriction of production and operation activities, internal control plays an important role in the central management system of the Company. In promoting internal control construction, the Company adheres to the policy of learning from the advanced, steady advancement and gradual improvement, and the internal control system construction is carried out orderly. The Company has established the internal control construction organization system at the operation management level and production operation level and consummated the construction of the internal control system and the revision of the internal control manual in accordance with the requirements of the Guidelines on Application of Enterprise Internal Control jointly issued by five ministries and commissions of the PRC.

   The Board of the Company authorizes the internal audit department to take charge of the implementation of internal control assessment and to assess the relatively high-risk areas of business within the scope of the assessment. The internal audit department carries out comprehensive evaluation on effectiveness of the implementation of internal control including internal environment, risk assessment, control measures, information and communication and internal oversight in accordance with the basic standards and supporting guidelines issued by the five national ministries and commissions as well as relevant laws and regulations and the Articles of Association, based on the actual situation of the Company. Meanwhile, the Company engaged Ernst & Young Hua Ming LLP to conduct independent audit on the effectiveness of the Company's internal control.

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

(I) Corporate Governance (Continued)

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 requirements, 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 combination manual and automatic control as well as preventive and after detection control to maintain risk control within tolerable bounds.

7. Insider registration management: In accordance with relevant requirements, the Company has formulated the Information Insider Management System. 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 requirements, effectively guarding the principle of fairness in information disclosure. During the Reporting Period, the Company had no inside information leakage or insider transactions.

(II) Corporate Governance Practices

This section was prepared in accordance with the requirements under the Corporate Governance Code and Corporate Governance Report of the Stock Exchange.

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.

As at 31 December 2018, 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.

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

(II) Corporate Governance Practices (Continued)

a) *Securities transactions by Directors and Supervisors*

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

As at 31 December 2018, 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

Note: the above information indicates that the interests of the Directors and Supervisors in Hengda were transferred from the Company to Chongqing Iron & Steel Group in December 2002.

Save as disclosed above, as at 31 December 2018 none of the directors, supervisors or their respective associates had any interests in the shares of the Company or its associated corporations.

During the year of 2018, none of the directors or supervisors or their spouses or children under the age of 18 years of age has been granted by the Company the rights to subscribe for the Company's shares.

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

(II) Corporate Governance Practices (Continued)

a) Securities transactions by Directors and Supervisors (Continued)

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

At no time during the year of 2018 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 interests, either directly or indirectly.

At no time during the year of 2018 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.

(2) Service Contracts of Directors and Supervisors

The directors and supervisors of the Company respectively entered into service contracts which ended at the 2020 annual general meeting of the Company. There were neither terms regarding compensation for termination of service prior to the expiry of the service contracts nor terms regarding compensation for no renewal of service upon the expiry of such service contracts.

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

(II) Corporate Governance Practices (Continued)

a) *Securities transactions by Directors and Supervisors (Continued)*

(4) 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*

(1) Composition of the Board

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

(2) Number of Board meetings during the financial year

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

(3) Directors’ attendance of the Board meetings and general meetings

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

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

(II) Corporate Governance Practices (Continued)

b) The Board (Continued)

(4) 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.

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.

(5) 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.

(6) The Company strictly complied with the provision under Rule 3.13 of the Listing Rules of Hong Kong Stock Exchange during the Reporting Period.

(7) There is no disclosable connected relationship between members of the Board of the Company.

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

(II) Corporate Governance Practices (Continued)

b) The Board (Continued)

(8) 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.

(9) Board Diversity Policy

The Company has always sought to enhance the effectiveness of the Board and maintain the highest level of corporate governance and recognises the benefits of Board diversity. In determining the appointment of directors, the Company believes that Board diversity can be achieved through consideration of a number of factors including but not limited to skills, regional and industrial experience, cultural and educational background, race, gender, age, service term and other factors that the Board thinks applicable.

The nomination committee takes the principal responsibility for identifying the candidates with appropriate qualification to be members of the Board and will fully consider the the Board diversity policy in performing the duty.

The nomination committee considers that the current composition of the Board is in line with the actual conditions of the Company. The Board of the Company will formulate the Board diversity policy according to its own business model.

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.

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

(II) Corporate Governance Practices (Continued)

c) Chairman and general manager (Continued)

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

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

(II) Corporate Governance Practices (Continued)

e) *Committees under the Board (Continued)*

(1) Functions of special committees (Continued)

2. Primary responsibilities of the Audit Committee

    1) to make recommendations 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.

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

(II) Corporate Governance Practices (Continued)

e) Committees under the Board (Continued)

(1) 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 recommendations 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 recommendations;

6) other matters authorized by the Board.

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

(II) Corporate Governance Practices (Continued)

e) Committees under the Board (Continued)

(2) Composition of all special committees (as of 31 December 2018)

Strategy Committee	Audit Committee	Remuneration and Evaluation Committee	Nomination Committee
Zhou Zhu Ping *	*Xin Qing Quan* *	*Wong Chun Wa* *	*Xu Yi Xiang* *
Li Yong Xiang	Zheng Jie	Li Yong Xiang	Zhou Zhu Ping
Tu De Ling	*Wong Chun Wa*	*Xu Yi Xiang*	*Xin Qing Quan*
Zhang Shuo Gong			*Wong Chun Wa*
Zheng Jie			

Note: * Chairman of special committees, names in italic letters are independent non-executive directors.

(3) 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 institutions as the company secretary.

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

(II) Corporate Governance Practices (Continued)

h) *Shareholders' rights*

(1) Shareholders' right to convene an extraordinary general meeting

In accordance with the Companies 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. EXPLANATION FOR ISSUES RELATED TO CORPORATE GOVERNANCE (CONTINUED)

(II) Corporate Governance Practices (Continued)

h) Shareholders' rights (Continued)

(2) Enquiry procedure and available information

According to the provisions of the Articles of Association of the Company, relevant information may be available, 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) fulltime 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.

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

(II) Corporate Governance Practices (Continued)

h) Shareholders' rights (Continued)

(3) Procedure for proposing a resolution

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

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
The 2018 First Extraordinary General Meeting	29 January, 2018	Announcement on Resolutions of The 2018 First Extraordinary General Meeting (Ann. No.: 2018-006) published on the website of the Shanghai Stock Exchange (http://www.sse.com.cn)	30 January, 2018
2017 Annual General Meeting	15 May, 2018	Announcement on Resolutions of Annual General Meeting of 2017 (Ann. No.: 2018-027) published on the website of the Shanghai Stock Exchange (http://www.sse.com.cn)	16 May, 2018
The 2018 Second Extraordinary General Meeting	18 December, 2018	Announcement on Resolutions of The 2018 Second Extraordinary General Meeting (Ann. No.: 2018-044) published on the website of the Shanghai Stock Exchange (http://www.sse.com.cn)	19 December, 2018

II. INTRODUCTION OF GENERAL MEETINGS (CONTINUED)

Explanation on shareholders' meeting

☑ Applicable ☐ Not applicable

The 2018 First Extraordinary General Meeting of the Company was convened by the Board of the Company and presided by the chairman Mr. Tu De Ling. The convening of and the procedures for holding the meeting and the voting procedures at the meeting were in compliance with the relevant requirements of the Company Law and other laws and regulations as well as the Articles of Association of the Company. The following resolutions were approved at the meeting: 1. resolution on the proposed amendments to the Articles of Association of Chongqing Iron & Steel Company Limited; 2. resolution on the by-election of directors of the seventh session of the board of directors of the Company; 3. resolution on the election of independent non-executive director of the seventh session of the board of directors of the Company; 4. resolution on the by-election of shareholders representative supervisors of the seventh session of the Supervisory Committee of the Company.

The 2017 Annual General Meeting of the Company was convened by the Board of the Company and presided by the chairman Mr. Zhou Zhu Ping. The convening of and the procedures for holding the meeting and the voting procedures at the meeting were in compliance with the relevant requirements of the Company Law and other laws and regulations as well as the Articles of Association of the Company. The following resolutions were approved at the meeting: 1. the performance report of the independent directors of the Company for the year 2017; 2. the report of the board of directors of the Company for the year 2017; 3. the report of the Supervisory Committee of the Company for the year 2017; 4. the 2017 annual report of the Company; 5. the final financial accounts report of the Company for the year 2017; 6. the proposal in relation to no profit distribution by the Company for the year 2017; 7. the proposal for the budget of the Company for the year 2018; 8. the proposal for engagement of the financial and internal control auditor of the Company for the year 2018; 9. the proposal for the amendment to the Rules of Procedure for the Board of Directors of Chongqing Iron & Steel Company Limited; 10. the proposal for the amendment to the Rules of Procedure for the Supervisory Committee of Chongqing Iron & Steel Company Limited; 11. the plan for the remunerations of the directors and supervisors of the eighth session of board of directors and Supervisory Committee; 12. the proposal for the Employee Share Ownership Plan from 2018 to 2020 (Draft) of Chongqing Iron & Steel Company Limited and its summary; 13. the proposal for Management Measures on Employee Share Ownership Plan of Chongqing Iron & Steel Company Limited; 14. the proposal for the proposed authorisation to the board of directors by the general meeting to handle relevant matters regarding employee share ownership plan; 15. the proposal for election of directors of the eighth session of the board of directors of the Company; 16. the proposal for election of independent non-executive directors of the eighth session of the board of directors of the Company; 17. the proposal for election of shareholder representative supervisors of the eighth session of the Supervisory Committee of the Company.

II. INTRODUCTION OF GENERAL MEETINGS (CONTINUED)

The 2018 Second Extraordinary General Meeting of the Company was convened by the Board of the Company and presided by Mr. Zhou Zhu Ping. The convening of and the procedures for holding the meeting and the voting procedures at the meeting were in compliance with the relevant requirements of the Company Law and other laws and regulations as well as the Articles of Association of the Company. The following resolutions were approved at the meeting: 1. resolution on changes of undertakings by indirect controlling shareholder and de facto controller of Chongqing Iron & Steel; 2. resolution on the amendments to certain articles of the Articles of Association.

III. DUTY PERFORMANCE OF DIRECTORS

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

		Attendance of Board meetings						Attendance of general meetings
Name of director	Independent director or not	Number of Board meetings	Attendance in person	Attendance via communication	Attendance by proxy	Absence	Whether failed to attend 2 consecutive meetings in person	Number of general meetings attended
Zhou Zhu Ping	No	9	9	1	0	0	No	2
Li Yong Xiang	No	9	9	1	0	0	No	2
Tu De Ling	No	9	9	1	0	0	No	3
Zhang Shuo Gong	No	9	8	1	1	0	No	2
Zheng Jie	No	9	9	1	0	0	No	2
Xin Qing Quan	Yes	9	8	1	1	0	No	3
Xu Yi Xiang	Yes	9	9	1	0	0	No	3
Wong Chun Wa	Yes	9	8	2	1	0	No	2
Hwang Yuhchang	Yes	4	4	3	0	0	No	0
Zheng Yuchun	Yes	5	5	1	0	0	No	1

Explanations on failure to attend 2 consecutive meetings in person

☐ Applicable ☑ Not applicable

Number of Board meetings during the year	9
Including: number of physical meetings	4
Number of virtual meetings	1
Number of meetings by both physical and virtual means	4

III. DUTY PERFORMANCE OF DIRECTORS (CONTINUED)

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

☐ Applicable ☑ Not applicable

(III) Others

☐ Applicable ☑ Not applicable

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 Audit Committee

In 2018, in compliance with the Rules Governing the Listing of Stocks on the Shanghai Stock Exchange (revised in 2018), Guidance on Operation of Audit Committee under the Board for Companies Listed on the Shanghai Stock Exchange (《上海證券交易所上市公司董事會審計委員會運行指引》), Operational Guidelines of the Shanghai Stock Exchange for the Audit Committee under the Board of Listed Companies (《上海證券交易所上市公司董事會審計委員會運作指引》), the Articles of Association of Chongqing Iron & Steel Company Limited and the Work Rules for Audit Committee under the Board of Chongqing Iron & Steel Company Limited (《重慶鋼鐵股份有限公司董事會審核(審計)委員會工作條例》), the Audit Committee under the Board proactively and earnestly performed its responsibilities with devoted efforts. The performance by the Audit Committee in 2018 is reported as follows:

1. General status of Audit Committee of the Board

In 2018, as an election was held by the Board of the Company, the work of the Audit Committee throughout the year was carried out consecutively by members of the two sessions of the Audit Committee of the Board. The seventh session of the Audit Committee of the Board was comprised of Hwang Yuhchang (chairman), Xin Qingquan, Wong Chunwa and Zheng Jie as non-executive directors (including three independent directors), the eighth session of the Audit Committee of the Board was comprised of Xin Qingquan (chairman), Zheng Jie, Wong Chunwa and Zheng Yuchun as non-executive directors (including three independent directors). The position of chairman of the Audit Committee of the Company was assumed by an independent director with 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)

(I) Work of the Audit Committee (Continued)

2. *Meetings convened by the Audit Committee of the Board in 2018*

In 2018, a total of 5 meetings were convened by the Audit Committee of the Board of the Company, the particulars of which are as follows:

(1) The seventh meeting of the sixth session of the Audit Committee of the Board was held by the Company on 26 February 2018, at which the 2017 internal control audit report and 2017 financial statements of the Company issued by Pan-China Certified Public Accountants were debriefed, and the communication and report on significant matters identified in the audit on the 2017 financial statements and internal control integration as submitted by Pan-China Certified Public Accountants to the Audit Committee were discussed. The following matters were considered: ① the final financial accounts report of the Company for the year 2017; ② the resolutions in relation to confirmation of the continuing connected transactions conducted by the Company in 2017; ③ the 2017 self-evaluation report of the Company on internal control; ④ the 2017 internal audit report and the 2018 internal audit plan of the Company;⑤ the implementation plan for the internal control standards of the Company for the year 2018; ⑥ the budget of the Company for the year 2018; ⑦ the assessment report on audit on financial statements and internal control integration of the Company for the year 2017 conducted by Pan-China Certified Public Accountants (special general partnership).

(2) The eighth meeting of the sixth session of the Audit Committee of the Board was held by the Company on 20 March 2018, at which the resolution in relation to proposed engagement of auditors for financial and internal control audit of the Company for the year 2018 was considered.

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)

(I) Work of the Audit Committee (Continued)

2. Meetings convened by the Audit Committee of the Board in 2018 (Continued)

(3) The first meeting of the eighth session of the Audit Committee of the Board (the Company specially aligned the session of the special committees of the Board to that of the Board in order to standardize the session records of the special committees) was held by the Company on 16 August 2018, at which the following matters were considered: ① Resolution in relation to change in accounting policies of the Company; ② 2018 interim report of Chongqing Iron & Steel (full text and summary).

(4) The second meeting of the eighth session of the Audit Committee of the Board was held by the Company on 29 October 2018, at which the resolution in relation to adjustment of daily connected transactions of the Company for 2018 was considered.

(5) The third meeting of the eighth session of the Audit Committee of the Board was held by the Company on 18 December 2018, at which the resolution in relation to leasing of assets from related companies in 2019 was considered.

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)

(I) Work of the Audit Committee (Continued)

3. Work focus of the Audit Committee of the Board of the Company

(1) Supervising and evaluating the external auditor

① Evaluating the external auditor

Upon the issue of Auditors' Report for 2017 by Pan-China Certified Public Accountants (special general partnership), the Audit Committee under the Board of the Company held a meeting on 26 February 2018, at which it made a summary of the audit work by Pan-China Certified Public Accountants. The Audit Committee was of the opinion that Pan-China Certified Public Accountants adhered to the principles of independence in its practice of auditing for the Company and earnestly performed its duties as an auditor. As the term of Pan-China Certified Public Accountants expired as at the date of the 2017 annual general meeting of the Company, after a comprehensive review and assessment conducted by the Audit Committee over the qualifications, practicing quality, integrity, quotation for auditing service among a number of auditors, the Audit Committee recommended the Board to appoint Ernst & Young Hua Ming LLP as the auditor for financial and internal control audit of the Company for 2018.

② Supervision over audit on 2017 annual report

Prior to the commencement of annual audit by the auditor, the Audit Committee of the Board communicated with the certified public accountants responsible for the annual audit (the "CPAs") in respect of the plan for annual audit and specific audit arrangement, and examined the independence of the auditors concerned. Upon the commencement of audit by CPAs for annual audit, the Audit Committee of the Board communicated and exchanged opinions with the CPAs for annual audit about the problems identified 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 for annual audit in respect of the preliminary audit opinion, and recorded the opinions in writing.

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)

(I) Work of the Audit Committee (Continued)

3. Work focus of the Audit Committee of the Board of the Company (Continued)

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

On 26 February 2018, the Audit Committee under the Board of the Company earnestly debriefed the report by the audit department in relation to the Company's Internal Audit For 2017 and the Internal Audit Plan for 2018, and provided instructive opinions on the establishment of in-house audit team, rectification of internal control defects and perfection of internal audit structure of the Company, and promptly supervised and urged the implementation of the internal audit for 2018, which improved the Company's efficiency of internal audit.

(3) Reviewing the Company's financial statements and expressing opinions thereof

On 26 February 2018, the Audit Committee under the Board reviewed the 2017 financial statements of the Company issued by Pan-China Certified Public Accountants and considered that the 2017 financial statements, which had been prepared in accordance with the Accounting Standards for Business Enterprises and in compliance with the requirements stipulated by the Ministry of Finance, CSRC and other competent authorities, give a full picture of the financial status of the Company as at 31 December 2017, the operating results and cash flows of the Company for 2017, and the audit results were consistent with the actual conditions of the Company.

On 16 August 2018, the Audit Committee under the Board reviewed the Resolution in relation to the Change in Accounting Policies of the Company and approved that such change shall be carried out in accordance with regulations stipulated by the Ministry of Finance.

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)

(I) Work of the Audit Committee (Continued)

3. Work focus of the Audit Committee of the Board of the Company (Continued)

(4) Evaluating the effectiveness of internal control system

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. On 26 February 2018, the Audit Committee under the Board of the Company reviewed the Company's self-assessment report on internal control and the internal control audit report issued by Pan-China Certified Public Accountants, and found no material defect in the Company's financial report and non-financial reporting. Therefore, the Audit Committee was 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, and reminded the Company of making rectification on material defects identified in the internal control in the financial report.

4. Overall evaluation

In 2018, the Audit Committee under the Board of the Company earnestly performed its duties with diligence in accordance with relevant laws and regulations. In 2019, the Audit Committee of the Company will stringently exercise the power, functions and duties as conferred by the laws and regulations and effectively supervise the external audit, guide the internal audit, and audit financial statements so as to push forward the establishment of effective internal control for safeguarding the interests of the Company and its shareholders.

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 2018, the Remuneration and Evaluation Committee of the Board of the Company duly performed its duties with diligence in accordance with relevant laws, regulations, Articles of Association and Rules of Procedure for the Remuneration and Evaluation Committee. A total of two meetings were convened by the Remuneration and Evaluation Committee of the Board of the Company in 2018 with details as follows:

1. The fourth meeting of the fifth session of the Remuneration and Evaluation Committee was convened at the No. 1 Conference Room of Chongqing Iron & Steel Conference Center, by way of on-site meeting at 10:00 a.m. on 20 March 2018. All of the 4 members attended the meeting. The meeting was convened and presided over by Mr. Hwang Yuhchang, the chairman of the Remuneration and Evaluation Committee, at which the Plan for the Remunerations of the Directors and Supervisors of the Eighth Session of Board of Directors and Supervisory Committee, the Resolution in relation to the Incentive Framework for Senior Management of Chongqing Iron & Steel Company Limited, and the Resolution in relation to the Employee Share Ownership Plan from 2018 to 2020 (Draft) of Chongqing Iron & Steel Company Limited and its Summary were considered, upon which the following opinions were expressed:

    (1) The plan for the remunerations of the directors of the eighth session of board of directors proposed by the Board, which is in compliance with relevant laws, regulations and Articles of Association of the Company, was determined in accordance with the remuneration standards for directors approved at the general meeting and by reference to the functions and duties required for the positions concerned and the Company's results. As such, the plan will improve the working enthusiasm of directors and be conducive to the long-term development of the Company without prejudice to the interest of the Company and the shareholders.

    (2) The incentive framework for senior management proposed by the Company was formulated based on the target of the Company's perspective market-oriented business and human resources trend. Such incentive framework plan would bring the interest of the management in line with that of the shareholders and the operating results of the Company, and facilitate the long-term development of the Company. The incentive framework for senior management is in compliance with relevant laws, regulations and Articles of Association and without prejudice to the interest of the Company, other non-related shareholders and minority shareholders, and its decision-making procedures are legitimate and valid.

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 (Continued)

(3) The employee share ownership plan can help set up and improve a mechanism under which the labor and owners of the Company can share interest and risks, which can enhance corporate cohesion with employees and the Company's competitiveness and retain core employees. Moreover, it integrated the interests of the management, core employees and the shareholders, facilitating the long-term and stable development of the Company and enhancing shareholders' value. Abiding by the principle of "Legal compliance", "Voluntary participation" and "Self-responsibility", the employee share ownership plan is neither involved in apportionment, mandatory distribution and other circumstances in which employees are forced to participate in the plan, nor is there prejudice to the interest of the Company and its shareholders as a whole.

2. The first meeting (the Company purposefully adjusted the numbering of meeting held by the special committees of the Board to be in line with that of the Board for regulating the record) of the eighth session of the Remuneration and Evaluation Committee was convened at the No. 1 Conference Room of Chongqing Iron & Steel Conference Center, by way of on-site meeting at 15:20 p.m. on 18 December, 2018. All of the 4 members attended the meeting. The meeting was convened and presided over by Mr. Wong Chunwa, the chairman of the Remuneration and Evaluation Committee, at which, the following resolutions including the Resolution in relation to Collection and Utilization of Bonus of the Company for 2018 and the Resolution in relation to Phase I Employee Share Ownership Plan were considered with the following opinions expressed:

The Phase I Employee Share Ownership Plan of Chongqing Iron & Steel Company Limited ("Phase I Employee Share Ownership Plan") is in compliance with the laws and regulations under the Companies Law of the People's Republic of China, the Securities Law of the People's Republic of China, Guiding Opinions on the Implementation of the Pilot Program on Employee Share Ownership Plans by Listed Companies and the Articles of Association of Chongqing Iron & Steel Company Limited without any circumstances under which the employee share ownership plan is forbidden to be conducted. Phase I Employee Share Ownership Plan help set up and improve a mechanism under which the labor and owners of the Company can share interests and risks, which can enhance corporate cohesion among employees and the Company's competitiveness and retain core employees. Moreover, it can integrate the interests of the management, core employees and the shareholders, thereby facilitating the long-term and stable development of the Company and enhancing shareholders' value.

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 Nomination Committee

In 2018, the Nomination Committee of the Board 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. A total of four meetings were convened by the Nomination Committee of the Board of the Company in 2018 with details as follows:

1. The fourth meeting of the second session of the Nomination Committee was convened at the No. 1 Conference Room of Chongqing Iron & Steel Conference Center by way of on-site meeting at 14:20 on 26 February 2018. All of the 4 members attended the meeting. The meeting was convened presided by Mr. Xu Yixiang, the chairman of the Nomination Committee. At which, the Resolution in relation to Review of Qualifications of Lv Feng Nominated as a Candidate for the Chief Financial Officer (Financial Controller) of the Company and the Resolution in relation to Review of Qualifications of Candidates for Directors of the Eighth Session of the Board were considered with the opinions formed as follows:

   (1) Lv Feng, the qualification of whom is in compliance with the conditions required for chief financial officer (financial controller) of the Company, is competent for the position appointed thereto, his nomination procedures and qualifications are in accordance with the Companies Law, the Articles of Association of Chongqing Iron & Steel Company Limited and other laws and regulations and normative documents. No circumstance was identified under which Mr. Lv Feng is forbidden to be appointed as chief financial officer (financial controller), nor is there any other situations under which he is banned from market entry by the CSRC and such order has not yet been lifted.

   (2) Zhou Zhuping, Li Yongxiang, Tu Deling and other six directors are competent for their respective duties, and hold required qualifications for discharging their powers and responsibilities. Furthermore, Xin Qingquan, Xu Yixiang, Wong Chunwa and Zheng Yuchun are all independent of the Company, their qualifications meet the requirements set out in such laws as the Companies Law, the Election, Appointment and Conduct Guidelines for Directors of Listed Companies of Shanghai Stock Exchange and the Articles of Association of Chongqing Iron & Steel Company Limited and other normative documents. No circumstance was identified under which the above persons are forbidden to serve as directors, nor is there any other situations under which they are banned from market entry by the CSRC and such order has not yet been lifted.

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 Nomination Committee (Continued)

2. The first meeting (the Company purposefully adjusted the numbering of meeting held by the special committees of the Board to be in line with that of the Board for regulating the record) of the eighth session of the Nomination Committee of the Company was convened at the No. 1 Conference Room of Chongqing Iron & Steel Conference Center by way of on-site meeting during the adjournment of the first meeting of the eighth session of the Board of the Company in the afternoon on 15 May 2018. All of the 4 members attended the meeting. The meeting was convened and presided over by Mr. Xu Yixiang, the chairman of the Nomination Committee. At which, the Resolution in relation to the Appointment of General Manager of the Company, the Resolution in relation to the Appointment of Deputy General Manager and Chief Financial Officer of the Company and the Resolution in relation to the Appointment of Secretary to the Board and Securities representative of the Company were considered with the opinions formed as follows:

   (1) Having been fully informed of Mr. Li Yongxiang's occupation, educational background, qualification, detailed working experience and all of his full-time and part-time jobs, the Nomination Committee is of the opinion that Mr. Li Yongxiang holds the qualifications as a general manager as stipulated under the Companies Law and the Articles of Association of the Company and relevant laws and regulations.

   (2) Having been fully informed of Mr. Li Rensheng and Mr. Lv Feng's occupations, educational background, qualifications, detailed working experiences and all of their full-time and part-time jobs, the Nomination Committee is of the opinion that Mr. Li Rensheng and Mr. Lv Feng hold the qualifications as a deputy general manager as stipulated under the Companies Law and the Articles of Association of the Company and relevant laws and regulations. Mr. Lv Feng also holds the qualifications as a chief financial officer as stipulated under the Companies Law and the Articles of Association of the Company and relevant laws and regulations.

   (3) Having been fully informed of Ms. Yu Hong's occupation, educational background, qualification, detailed working experience and all of her full-time and part-time jobs, the Nomination Committee is of the opinion that Ms. Yu Hong holds the qualifications as a secretary to the Board as stipulated under the Companies Law and the Articles of Association of the Company and relevant laws and regulations.

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 Nomination Committee (Continued)

3. The second meeting of the eighth session of the Nomination Committee was convened at 7/F, Board's Conference Hall, Westin Hotel, Jiefangbei, Chongqing, by way of on-site meeting at 9:30 a.m. on 16 August 2018. All of the 4 members attended the meeting. The meeting was convened and presided over by Mr. Xu Yixiang, the chairman of the Nomination Committee. At which, the Resolution in relation to the Appointment of Ms. Meng Xiangyun as a Deputy General Manager of the Company was considered with the opinions formed as follows:

   Having been fully informed of Ms. Meng Xiangyun's occupation, educational background, qualification, detailed working experience and all of her full-time and part-time jobs, the Nomination Committee is of the opinion that Ms. Meng Xiangyun holds the qualifications as a deputy general manager as stipulated under the Companies Law and the Articles of Association of the Company and relevant laws and regulations and accordingly agreed on the appointment of Ms. Meng Xiangyun as a deputy general manager of the Company.

4. The third meeting of the eighth session of the Nomination Committee was convened at the No. 1 Conference Room of Chongqing Iron & Steel Conference Center, by way of on-site meeting at 9:30 a.m. on 29 October 2018. All of the 4 members attended the meeting. The meeting was convened presided over by Mr. Xu Yixiang, the chairman of the Nomination Committee, at which the Resolution in relation to the Appointment of Mr. Wang Bulin as a Deputy General Manager of the Company was considered with the opinions formed as follows:

   Having been fully informed of Mr. Wang Bulin's educational background, vocational expertise, working experience and part-time jobs, the Nomination Committee is of the opinion that Mr. Wang Bulin holds the qualifications as a deputy general manager as stipulated under the Companies Law and the Articles of Association of the Company and relevant laws and regulations and accordingly agreed on the appointment of Mr. Wang Bulin as a deputy general manager of the Company.

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

In 2018, the Company practiced the management concept of taking performance as the first evaluation standard, signed the assignment book of 2018 annual performance indicators with senior management to evaluate the completion of monthly, quarterly and annual indicators and cashed the remuneration accordingly.

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

☑ Applicable ☐ Not applicable

We evaluated the effectiveness of the internal control of the Company for the year ended 31 December 2018 (the reference date of internal control evaluation report) in accordance with the requirements of the Basic Standards for Internal Control of Companies and the corresponding guidance and other regulatory requirements concerning internal control (the "Corporate Internal Control Standard System"), taking into account internal control system and evaluation methods of the Company and based on the day-to-day monitoring and special supervision of internal control.

According to the identification criteria of material defects of internal control in the financial reporting of the Company, as at the basis date of internal control evaluation report, material defects 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 reporting, as at the basis date of internal control evaluation report, there was no material defects in the internal control for non-financial reporting.

Please refer to the 2018 Evaluation Report on Internal Control published by the Company 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 29 March 2019 for details.

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

☐ Applicable ☑ Not applicable

IX. EXPLANATION ON THE AUDIT REPORT ON INTERNAL CONTROL

☑ Applicable ☐ Not applicable

Ernst & Young Hua Ming LLP conducted an audit on the effectiveness of the Company's internal control over financial reporting as at 31 December, 2018 in accordance with Enterprise Internal Control Audit Guidance and relevant requirements from the practising guidances of the China Institute of Certified Public Accountants and the audit view is as follows: Chongqing Iron & Steel Company Limited maintained effective internal control on financial reporting in all material aspects as at 31 December, 2018 according to the Basic Standards for Enterprise Internal Control and relevant requirements.

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

AUDITOR'S REPORT

Ernst & Young Hua Ming (2019) Shen Zi No. 61427602_D01
Chongqing Iron and Steel Company Limited

To the shareholders of Chongqing Iron and Steel Company Limited:

(I) OPINION

We have audited the financial statements of Chongqing Iron and Steel Company Limited, which comprise the consolidated and company statement of financial position as at 31 December 2018, and the consolidated and company income statement, the consolidated and company statements of changes in equity and the statements of cash flows for 2018, and notes to the financial statements.

In our opinion, the accompanying financial statements of Chongqing Iron and Steel Company Limited present fairly, in all material respects, the consolidated and company's financial position of Chongqing Iron and Steel Company Limited as at 31 December 2018, and the consolidated and company's financial performance and cash flows for 2018 in accordance with Accounting Standards for Business Enterprises.

(II) BASIS FOR OPINION

We conducted our audit in accordance with China Standards on Auditing. 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 Chongqing Iron and Steel Company Limited and we have fulfilled our other ethical responsibilities in accordance with *China Code of Ethics for Certified Public Accountants*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

(III) KEY AUDIT MATTERS

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

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

(III) KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Cooperation with Qianxin International in purchases and sales	
Chongqing Iron and Steel Company Limited cooperated with Chongqing Qianxin International Trade Co., Ltd. ("Qianxin International", 重慶千信國際貿易有限公司) in purchases and sales. In 2018, the total amount of steel products sold by Chongqing Iron and Steel Company Limited to Qianxin International was RMB7,225 million (tax excluded), and the total amount of purchase was RMB5,600 million (tax excluded). Given that Qianxin International is a major customer and supplier of Chongqing Iron and Steel Company Limited and the transaction amounts are significant, we regarded the cooperation in purchases and sales between Qianxin International and Chongqing Iron and Steel Company Limited as a key audit matter. Please refer to Note XIII.1(3), and XIII.2 to the financial statements for disclosures on the cooperation with Qianxin International in purchases and sales.	The audit procedures include the following: 1) Understood and tested the design and operation of the internal control of purchases and sales; 2) Reviewed agreements between Chongqing Iron and Steel Company Limited and Qianxin International, assessed the business logic of the cooperation, paid attention to key agreement terms, reviewed the management's accounting treatment; 3) Selected transaction samples of purchases and sales with Qianxin International for the current year, checked the orders, inventory physical delivery documents, sales invoices, receipt and payment records, etc.; 4) Performed the confirmation procedure on transaction amounts and balances; 5) Checked industrial and commercial registration information of Qianxin International, got knowledge of the shareholding structure and business scope of Qianxin International; 6) Checked the disclosures in relation to the cooperation with Qianxin International in purchase and sales.

(III) KEY AUDIT MATTERS (CONTINUED)

Key audit matter	How our audit addressed the key audit matter
Provision for expected credit losses of trade receivables	
As at 31 December 2018, the book value of trade receivables amounted to RMB183,195,000 and the provision for expected credit losses of trade receivables amounted to RMB152,855,000 in the consolidated financial statements; the book value of trade receivables amounted to RMB182,262,000 and the provision for expected credit losses of trade receivables amounted to RMB152,411,000 in the company financial statements. In 2018, Chongqing Iron and Steel Company Limited adopted the New Financial Instrument Standard, which requires "expected credit losses" model for recognition and measurement of impairments on financial assets instead of "objective evidence of impairment" model. Management assessed the expected credit losses by considering the information including the age of trade receivables, the historical data of repayment, and the forward-looking information that may impact counterparties' ability to repay the outstanding balances. Given that the book value and provision for expected credit losses of trade receivables are significant, and the assessment of provision for expected credit losses of trade receivables involves significant accounting judgements and estimates, we regarded the provision for expected credit losses of trade receivables as a key audit matter. Please refer Note III.8, Note III.10, Note III.28, Note III.29, Note V.2, Note VIII.3, and Note XV.1 to the financial statements for disclosures on the provision for expected credit losses of trade receivables.	The audit procedures include the following: 1) Reviewed the management's assessment for provision for expected credit losses of beginning and ending balance of trade receivables, based on the historical data of repayment and forward-looking information; 2) Reviewed the age of trade receivables, and paid attention to the provision for expected credit losses of the long-term outstanding trade receivable; 3) Discussed with the management, assessed trade receivables with default or impairment indicators, checked historical repayment and the provision for expected credit losses of trade receivables; 4) Checked the repayment after the balance sheet date, and compared with expected repayment; 5) Checked the disclosures in relation to the provision for expected credit losses of trade receivables.

(IV) OTHER INFORMATION

The management of Chongqing Iron and Steel Company Limited is responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

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

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

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

(V) RESPONSIBILITIES OF THE MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

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

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

Those charged with governance are responsible for overseeing Chongqing Iron and Steel Company Limited's financial reporting process.

(VI) AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 judgement and maintain professional scepticism throughout the audit. We also:

(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.

(3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

(4) Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Chongqing Iron and Steel Company Limited's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements 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 Chongqing Iron and Steel Company Limited 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 Chongqing Iron and Steel Company Limited 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.

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

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.

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.

Ernst & Young Hua Ming LLP

Chinese Certified Public Accountant:
Chen Xiaoxiang
(Engagement partner)

Chinese Certified Public Accountant:
Ai Wei

Beijing, the People's Republic of China
28 March 2019

Consolidated Statement of Financial Position

As at 31 December 2018

Unit: RMB'000

Items	*Note V*	**31 December 2018**	31 December 2107
Current assets:			
Cash and bank balances	1	**2,764,631**	2,050,538
Financial assets held for trading		**30,000**	–
Notes and trade receivables	2	**30,340**	167,134
Prepayments	3	**908,646**	70,022
Other receivables	4	**10,506**	10,355
Inventories	5	**3,192,201**	1,330,469
Other current assets	6	**575,931**	1,128,655
Total current assets		**7,512,255**	4,757,173
Non-current assets:			
Available-for-sale financial assets	7	**–**	5,000
Long-term equity investments	9	**–**	124,158
Other equity investments	8	**5,000**	–
Property, plant and equipment	10	**16,914,109**	17,595,699
Construction in progress	11	**16,593**	8,695
Intangible assets	12	**2,454,327**	2,521,734
Deferred tax assets	13	**31,067**	–
Total non-current assets		**19,421,096**	20,255,286
Total assets		**26,933,351**	25,012,459
Current liabilities:			
Notes and trade payables	15	**2,946,316**	2,155,294
Advances from customers		**–**	187,099
Contract liabilities	16	**1,004,280**	–
Employee benefits payable	17	**333,407**	563,547
Taxes payable	18	**35,733**	13,095
Other payables	19	**354,665**	1,491,912
Non-current liabilities due within one year	20	**410,000**	400,000
Other current liabilities		**160,675**	–
Total current liabilities		**5,245,076**	4,810,947

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

Consolidated Statement of Financial Position (Continued)

As at 31 December 2018

Items	Note V	31 December 2018	31 December 2107
Non-current liabilities:			
Long-term borrowings	21	**300,000**	700,000
Long-term employee benefits payable	22	**240,615**	243,190
Provisions		**–**	11,204
Deferred income	23	**40,495**	43,154
Other non-current liabilities	24	**2,575,500**	2,400,000
Total non-current liabilities		**3,156,610**	3,397,548
Total liabilities		**8,401,686**	8,208,495
Owners' equity:			
Share capital	25	**8,918,602**	8,918,602
Capital reserve	26	**19,282,147**	19,282,147
Special reserve	27	**13,644**	–
Surplus reserve	28	**606,991**	606,991
Accumulated losses	29	**(10,289,719)**	(12,077,625)
Total equity attributable to owners of the parent		**18,531,665**	16,730,115
Non-controlling interests		**–**	73,849
Total owners' equity		**18,531,665**	16,803,964
Total liabilities and owners' equity		**26,933,351**	25,012,459

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

The financial statements have been signed by:

Legal Representative:	*Chief accountant:*	*Head of the accounting department:*
Zhou Zhuping	**Lv Feng**	**Lv Feng**

Statement of Financial Position of the Parent Company

As at 31 December 2018

Unit: RMB'000

Items	Note XV	31 December 2018	31 December 2107
Current assets:			
Cash and bank balances		**2,762,442**	1,961,403
Financial assets held for trading		**30,000**	–
Notes and trade receivables	1	**29,851**	169,949
Prepayments		**908,523**	69,581
Other receivables	2	**10,500**	10,355
Inventories		**3,192,201**	1,330,469
Other current assets		**575,931**	478,510
Total current assets		**7,509,448**	4,020,267
Non-current assets:			
Available-for-sale financial assets		**–**	5,000
Long-term equity investments	3	**–**	835,780
Other equity investments		**5,000**	–
Property, plant and equipment		**16,914,084**	17,595,699
Construction in process		**16,593**	8,695
Intangible assets		**2,454,327**	2,521,734
Deferred tax assets		**31,067**	–
Total non-current assets		**19,421,071**	20,966,908
Total assets		**26,930,519**	24,987,175

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

Statement of Financial Position of the Parent Company (Continued)

As at 31 December 2018

Items	Note XV	31 December 2018	31 December 2107
Current liabilities:			
Notes and trade payables		**2,945,889**	2,204,070
Advances from customers		**–**	185,905
Contract liabilities		**1,004,220**	–
Employee benefits payable		**333,407**	563,518
Taxes payable		**34,741**	13,113
Other payables		**354,665**	1,486,183
Non-current liabilities due within one year		**410,000**	400,000
Other current liabilities		**160,675**	–
Total current liabilities		**5,243,597**	4,852,789
Non-current liabilities:			
Long-term borrowings		**300,000**	700,000
Long-term employee benefits payable		**240,615**	243,190
Provisions		**–**	11,204
Deferred income		**40,495**	43,154
Other non-current liabilities		**2,575,500**	2,400,000
Total non-current liabilities		**3,156,610**	3,397,548
Total liabilities		**8,400,207**	8,250,337
Owners' equity:			
Share capital		**8,918,602**	8,918,602
Capital reserve		**19,313,090**	19,313,090
Special reserve		**13,644**	–
Surplus reserve		**577,012**	577,012
Accumulated losses		**(10,292,036)**	(12,071,866)
Total owners' equity		**18,530,312**	16,736,838
Total liabilities and owners' equity		**26,930,519**	24,987,175

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

Consolidated Income Statement

For the year ended 31 December 2018

Unit: RMB'000

Items	*Note V*	**Year ended 31 December 2018**	Year ended 31 December 2017
Revenue	30	**22,638,957**	13,236,840
Less: Cost of sales	30	**19,681,846**	13,531,607
Taxes and surcharges	31	**127,675**	82,364
Distribution and selling expenses	32	**88,057**	60,628
General and administrative expenses	33	**795,392**	574,502
Finance expenses	34	**183,073**	512,281
Including: Interest expenses		**278,680**	528,458
Interest income		**99,927**	9,244
Impairment losses on assets	35	**30,728**	292,599
Impairment losses on financial assets	36	**8,752**	–
Add：Other income	37	**2,729**	47,198
Investment income/(loss)	38	**5,455**	2,255
Including: investment income/(loss) from an associate		**(1,566)**	(6,857)
Gains/(losses) on disposal of assets	39	**14,822**	(5,009,485)
Operating profit/(loss)		**1,746,440**	(6,777,173)
Add: Non-operating income	40	**19,827**	7,226,586
Less: Non-operating expenses	41	**7,534**	129,603
Total profit/(loss)		**1,758,733**	319,810
Less: Income tax expenses/(credit)	43	**(29,300)**	2
Net Profit/(loss)		**1,788,033**	319,808
Breakdown by continuity of operations			
Net profit/(loss) from continuing operations		**1,788,033**	319,808
Breakdown by attributable interests			
Net profit/(loss) attributable to owners of the parent		**1,787,906**	320,086
Non-controlling interests		**127**	(278)

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

Consolidated Income Statement (Continued)

For the year ended 31 December 2018

Items	Note V	Year ended 31 December 2018	Year ended 31 December 2017
Other comprehensive income after tax		**–**	–
Total comprehensive income		**1,788,033**	319,808
Total comprehensive income attributable to owners of the parent		**1,787,906**	320,086
Total comprehensive income/(loss) attributable to non-controlling interests		**127**	(278)
Earnings per share：	44		
Basic earnings per share *(RMB/share)*		**0.20**	0.04
Diluted earnings per share *(RMB/share)*		**0.20**	0.04

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

Income Statement of the Parent Company

For the year ended 31 December 2018

Unit: RMB'000

Items	*Note XV*	**Year ended 31 December 2018**	Year ended 31 December 2017
Revenue	4	**22,633,236**	13,142,240
Less: Cost of sales	4	**19,681,842**	13,437,519
Taxes and surcharges		**127,627**	81,967
Distribution and selling expenses		**87,883**	58,029
General and administrative expenses		**800,514**	558,136
Finance expenses		**181,402**	515,593
Including: Interest expenses		**278,680**	528,458
Interest income		**98,593**	2,531
Impairment losses on assets		**30,728**	292,447
Impairment losses on financial assets		**8,752**	–
Add：Other income		**2,729**	47,198
Investment income/(loss)	5	**1,826**	(8,969)
Including: investment income/(loss) from an associate		**(1,566)**	(6,857)
Gains/(losses) on disposal of assets		**14,822**	(5,009,485)
Operating profit/(loss)		**1,733,865**	(6,772,707)
Add: Non-operating income		**19,744**	7,226,405
Less: Non-operating expenses		**4,846**	127,558
Total profit		**1,748,763**	326,140
Less: Income tax expenses/(credit)		**(31,067)**	–
Net Profit		**1,779,830**	326,140
Breakdown by continuity of operations			
Net profit from continuing operations		**1,779,830**	326,140
Other comprehensive income after tax		**–**	–
Total comprehensive income		**1,779,830**	326,140

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

Unit: RMB'000

Items	Year ended 31 December 2018 — Total equity attributable to owners of the parent: Share capital	Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Accumulated losses	Non-controlling interests	Total owners' equity
I. Closing balances of the preceding year and opening balances of the current year	**8,918,602**	**19,282,147**	**–**	**–**	**–**	**606,991**	**(12,077,625)**	**73,849**	**16,803,964**
II. Changes in the current year	**–**	**–**	**–**	**–**	**13,644**	**–**	**1,787,906**	**(73,849)**	**1,727,701**
(I) Total comprehensive income	–	–	–	–	–	–	1,787,906	127	1,788,033
(II) Owners' contribution and decrease in share capital	–	–	–	–	–	–	–	(73,513)	(73,513)
1. Others	–	–	–	–	–	–	–	(73,513)	(73,513)
(III) Profit Appropriation	–	–	–	–	–	–	–	(463)	(463)
1. Distribution to owners (or shareholders)	–	–	–	–	–	–	–	(463)	(463)
(IV) Special reserve	–	–	–	–	13,644	–	–	–	13,644
1. Amount established during the year	–	–	–	–	20,520	–	–	–	20,520
2. Amount utilized during the year	–	–	–	–	6,876	–	–	–	6,876
III. Closing balance for the year	**8,918,602**	**19,282,147**	**–**	**–**	**13,644**	**606,991**	**(10,289,719)**	**–**	**18,531,665**

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

	Year ended 31 December 2017								
	Total equity attributable to owners of the company								
Items	Share capital	Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Accumulated losses	Non-controlling interests	Total owners' equity
I. Closing balances of the preceding year and opening balances of the current year	4,436,023	7,154,203	–	–	–	606,991	(12,397,711)	93,060	(107,434)
II. Changes in the current year	4,482,579	12,127,944	–	–	–	–	320,086	(19,211)	16,911,398
(I) Total comprehensive income	–	–	–	–	–	–	320,086	(278)	319,808
(II) Owners' contribution and decrease in share capital	–	16,610,523	–	–	–	–	–	(18,933)	16,591,590
1. Others	–	16,610,523	–	–	–	–	–	(18,933)	16,591,590
(III) Transfers within owners' equity	4,482,579	(4,482,579)	–	–	–	–	–	–	–
1. Transfer to capital (or share capital) from capital reserve	4,482,579	(4,482,579)	–	–	–	–	–	–	–
(IV) Special reserve	–	–	–	–	–	–	–	–	–
1. Amount established during the year	–	–	–	–	13,619	–	–	–	13,619
2. Amount utilized during the year	–	–	–	–	13,619	–	–	–	13,619
III. Closing balance for the year	8,918,602	19,282,147	–	–	–	606,991	(12,077,625)	73,849	16,803,964

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

Statement of changes in Equity of the Parent Company

For the year ended 31 December 2018

Unit: RMB'000

Items	Year ended 31 December 2018 Share capital	Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Accumulated losses	Total owners' equity
I. Closing balances of the preceding year and opening balances of the current year	8,918,602	19,313,090	–	–	–	577,012	(12,071,866)	16,736,838
II. Changes in the current year	–	–	–	–	13,644	–	1,779,830	1,793,474
(I) Total comprehensive income	–	–	–	–	–	–	1,779,830	1,779,830
(II) Special reserve	–	–	–	–	13,644	–	–	13,644
1. Amount established during the year	–	–	–	–	20,520	–	–	20,520
2. Amount utilized during the year	–	–	–	–	6,876	–	–	6,876
III. Closing balance for the year	8,918,602	19,313,090	–	–	13,644	577,012	(10,292,036)	18,530,312

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

Items	Share capital	Capital reserves	Less: treasury shares	Other comprehensive income	Special reserves	Surplus reserves	Accumulated losses	Total owners' equity
	Year ended 31 December 2017							
I. Closing balances of the preceding year and opening balances of the current year	4,436,023	7,185,146	–	–	–	577,012	(12,398,006)	(199,825)
II. Changes in the current year	4,482,579	12,127,944	–	–	–	–	326,140	16,936,663
(I) Total comprehensive income	–	–	–	–	–	–	326,140	326,140
(II) Owners' contribution and decrease in share capital	–	16,610,523	–	–	–	–	–	16,610,523
1. Others	–	16,610,523	–	–	–	–	–	16,610,523
(III) Transfers within owners' equity	4,482,579	(4,482,579)	–	–	–	–	–	–
1. Transfer to capital (or share capital) from capital reserve	4,482,579	(4,482,579)	–	–	–	–	–	–
(IV) Special reserve	–	–	–	–	–	–	–	–
1. Amount established during the year	–	–	–	–	13,619	–	–	13,619
2. Amount utilized during the year	–	–	–	–	13,619	–	–	13,619
III. Closing balance for the year	8,918,602	19,313,090	–	–	–	577,012	(12,071,866)	16,736,838

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

Unit: RMB'000

Items	Note V	Year ended 31 December 2018	Year ended 31 December 2017
I. Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		**13,270,746**	1,127,997
Other cash received relating to operating activities	45	**175,337**	2,866,598
Sub-total of cash inflows from operating activities		**13,446,083**	3,994,595
Cash paid for purchase of goods and services		**9,306,899**	1,109,954
Cash paid to and on behalf of employees		**1,536,319**	907,211
Cash paid for all types of taxes		**263,339**	79,896
Other cash paid relating to operating activities	45	**1,001,331**	1,391,719
Sub-total of cash outflows from operating activities		**12,107,888**	3,488,780
Net cash flows from operating activities	46	**1,338,195**	505,815
II. Cash flows from investing activities:			
Cash received from disposal of investments		**1,241,636**	–
Cash received from return on investments		**7,021**	9,112
Net cash received from disposal of property plant and equipment, intangible assets and other long-term assets		**16,229**	6,887,024
Sub-total of cash inflows from investing activities		**1,264,886**	6,896,136
Cash paid for acquisition of property plant and equipment, intangible assets and other long-term assets		**14,281**	–
Cash paid for acquisition of investments		**620,000**	650,000
Sub-total of cash outflows from investing activities		**634,281**	650,000
Net cash flows from investing activities		**630,605**	6,246,136

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

Items	Note V	Year ended 31 December 2018	Year ended 31 December 2017
III. Cash flows from financing activities:			
Cash received from borrowings		**185,500**	5,317,740
Other cash received relating to financing activities	45	**1,181,576**	594,952
Sub-total of cash inflows from financing activities		**1,367,076**	5,912,692
Cash repayments of borrowings		**400,000**	10,021,909
Cash paid for distribution of dividends or profits, and for interest expenses		**247,845**	172,257
Other cash paid relating to financing activities	45	**1,587,450**	2,343,765
Sub-total of cash outflows from financing activities		**2,235,295**	12,537,931
Net cash flows from financing activities		**(868,219)**	(6,625,239)
IV. Effect of changes in exchange rate on cash and cash equivalents		**–**	(3,197)
V. Net increase in cash and cash equivalents		**1,100,581**	123,515
Add: Cash and cash equivalents at the beginning of the year		**868,962**	745,447
VI: Cash and cash equivalents at the end of the year	46	**1,969,543**	868,962

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

Statement of Cash Flows of the Parent Company

For the year ended 31 December 2018

Unit: RMB'000

Items	Year ended 31 December 2018	Year ended 31 December 2017
I. Cash flows from operating activities:		
Cash received from sale of goods and rendering of services	**13,269,131**	1,072,973
Other cash received relating to operating activities	**173,919**	2,850,182
Sub-total of cash inflows from operating activities	**13,443,050**	3,923,155
Cash paid for purchase of goods and services	**9,306,899**	1,058,376
Cash paid to and on behalf of employees	**1,536,290**	897,689
Cash paid for all types of taxes	**262,516**	79,366
Other cash paid relating to operating activities	**994,972**	1,377,270
Sub-total of cash outflows from operating activities	**12,100,677**	3,412,701
Net cash flows from operating activities	**1,342,373**	510,454
II. Cash flows from investing activities:		
Cash received from disposal of investments	**591,636**	–
Net cash received from disposal of property plant and equipment, intangible assets and other long-term assets	**16,229**	6,887,024
Net cash received from disposal of subsidiaries and other business units	**2,289**	–
Sub-total of cash inflows from investing activities	**610,154**	6,887,024
Cash paid for acquisition of property plant and equipment, intangible assets and other long-term assets	**14,256**	–
Cash paid for investments	**620,000**	–
Sub-total of cash outflows from investing activities	**634,256**	–
Net cash flows from investing activities	**(24,102)**	6,887,024

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

Items	Year ended 31 December 2018	Year ended 31 December 2017
III. Cash flows from financing activities:		
Cash received from borrowings	**185,500**	5,317,740
Other cash received relating to financing activities	**1,181,576**	594,952
Sub-total of cash inflows from financing activities	**1,367,076**	5,912,692
Cash repayments of borrowings	**400,000**	10,021,909
Cash paid for distribution of dividends or profits, and for interest expenses	**247,382**	172,257
Other cash paid relating to financing activities	**850,438**	2,341,518
Sub-total of cash outflows from financing activities	**1,497,820**	12,535,684
Net cash flows from financing activities	**(130,744)**	(6,622,992)
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	**–**	203
V. Net increase in cash and cash equivalents	**1,187,527**	774,689
Add: Cash and cash equivalents at the beginning of the year	**779,827**	5,138
VI. Cash and cash equivalents at the end of the year	**1,967,354**	779,827

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

I BASIC INFORMATION ON THE COMPANY

According to the approval of Ti Gai Sheng Zi [1997] No. 127 issued by the State Commission for Restructuring Economic Systems and the approval of Guo Zi Qi Fa [1997] No. 156 issued by the State-owned Assets Administration Bureau, Chongqing Iron & Steel Company Limited (the "Company") was established as a limited liability company by Chongqing Iron & Steel (Group) Co., Ltd. ("CISG") as the sole promoter. The Company was incorporated and registered with Chongqing Municipal Administration of Industry and Commerce on 11 August 1997, whose headquarter 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 RMB8,918,602,000 and the sum of 8,918,602,000 shares with par value of RMB1 each, including 8,380,475,000 A shares without any restricted condition and 538,127,000 H shares. The Company's shares were listed in the Stock Exchange of Hong Kong Ltd. and listed in Shanghai Stock Exchange on 17 October 1997 and 28 February 2007, respectively.

Pursuant to the reorganization plan, 2,096,981,600 shares of the Company held by CISG were transferred to Chongqing Changshou Iron and Steel Co., Ltd. (重慶長壽鋼鐵有限公司) ("Changshou Iron & Steel") on 27 December 2017, and the share transfer procedures were completed with China Securities Depository and Clearing Corporation Limited. Subsequent to the completion of the share transfer, Changshou Iron & Steel holds 2,096,981,600 shares of the Company, with a shareholding percentage of 23.51%, and became the controlling shareholder of the Company.

The Company and its subsidiaries (collectively the "Group") are mainly engaged in the production, processing and sale of steel plates, steel sections, wire rods, bar materials, billets and thin plates, and in the production and sale of coking and coal chemical products, pig iron & grain slag, steel slag, and steel scrap.

The financial statements were approved by the Board of Directors of the Company on 28 March 2019. In accordance with the Articles of Association of the Company, these financial statements will be proposed to the general meeting for review.

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

II PREPARATION BASIS OF THE FINANCIAL STATEMENTS

These financial statements have been prepared in accordance with the "Accounting Standards for Business Enterprises – Basic Standards" promulgated by the Ministry of Finance of the People's Republic of China (the "MOF") and the specific accounting standards, subsequent practice notes, interpretations and other relevant regulations as subsequently announced and revised (collectively "CAS").

These financial statements are prepared on a going concern basis.

Other than certain financial instruments, these financial statements have been prepared at historical cost convention. If the assets are impaired, corresponding provisions for impairment shall be made according to relevant provisions.

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The Group has determined the accounting policies and accounting estimates based on the characteristics of the operation, especially those related to provision for bad debt of receivables, inventory pricing method, depreciation of property, plant and equipment ("PPE"), and amortization of intangible assets, etc.

1. Statement of compliance

These financial statements have been prepared in accordance with CAS, and present truly and completely the financial position of the Group and the Company as at 31 December 2018 and the results of their operations and cash flows for the year ended 31 December 2018.

2. Accounting period

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

3. Functional currency

The functional currency of the Group and the currency used in preparing the financial statements are Renminbi. The amounts in the financial statements were denominated in thousands of Renminbi, unless otherwise stated.

4. Business combination

Business combinations are classified into business combinations involving entities under common control and business combinations not involving entities under common control.

(1) Business combination involving entities under common control

A business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties both before and after the combination, and that control is not transitory. For a business combination involving entities under common control, the party that, on the combination date, obtains control of another entity participating in the combination is the absorbing party, while that other entity participating in the combination is a party being absorbed. Combination date is the date on which the absorbing party effectively obtains control of the party being absorbed.

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

4. Business combination (Continued)

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

Assets and liabilities that are obtained by the absorbing party in a business combination involving entities under common control, including goodwill arising from the acquisition of the party being absorbed by the ultimate controller, shall be accounted for on the basis of the carrying amounts on the financial statements of the ultimate controller at the combination date. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination (or the aggregate face value of shares issued as consideration) shall be adjusted to share premium under capital reserve. If the capital reserve is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

(2) Business combination not involving entities under common control

A business combination not involving entities under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the combination. For a business combination not involving entities under common control, the party that, on the acquisition date, obtains control of another entity participating in the combination is the acquirer, while that other entity participating in the combination is the acquiree. Acquisition date refers to the date on which the acquirer effectively obtains control of the acquiree.

The acquirer shall measure the acquiree's identifiable assets, liabilities and contingent liabilities acquired in the business combination not involving entities under common control at their fair values on the acquisition date.

The excess of the sum of the consideration paid (or equity securities issued) for business combination and equity interests in the acquiree held prior to the date of acquisition over the share of the attributable net identifiable assets of the acquiree, measured at fair value, was recognized as goodwill, which is subsequently measured at cost less cumulative impairment loss. In case the fair value of the sum of the consideration paid (or fair value of equity securities issued) and equity interests in the acquiree held prior to the date of acquisition is less than the fair value of the share of the attributable net identifiable assets of the acquiree, a review of the measurement of the fair values of the identifiable assets, liabilities and contingent liabilities, the consideration paid for the combination (or fair value of equity securities issued) and the equity interests in the acquiree held prior to the date of acquisition is conducted. If the review indicates that the fair value of the sum of the consideration paid (or equity securities issued) and equity interests in the acquiree held prior to the date of acquisition is indeed less than the fair value of the share of the attributable net identifiable assets of the acquiree, the difference is recognized in current profit or loss.

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

5. Consolidated financial statements

The consolidation scope of consolidated financial statements is determined on the basis of control, including the financial statements of the Company and all of its subsidiaries. A subsidiary is an entity that is controlled by the Company, including separable parts of an enterprise or investee and structured entities controlled by the Company, etc.

In preparation of consolidated financial statements, the subsidiaries use the same accounting period and accounting policies as those of the Company. All intra-group assets, liabilities, equity interests, income, expenses and cash flow are eliminated in full on consolidation.

Where the amount of losses of a subsidiary attributable to the non-controlling shareholders in the current period exceeds their share of the opening balance of owner's equity of the subsidiary, the excess shall be allocated against non-controlling interests.

For subsidiaries acquired through business combinations not involving entities under common control, the operating results and cash flows of the acquiree shall be included in the consolidated financial statements, from the day on which the Group gains control, till the Group ceases the control of it. While preparing the consolidated financial statements, the acquirer shall adjust the subsidiary's financial statements, on the basis of the fair values of the identifiable assets, liabilities and contingent liabilities recognized on the acquisition date.

For subsidiaries acquired through business combinations involving entities under common control, the operating results and cash flows of the acquiree shall be included in the consolidated financial statements from the beginning of the period in which the combination occurs. While preparing the comparative consolidated financial statements, adjustments are made to related items in the financial statements for the prior period as if the reporting entity established through combination has been existing since the ultimate controller begins to exercise control.

The Group's control over an investee is re-assessed if change in relevant facts and situations causes changes in one or more of the control substances.

6. Cash and cash equivalents

Cash comprises the Group's cash on hand and deposits that can be readily withdrawn on demand. Cash equivalents are short-term, highly liquid investments held by the Group, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

7. Foreign currency translation

The Group translates the amount of foreign currency transactions occurred into its functional currency.

Foreign currency transactions are recorded, on initial recognition, in the functional currency, by applying to the foreign currency amount the spot exchange rate prevailing on the transaction dates. At the balance sheet date, foreign currency monetary items are translated using the spot exchange rate prevailing on the balance sheet date. All the resulting differences on settlement and monetary item translation are taken to profit or loss in the current period, except for those relating to foreign currency borrowings specifically for construction and acquisition of qualifying assets, which are capitalized in accordance with the principle of capitalization of borrowing costs. Non-monetary foreign currency items measured at historical cost shall still be translated at the spot exchange rate prevailing on the transaction date, and the amount denominated in the functional currency is not changed. Non-monetary foreign currency items measured at fair value are translated at the spot exchange rate prevailing at the date on which the fair values are determined. The difference thus resulted are recognized in profit or loss or as other comprehensive income based on the nature of the non-monetary items.

Foreign currency cash flows are translated using the average exchange rate for the period during which the cash flows occur. The effect of exchange rate changes on cash is separately presented as an adjustment item in the cash flow statement.

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

8. Financial instruments (applicable from 1 January 2018)

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

(1) Recognition and derecognition of financial instruments

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

The Group derecognizes and writes off a financial asset (or part of a financial asset, or part of a group of similar financial assets) from its account and balance sheet when the following conditions are met:

1) the rights to receive cash flows from the asset have expired;

2) the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

If the underlying obligation of a financial liability has been discharged or cancelled or has expired, the financial liability is derecognized. If an existing financial liability is replaced by the same creditor with a new financial liability that has substantially different terms, or if the terms of an existing financial liability are substantially revised, such replacement or revision is accounted for as the derecognition of the original liability and the recognition of a new liability, and the resulting difference is recognized in profit or loss.

Regular way purchases or sales of financial assets are recognized and derecognized on the trade date. Regular way purchases or sales of financial assets mean that the financial assets are received or delivered under the terms of a contract within a period established by regulations or conventions in the marketplace. Trade date is the date that the Group commits to purchase or sell the asset.

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

8. Financial instruments (applicable from 1 January 2018) (Continued)

(2) Classification and measurement of financial assets

According to the Group's corporate business model for managing financial assets and the contractual cash flow characteristics of the financial assets, the Group's financial assets are, on initial recognition, classified into the following categories: financial assets at fair value through profit or loss, financial assets at amortized cost, and financial assets at fair value through other comprehensive income. A financial asset is recognized initially at fair value. The notes and trade receivables generated from sales of goods or services, which do not contain significant financing component or do not consider financing component over one year, initially are measured at trading price.

In the case of financial assets at fair value through profit or loss, relevant transaction costs are directly charged to profit or loss; transaction costs relating to financial assets of other categories are included in the amounts initially recognized.

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

1) Debt instrument investment at amortized cost

Financial assets are classified as financial assets at amortized cost if the financial assets meet the following conditions: the objective of the Group's business model for managing such financial assets is to collect contractual cash flows; the contractual terms of the financial assets stipulate that cash flows generated on a specific date are solely payment of the principal and the interest based on the outstanding principal amount. Such financial assets recognize interest income by using the effective interest rate method. The gains or losses arising from derecognition, adjustment or impairment are recognized in profit or loss. Such financial assets include cash and bank balance, notes and trade receivables, other receivables, etc.

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

8. Financial instruments (applicable from 1 January 2018) (Continued)

(2) Classification and measurement of financial assets (Continued)

2) Debt instrument investment at fair value through other comprehensive income

Financial assets are classified as financial assets at fair value through other comprehensive income if the financial assets meet the following conditions: the objective of the Group's business model for managing such financial assets is both to collect contractual cash flows and to dispose of the financial assets; the contractual terms of the financial assets stipulate that cash flows generated on a specific date are solely payment of the principal and the interest based on the outstanding principal amount. Such financial assets recognize interest income by using the effective interest rate method. Except for interest income, impairment losses and exchange difference recognized as profit or loss, other changes in fair value are recognized as other comprehensive income. When such financial asset is derecognized, the accumulated gain or loss previously recognized in other comprehensive income is transferred from other comprehensive income to profit or loss. Such financial assets are presented as other debt investments, other debt investments due within one year from the balance sheet date are presented as non-current assets due within one year, and other debt investments with original maturities within one year are presented as other current assets.

3) Equity instrument investment at fair value through other comprehensive income

The Group irrevocably elects to designate certain equity instrument investments not held for trading as financial assets at fair value through other comprehensive income, such that only relevant dividend income (excluding the dividends recovered as part of the investment cost) is recognized as profit or loss and changes in fair value are recognized as other comprehensive income, and the provision for impairment is not accrued. When such financial asset is derecognized, the accumulated gain or loss previously recognized in other comprehensive income is transferred from other comprehensive income to retained earnings. And such financial assets are presented as other equity investments.

It is a financial asset held for trading if it meets one of the following conditions: to acquire the relevant financial asset or assume the relevant financial liability is primarily for the purpose of selling or buying-back in the near term; it is a part of a portfolio of identifiable financial instruments that are collectively managed, and there is objective evidence indicating that the entity recently adopts the model of short-term profit-taking; it is a derivative, except for a derivative that is designated as an effective hedging instrument, or one that is aligned with a derivative under financial guarantee contract.

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

8. Financial instruments (applicable from 1 January 2018) (Continued)

(2) Classification and measurement of financial assets (Continued)

4) Financial assets at fair value through profit or loss

Apart from the financial assets at amortized cost and financial assets at fair value through other comprehensive income mentioned above, other financial assets are classified as financial assets at fair value through profit or loss. Such financial assets are subsequently measured at fair value. All changes in fair value are recognized in profit or loss. Such financial assets are presented as financial assets held for trading. They are presented as other non-current financial assets, when the maturity is or expected to be above one year from the balance sheet date.

Only when the business model for managing financial assets is changed by the Group, the Group will reclassify the related financial assets affected.

(3) Classification and measurement of financial liabilities

The Group's financial liabilities are, on initial recognition, classified into other financial liabilities, and the related transaction costs are included in the amounts initially recognized. Such kinds of financial liabilities are subsequently measured at amortized cost by using the effective interest rate method.

(4) Impairment of financial assets

On the basis of expected credit losses ("ECLs"), the Group makes impairment provisions and recognizes loss provisions for the financial assets carried at amortized cost and investments on debt instrument at fair value through other comprehensive income.

Credit loss represents the difference between all contractual cash flows due to the Group under contracts discounted at the original effective interest rate and all the cash flows that the Group expects to receive, i.e. the present value of all cash shortfalls. Among them, the financial assets acquired or originated by the Group that have impaired with credit shall be discounted at an effective interest rate adjusted in accordance with credit status of the financial assets.

For trade receivables that do not contain significant financing components, the Group uses a simplified measurement method to measure loss provision based on the amount of ECLs throughout the lifetime.

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

8. Financial instruments (applicable from 1 January 2018) (Continued)

(4) *Impairment of financial assets (Continued)*

In addition to the abovementioned financial assets for which the simplified measurement method are used, the Group measures the loss provision based on the amount of ECLs over the lifetime. Except for certain financial assets on which ECLs are assessed on an individual basis, the Group also assesses the ECLs of financial assets at amortized cost based on the aging profile. In addition to the abovementioned financial assets for which the simplified measurement method are used, the Group assesses whether its credit risk has increased significantly since the initial recognition on each balance sheet date. Financial instruments for which credit risk has not increased significantly since initial recognition, at stage 1, and for which the loss allowance is measured at an amount equal to 12-month ECLs, calculated by carrying amount and effective interest rate; financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets, at stage 2, and for which the loss allowance is measured at an amount equal to lifetime ECLs, calculated by carrying amount and effective interest rate; financial assets that are credit-impaired since initial recognition, at stage 3, and for which the loss allowance is measured at an amount equal to lifetime ECLs, calculated by carrying amount and effective interest rate. For these financial instruments with lower credit risk at reporting date, the Group assumes the related credit risk has not increased significantly since initial recognition.

The Group assesses the ECLs of financial instruments by individual or group. Considered the characteristics of different customers' credit risk, the Group assesses the ECLs of trade receivables and other receivables based on the ageing profile. The Group assesses the ECLs of notes receivable, by considering the characteristics of the acceptors' credit risk.

When assessing the ECLs, the Group considers reasonable and evidenced information about past events, current conditions and future economic forecasts.

The disclosure of the criteria for judging significant increase in credit risk, the definition of credit-impaired assets, and the assumption of ECLs measurement, please refer to Note VIII.3.

When the Group no longer reasonably expects to be able to recover, in full or in part, the contractual cash flows of financial assets, the Group directly writes down the carrying amount for the financial assets.

If the financial assets that have been written down are recovered in the future, the reversal of the ECLs are charged to the profit or loss.

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

8. Financial instruments (applicable from 1 January 2018) (Continued)

(5) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is presented in the balance sheet to the extent that there is a currently enforceable legal right to offset the recognized amounts and that there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(6) Financial guarantee contracts

Financial guarantee contracts are those contracts that require a payment to be made by the issuer to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are measured, on initial recognition, at fair value. For financial guarantee contracts that are not designated as at fair value through profit or loss, they are, after initial recognition, subsequently measured at the higher of: (i) the amount of the ECLs settle at the balance sheet date, and (ii) the amount initially recognized less the cumulative amortization recognized in accordance with the guidance for revenue recognition.

(7) Transfers of financial assets

If the Group transfers substantially all the risks and rewards of ownership of the financial asset, the Group derecognizes the financial asset; if the Group retains substantially all the risks and rewards of ownership of the financial asset, the Group does not derecognize the financial asset.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it accounts for the transactions as follows: (i) if the Group has not retained control, it derecognizes the financial asset and recognizes any resulting assets or liabilities; (ii) if the Group has retained control, it continues to recognize the financial asset to the extent of its continuing involvement in the transferred financial asset and recognizes an associated liability.

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

9. Financial instruments (applicable for 2017)

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

(1) Recognition and derecognition of financial instruments

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

The Group derecognizes and writes off a financial asset (or part of a financial asset, or part of a group of similar financial assets) from its account and balance sheet when the following conditions are met:

1) the rights to receive cash flows from the asset have expired;

2) the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

If the underlying obligation of a financial liability has been discharged or cancelled or has expired, the financial liability is derecognized. If an existing financial liability is replaced by the same creditor with a new financial liability that has substantially different terms, or if the terms of an existing financial liability are substantially revised, such replacement or revision is accounted for as the derecognition of the original liability and the recognition of a new liability, and the resulting difference is recognized in profit or loss.

Regular way purchases or sales of financial assets are recognized and derecognized on the trade date. Regular way purchases or sales of financial assets mean that the financial assets are received or delivered under the terms of a contract within a period established by regulations or conventions in the marketplace. Trade date is the date that the Group commits to purchase or sell the asset.

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

9. Financial instruments (applicable for 2017) (Continued)

(2) Classification and measurement of financial assets

Financial assets are, on initial recognition, classified into the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. A financial asset is recognized initially at fair value. In the case of financial assets at fair value through profit or loss, relevant transaction costs are directly charged to profit or loss; transaction costs relating to financial assets of other categories are included in the amounts initially recognized.

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

1) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and those designated upon initial recognition at fair value through profit or loss. A financial asset held for trading is a financial asset that meets one of the following conditions: (i) the financial asset is acquired for the purpose of selling in the near term; (ii) the financial asset is a part of a portfolio of identifiable financial instruments that are collectively managed, and there is objective evidence indicating that the entity recently manages this portfolio for the purpose of short-term profit-taking; (iii) the financial asset is a derivative, except for a derivative that is designated as an effective hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price from an active market) and the fair value of which cannot be reliably measured. For such kind of financial assets, fair values are adopted for subsequent measurement. All the realized or unrealized gains or losses are recognized in profit or loss. Dividend income or interest income related to financial assets at fair value through profit or loss is recognized in profit or loss.

2) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such kinds of financial assets are subsequently measured at amortized cost using the effective interest rate method. Gains or losses arising from amortization or impairment are recognized in profit or loss.

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

9. Financial instruments (applicable for 2017) (Continued)

(2) Classification and measurement of financial assets (Continued)

3) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified as any of the other categories at initial recognition. Available-for-sale financial assets are subsequently measured at fair value. The discount/premium is amortized using the effective interest rate method and recognized as interest income or expense. A gain or loss arising from a change in the fair value of an available-for-sale financial asset is recognized as other comprehensive income, except that impairment losses and foreign exchange gains or losses from monetary financial assets which are recognized in profit or loss, until the financial asset is derecognized or impaired, at which time its accumulated gain or loss is transferred to profit or loss. Interest and dividends relating to an available-for-sale financial asset are recognized in profit or loss.

Equity instruments without a quoted price from an active market and the fair value of which cannot be reliably measured are carried at cost.

(3) Classification and measurement of financial liabilities

The Group's financial liabilities are, on initial recognition, classified as other financial liabilities. The related transaction costs are directly charged to profit or loss. Such kinds of financial liabilities are subsequently measured at amortized cost by using the effective interest rate method.

(4) Impairment of financial assets

The Group assesses at the balance sheet date the carrying amount of each financial asset. If there is objective evidence indicating a financial asset may be impaired, a provision is made for the impairment. Objective evidence that a financial asset is impaired is one or more events that occur after the initial recognition of the asset and have an impact (which can be reliably estimated) on the expected future cash flows of the financial asset. Objective evidence that a financial asset is impaired includes: significant financial difficulty of the issuer or obligor; a breach of contract by the obligor, such as a default or delinquency in interest or principal payments; it becoming probable that the obligor will become bankrupt or carry out other financial reorganizations; and observable data indicating that there is a measurable decrease in the estimated future cash flows of the obligor.

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

9. Financial instruments (applicable for 2017) (Continued)

(4) Impairment of financial assets (Continued)

1) Financial assets carried at amortized cost

If impairment on a financial asset has occurred, the carrying amount of the asset is reduced to the present value of the expected future cash flows through a deduction item (excluding future credit losses that have not been incurred). Impairment is recognized in profit or loss. The present value of the expected future cash flows is discounted at the financial asset's original effective interest rate (i.e. effective interest rate computed on initial recognition) and includes the value of any related collateral. Interest income of the impaired financial assets is recognized using the rate of interest used to discount future cash flows for the purpose of measuring the related impairment loss. Loans and receivables together with any associated provision for impairment are written off when there is no realistic prospect of future recovery and all collaterals have been realized or have been transferred to the Group.

For a financial asset that is individually significant, the asset is individually assessed for impairment, and the amount of impairment is recognized in profit or loss if there is objective evidence of impairment. For a financial asset that is not individually significant, it is individually assessed for impairment or is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. If no objective evidence of impairment occurs for an individually assessed financial asset (whether the financial asset is individually significant or not individually significant), it is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Assets for which an impairment loss is individually recognized is not included in a group of financial assets with similar credit risk characteristics for collective assessment for impairment.

If, subsequent to the Group's recognition of an impairment loss on a financial asset carried at amortized cost, there is objective evidence of a recovery in value of the financial asset and the recovery can be objectively related to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed and recognized in profit or loss. However, the reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment loss not been recognized on the date the impairment is reversed.

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

9. Financial instruments (applicable for 2017) (Continued)

(4) Impairment of financial assets (Continued)

2) Available-for-sale financial assets

If there is objective evidence that an available-for-sale asset is impaired, the accumulated losses arising from decline in fair value previously recognized in other comprehensive income are removed and recognized in profit or loss. The accumulated losses removed from other comprehensive income are the difference between the initial acquisition cost (net of any principal repayment and amortization) and the current fair value, less any impairment loss on the financial asset previously recognized in profit or loss.

Objective evidence that an available-for-sale equity instrument investment is impaired includes a significant or prolong decline in fair value. "Significant" is evaluated against the extent that the fair value is less than the cost, while "prolong" is evaluated by the length of duration when the fair value is less than the cost. Where there is objective evidence that a financial asset is impaired, the transferred cumulative loss is calculated using its acquisition cost less its current fair value and any impairment loss previously recognized in profit or loss. Impairment losses for an investment in an equity instrument classified as available for sale shall not be reversed through profit or loss. Increase in their fair value after impairment is recognized directly in other comprehensive income.

The determination of what is "significant" and "prolonged" requires judgement. The Group evaluates, among other factors, the duration and extent to which the fair value of an equity investment is less than its cost.

3) Financial assets carried at cost

If there is objective evidence that such an asset is impaired, the difference between its carrying amount and the present value of the expected future cash flows which are discounted at the current market rate of return of similar financial assets is recognized as an impairment loss in profit or loss. Once an impairment loss is recognized, it is not reversed.

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

9. Financial instruments (applicable for 2017) (Continued)

(5) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is presented in the balance sheet to the extent that there is a currently enforceable legal right to offset the recognized amounts and that there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(6) Financial guarantee contract

Financial guarantee contracts are those contracts that require a payment to be made by the issuer to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are measured, on initial recognition, at fair value. For financial guarantee contracts that are not designated as at fair value through profit or loss, they are, after initial recognition, subsequently measured at the higher of: i) the amount of the best estimate of the expenditure required to settle the present obligation at the balance sheet date, and ii) the amount initially recognized less the cumulative amortization recognized in accordance with the guidance for revenue recognition.

(7) Transfers of financial assets

If the Group transfers substantially all the risks and rewards of ownership of the financial asset, the Group derecognizes the financial asset; if the Group retains substantially all the risks and rewards of ownership of the financial asset, the Group does not derecognize the financial asset.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it accounts for the transactions as follows: (i) if the Group has not retained control, it derecognizes the financial asset and recognizes any resulting assets or liabilities; (ii) if the Group has retained control, it continues to recognize the financial asset to the extent of its continuing involvement in the transferred financial asset and recognizes an associated liability.

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

10. Receivables

In 2017, the Group recognized provision for bad debt provision of receivables under the criteria and methods as follows:

(1) Receivables that are individually significant and subject to separate provision

The criterion applied to individually significant balances	For trade receivables, any individual amount exceeds RMB20,000,000 is considered to be "individually significant"; for other receivables, the criteria is any individual amount which exceeds RMB5,000,000.
Separate bad debt provision for receivables that are individually significant	Bad debt provision is made for the difference between the book value and the present value of the estimated cash flows arising from separate impairment test.

(2) Receivables that are subject to provision by group with similar credit risk characteristics

1) Bad debt provision for receivables that are subject to provision by group with similar credit risk characteristics

Basis for group determination	Provision methods
Receivables grouped by ageing	Ageing analysis method
Receivables from related parties	No provision for bad debts is made, if no impairment identified after the impairment test

2) Ageing analysis method

Ageing	Provisioning percentage applied for trade receivables
Within 3 months (including 3 months, same as belows)	0%
4–12 months	5%
1–2 years	25%
2–3 years	50%
Over 3 years	100%

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

10. Receivables (Continued)

(3) For other receivables, the Group applies individual assessment to make bad debt provision.

(4) Receivables that are not individually significant but subject to separate provision.

The reason for separate provision	Significant difference exists between the present value of estimated future cash flow of receivables and the present value of estimated future cash flow of receivables that are subject to provision by group with similar credit risk characteristics
The method of provision for bad debts	The provision for bad debts is determined based on the difference of the carrying amount and the present value of estimated future cash flows based on separate impairment test.

Please refer to Note III.8 for the Group's criteria and methods of recognizing provision for ECLs of receivables since 1 January 2018.

11. Inventories

(1) Categories of inventories

Inventories include hold-for-sale stock goods in the ordinary course of business, working in progress in the process of production, raw materials to be consumed in the production process or in the rendering of services, lower valued consumables and repaired spare parts, etc.

(2) Accounting method of dispatching inventories

Inventories are initially carried at cost. Cost of inventories comprises all costs of purchase, costs of conversion and other costs. The actual cost of inventories transferred out is assigned by using weighted average method. Costs of spare parts, lower valued consumables and packing materials shall be amortized on the immediate written-off or amortization in stage basis.

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

11. Inventories (Continued)

(3) Net realizable value of inventories

At the balance sheet date, inventories are measured at the lower of cost and net realizable value. If the cost of inventories is higher than the net realizable value, a provision for decline in value of inventories is recognized in profit or loss. If factors that previously resulted in the provision for decline in value of inventories no longer exist, so that the net realizable value is higher than the carrying amount, the amount of the write-down is reversed. The reversal is limited to the amount originally provided for the decline in value of inventories. The amount of the reversal is recognized in current profit or loss.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale and relevant taxes. The provision for decline in value of inventories is made on an individual basis.

(4) The principal of inventory stock

The Groups adopts the perpetual inventory system.

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

12. Long-term equity investments

Long-term equity investments consist of equity investments in subsidiaries and an associate.

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

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

12. Long-term equity investments (Continued)

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

When the cost method is adopted, long-term equity investments are recorded at initial investment cost. Adjusting the cost of long-term equity investment by adding or withdrawing investment. Profits or cash dividends declared to be distributed by the investee should be recognized as investment income for the period.

The equity method is applied for long-term equity investments when the investees are significantly influenced by the Group. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Under the equity method, where the initial investment cost of a long-term equity investment exceeds the investing entity's interest in the fair values of the investee's identifiable net assets at the acquisition date, the excess is included in the initial investment cost. Where the initial investment cost is less than the investing entity's interest in the fair values of the investee's identifiable net assets at the acquisition date, the difference is charged to profit or loss, and the cost of the long-term equity investment is adjusted accordingly.

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

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III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

12. Long-term equity investments (Continued)

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

13. Property, plant and equipment

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

PPE are initially recorded taking discard expenses into consideration. The purchase cost of PPE comprises its purchase price, related taxes, and any directly attributable expenditure for bringing the asset to its working condition for its intended use.

Except for the source from work safety fund, the depreciation of PPE is calculated on the straight-line basis. The estimated useful lives, estimated residual values, and the annual depreciation rates of each category of PPE are as follows:

Item	Estimated Useful life *(years)*	Estimated residual rate	Annual depreciation rate
Plant and buildings	30–50	3%	1.94%–3.23%
Machinery and other equipment	8–22	3%–5%	4.32%–12.13%
Motor vehicles	8	3%	12.13%

The Group reviews the useful life and estimated net residual value of a PPE and the depreciation method applied at least at the end of each year and makes adjustments if necessary.

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

14. Construction in progress

The cost of construction in progress is determined according to the actual expenditure for the construction, including all necessary construction expenditure incurred during the construction period, borrowing costs that should be capitalized before the construction reaches the condition for intended use and other relevant expenses. Construction in progress is transferred to PPE when the asset is ready for its intended use.

15. Borrowing costs

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

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

The capitalization of borrowing costs commences only when all of the following conditions are satisfied:

1) Expenditures for the assets are incurred;

2) Borrowing costs are incurred; and

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

The capitalization of borrowing costs ceases when the asset being acquired or constructed is substantially ready for its intended use or sale and borrowing costs incurred thereafter are charged to profit or loss.

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

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

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

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

15. Borrowing costs (Continued)

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

16. Intangible assets

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

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

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

Item	**Useful life** *(years)*
Land use rights	50

Land use rights that are acquired by the Group are generally accounted for as intangible assets. Buildings, such as plants that are developed and constructed by the Group, and relevant land use rights and buildings, are accounted for as intangible assets and PPE, respectively. Payments for the land and buildings acquired are allocated between the land use rights and the buildings; if they cannot be reasonably allocated, all of the land use rights and buildings are accounted for as PPE.

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

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

16. Intangible assets (Continued)

The Group classifies the expenditure on an internal research and development project into expenditure on the research phase and expenditure on the development phase. Expenditure on the research phase is recognized in profit or loss in which it is incurred. Expenditure on the development phase is capitalized when the Group can demonstrate all of the following: (i) the technical feasibility of completing the intangible asset so that it will be available for use or sale; (ii) the intention to complete the intangible asset and use or sell it; (iii) how the intangible asset will generate probable future economic benefits. Among other things, the Group can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset; (iv) the availability of adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; and (v) its ability to measure reliably the expenditure attributable to the intangible asset during its development. Expenditure in the development phase that does not meet the above criteria is recognized in profit or loss in which it is incurred.

17. Impairment of assets

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

The Group assesses whether an indication of impairment exists at the end of each reporting period, and performed impairment test on estimation of the asset's recoverable amount if such indications exist. Intangible assets that unavailable for use are tested for impairment annually.

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

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

Impairment losses cannot be reversed in subsequent accounting periods.

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

18. Payroll and employee benefits payable

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees or the termination of employment, including short-term employee benefits, post-employment benefits, termination benefits and other long-term employee benefits. The benefits that the Group provides to the spouses, children and dependents of employees, the late employees' family and other beneficiaries also shall be deemed as employee benefits.

(1) Short-term employee benefits payable

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.

(2) Post-employment benefits (defined contribution plans)

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

(3) Post-employment benefits (defined benefit plan)

The Group operates a defined benefit pension plan, which includes providing retirees of the Group with living allowance monthly, and the amount of benefit allowance is based on the period the employee serves the Group and the related allowance policy. No capital has been injected into the plan. The benefits cost under the defined benefit plan is calculated using the projected accumulative benefit unit method.

The items to be remeasured as a result of the defined benefit pension plan, which include actuarial gains or losses, are immediately recognized in the balance sheet, and are included in shareholders' equity through other comprehensive income during the period in which they are incurred. They will not be reversed to profit or loss in subsequent periods.

The past service costs are recognized as expenses for the current period when the defined benefit plan is modified or when the Group recognizes relevant restructuring costs or termination benefits, whichever occurs earlier.

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

18. Payroll and employee benefits payable (Continued)

(3) Post-employment benefits (defined benefit plan) (Continued)

Net interest is calculated by multiplying net liabilities or net assets of the defined benefit plan by the discount rate. The Group recognizes changes in net liabilities of the defined benefit plan under administrative expenses in the income statement. Service costs include current service costs, past service costs and gains or losses on settlement; net interest includes interest expenses on plan obligations.

(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 entity cannot unilaterally withdraw the offer of termination benefits because of an employment termination plan or a curtailment proposal; or 2) when the entity 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 Group to the employees satisfied the conditions for classifying as post-employment benefits, the Company recognizes and measures the net liability or net asset of other long-term employee benefits in accordance with the requirements relation to post-employment benefits. And all changes in the carrying amount of liabilities for other long-term employment benefits are recognized in profit or loss, or included in the cost of a relevant asset.

19. Provisions

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

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

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

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

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

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

20. Revenues (applicable from 1 January 2018)

When the Group has fulfilled its performance obligations of the contract, the revenue is recognized when the customers take control of the relevant goods or services. Taking control of the relevant goods or services means being able to dominate the use of the goods or the provision of the services and obtain almost all of the economic benefits from them.

The specific accounting policies related to the main activities of the Group's revenue are as follows:

(1) Sale of goods

Sales contracts of goods between the Group and its customers generally include the performance obligation of transferred steel products only. Generally, upon taking account of all the following factors, namely, receipt of the current payment rights of goods, transfer of major risks and rewards in relation to the ownership of goods, transfer of the legal ownership of goods, transfer of physical assets of goods and receipt of delivery of such goods by the customers, the Group recognizes it as revenue when customers sign the receipts.

(2) Interest income

Interest income is calculated based on the carrying amount under the effective interest rate method, except the credit-impaired financial assets' interest income calculated based on the amortized cost (i.e., the net amount after deducting provision for ECLs). The effective interest rate is the rate to discounting the future cash flow of financial assets or financial liabilities to the amortized cost during the expected duration.

(3) Royalty income

According to the agreed contract terms, the Group has transferred the use right of trade mark to customers, and settles based on the customers' actual steel production, and recognizes royalty income accordingly.

(4) Lease income

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

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

21. Revenues (applicable for 2017)

Revenue is recognized when it is probable that the associated economic benefits will flow into the Group and when the revenue can be measured reliably.

(1) Sale of goods

Revenue from sale of goods is recognized if the following conditions are all satisfied: 1) significant risks and rewards of ownership of the goods are 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 or to be incurred can be measured reliably. The amount of revenue arising from the sale of goods is determined in accordance with the consideration received or receivable from the buyer under contract or agreement, except where the consideration received or receivable under contract or agreement is not fair. When the consideration receivable under contract or agreement is deferred, such that the arrangement effectively constitutes a financing transaction, the amount of revenue arising on the sale of goods is measured at the fair value of the consideration receivable.

(2) Rendering of services

When the outcome of the transaction can be estimated reliably at the balance sheet date (when the conditions are all satisfied for the revenue, 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. The total service revenue on a transaction involving the rendering of services is determined in accordance with the consideration received or receivable from the recipient of services under contract or agreement, except where the consideration received or receivable under contract or agreement is not fair.

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

21. Revenues (applicable for 2017) (Continued)

(3) *Interest income*

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

(4) *Royalty income*

According to the agreed contract terms, the Group has transferred the use right of trade mark to customers, and settles based on customers' actual steel production, and recognizes royalty income accordingly.

(5) *Lease income*

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

22. Contract liabilities (applicable from 1 January 2018)

The Group recognizes a contract liability based on the relationship between performance of obligations and customer payments.

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration or an amount of consideration that is due from the customer, in the case that the entity has received the consideration before transferring the promised goods.

23. Government grants

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

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

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

23. Government grants (Continued)

A government grant related to income is accounted for as follows: (a) if the grant is a compensation for related costs or expenses or losses to be incurred in subsequent periods, the grant is recognized as deferred income, and recognized in profit or loss or offset against relevant costs over the periods in which the related costs are recognized; (b) if the grant is a compensation for related costs or expenses or losses already incurred, it is recognized immediately in profit or loss or offset against relevant costs for the current period.

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

24. Income tax

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

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

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

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

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

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

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

24. Income tax (Continued)

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

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

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

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

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

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

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

25. Leases

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

(1) As lessee in operating leases

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

(2) As lessor in operating leases

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

26. Safety reserve fund

The safety reserve fund extracted by the Group shall be recognized as the cost of the related products or income statement, while be recognized as special reserve. When using safety reserve fund, it shall be distinguished whether it will form PPE or not. The expenditure shall write down the special reserve; the capital expenditure shall be recognized as PPE when meet the expected conditions for use, and write down the special reserve while recognizing accumulated depreciation with the same amount.

27. Fair value measurement

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

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

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

27. Fair value measurement (Continued)

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

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

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

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

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

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

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

28. Significant accounting judgements and estimates

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

Judgement

1) Business model

The classification of financial assets on initial recognition is based on the Group's business model for managing the financial assets. When assessing the business model, the Group considers matters including how the performance of the financial assets is evaluated and reported to the key management personnel, the risks that affect the performance of the financial assets and the way those risks are managed, and how managers of the business are compensated. When evaluating whether the objective is to collect contractual cash flows, the Group needs to analyze and evaluate the reasons, time, frequency and value of sales before the maturity date of the financial assets.

2) Characteristic of the contractual cash flow

The classification of financial assets on initial recognition is based on the contractual cash flow characteristics of the financial assets. When assessing whether the contractual cash flows are solely payments of the principal and the interest based on the outstanding principal amount, including assessing the modification of the time value of money element, it needs to assess whether there is a significant difference when compared with the benchmark cash flow. For the financial assets including the prepayment feature, it needs to assess whether the fair value of the prepayment feature is insignificant.

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

28. Significant accounting judgements and estimates (Continued)

Estimation uncertainty

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

1) Impairment of financial instruments

The Group uses ECLs model to conduct assessment on the impairment of financial instruments. The application of ECLs model requires significant judgement and estimation and takes into account all reasonable and reliable information, including forwardlooking information. When making such judgement and estimation, the Group predicts the expected changes in credit risk of the obligor based on its historical data of repayment together with factors such as economic policy, macroeconomic indicators and industry risk.

2) Deferred tax assets

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

3) Estimation of useful life and residual value of property plant and equipment

The estimation of useful life of its property plant and equipment is based on the historical experience of the actual useful lives of property plant and equipment of similar nature and functions. If the useful life of these property plant and equipment is shortened, the Group will increase the depreciation rate and eliminate the idle or technically obsolete parts of property plant and equipment.

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

28. Significant accounting judgements and estimates (Continued)

Estimation uncertainty (Continued)

4) Net realisable values of inventories

At the end of reporting period, inventories are measured at the lower of cost and net realisable value and the provision for inventory write-down is made on the difference between the cost and the net realisable value. The net realisable 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 realisable 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.

29. Changes in accounting policies and estimation

(1) Changes in accounting policies

In 2017, the Ministry of Finance announced the revised "Accounting Standard for Business Enterprises No.14 – Revenue" (the "New Revenue Standard"), "Accounting Standard for Business Enterprises No. 22 – Recognition and measurement for financial instruments, "Accounting Standard for Business Enterprises No. 23 – Transfer of financial assets", "Accounting Standard for Business Enterprises No. 24 – Hedging" and "Accounting Standard for Business Enterprises No. 37 – Presentation of financial instruments" (the "New Financial Instruments Standard"). The Group began to implement the accounting treatment according to the newly revised standards above from 1 January 2018. According to the transitional requirements, the information for the comparable period will not be adjusted and profit or other comprehensive income will be retrospectively adjusted based on the difference between the implementation of the new standards on the first day and the current standards.

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

29. Changes in accounting policies and estimations (Continued)

(1) Changes in accounting policies (Continued)

1) The New Revenue Standard

The New Revenue Standard establishes a new revenue recognition model for regulating the recognition of the revenue generated from contracts with customers. The method of revenue recognition should reflect the mode in which the entity transfers goods or services to customers. The amount of revenue should reflect the amount that the entity is expected to receive due to the transfer of such goods and services to the customer. At the same time, the New Revenue Standard also regulates the judgements and estimates for each stage. The Group only adjusted the cumulative impact of contracts that have not been completed on 1 January 2018. For changes to contracts that occurred before 1 January 2018, the Group adopted a simplified treatment method that it identifies the performance obligations that have been and have not been fulfilled, determines the transaction price, and allocated the transaction price between fulfilled and outstanding performance obligations for all contracts based on the final arrangement of contract changes.

The Group's revenue is mainly generated from the sale of goods, the implementation of the New Revenue Standard did not have a significant impact on retain earnings and other comprehensive income as at 1 January 2018.

The impacts of implementing the New Revenue Standard on the consolidated statement of financial position items dated 1 January 2018 were as follows:

Unit: RMB'000

Consolidated balance sheet	Carrying amount	Assuming implementing the original standard	Impact on adopting the New Revenue Standard
Advances from customers	–	187,099	(187,099)
Contract liabilities	159,914	–	159,914
Other current liabilities	27,185	–	27,185
Total	187,099	187,099	–

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

29. Changes in accounting policies and estimations (Continued)

(1) Changes in accounting policies (Continued)

1) The New Revenue Standard (Continued)

The impacts of implementing the New Revenue Standard on the consolidated statement of financial position items dated 31 December 2018 were as follows:

Unit: RMB'000

Consolidated balance sheet	Carrying amount	Assuming implementing the original standard	Impact on adopting the New Revenue Standard
Advances form customers	–	1,164,955	(1,164,955)
Contract liabilities	1,004,280	–	1,004,280
Other current liabilities	160,675	–	160,675
Total	1,164,955	1,164,955	–

The implementation of the New Revenue Standards did not have a significant impact on the consolidated income statement for 2018.

2) The New Financial Instruments Standard

The New Financial Instruments Standard changes the classification and measurement of financial assets and defines three categories for measurement: financial assets are measured at amortized cost; measured at fair value through other comprehensive income; measured at fair value through profit or loss. The above classification shall be made by the entity based on its consideration of its business model and the characteristics of contractual cash flows relating to the financial assets. Equity investments shall be measured at fair value through profit or loss. However, the enterprise can elect to irrevocably designate non-marketable equity instrument investments as financial assets at fair value through other comprehensive income at the initial recognition.

The New Financial Instruments Standard requires "ECLs" model for recognition and measurement of impairments in financial assets instead of "objective evidence of impairment" model. ECLs model is applied in financial assets measured at amortized cost or fair value through other comprehensive income.

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

29. Changes in accounting policies and estimations (Continued)

(1) Changes in accounting policies (Continued)

2) The New Financial Instruments Standard (Continued)

The yields of wealth management products held by the Group depends on the yield of the underlying assets. Before 1 January 2018, the Group classified the wealth management products as the financial assets at fair value through profit or loss, presented as other current assets. After 1 January 2018, the Group analyzed that its contractual cash flow was not only representing payment of the principal and the interest based on the outstanding principal, so such wealth management products were classified as the financial assets at fair value through profit or loss, presented as financial assets held for trading.

For the purposes of obtaining contractual cash flow and disposition, the Group managed the business model of the aforesaid notes receivable through the endorsement and discount of some bank acceptances during its daily capital management. Therefore, the Group reclassified such notes receivable as financial assets at fair value through other comprehensive income, presented as other current assets after 1 January 2018.

From 1 January 2018, the Group designated the equity investments held by the Group as the financial assets at fair value through other comprehensive income, presented as other equity instrument investments.

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

29. Changes in accounting policies and estimations (Continued)

(1) Changes in accounting policies (Continued)

2) The New Financial Instruments Standard (Continued)

On the day of initial implementation, the comparison of financial assets that are classified and measured in accordance with the recognition and measurement standards for financial instruments before and after amendments is as follows:

Unit: RMB'000

The Group	Recognition and measurement standards for financial instruments before amendment — Measurement category	Carrying Amount	Recognition and measurement standards for financial instruments after amendment — Measurement category	Carrying Amount
Cash and bank branches	At amortized cost (Loans and receivables)	2,050,538	At amortized cost	2,050,538
Notes and trade receivables	At amortized cost (Loans and receivables)	167,134	At amortized cost	44,038
			At fair value through other comprehensive income	123,096
Other receivables	At amortized cost (Loans and receivables)	10,355	At amortized cost	10,355
Equity investment	At amortized cost (Available-for-sale assets)	5,000	At fair value through other comprehensive income (designated)	5,000
Wealth management products	At fair value through profit or loss (trading)	650,000	At fair value through profit or loss (required by standards)	650,000

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

29. Changes in accounting policies and estimations (Continued)

(1) Changes in accounting policies (Continued)

2) The New Financial Instruments Standard (Continued)

Unit: RMB'000

The Company	Recognition and measurement standards for financial instruments before amendment Measurement category	 Carrying Amount	Recognition and measurement standards for financial instruments after amendment Measurement category	 Carrying Amount
Cash and bank branches	At amortized cost (Loans and receivables)	1,961,403	At amortized cost	1,961,403
Notes and trade receivables	At amortized cost (Loans and receivables)	169,949	At amortized cost	46,853
			At fair value through other comprehensive income	123,096
Other receivables	At amortized cost (Loans and receivables)	10,355	At amortized cost	10,355
Equity investment	At amortized cost (Available-for-sale assets)	5,000	At fair value through other comprehensive income (designated)	5,000

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

29. Changes in accounting policies and estimations (Continued)

(1) Changes in accounting policies (Continued)

2) The New Financial Instruments Standard (Continued)

On the day of initial implementation, it has no significantly impact on the measurement of the financial assets' carrying amount. The reconciliation between the original carrying value of financial assets and the adjusted new carrying value of financial assets classified and measured in accordance with the recognition and measurement standards for financial instruments after amendment is as follows:

Unit: RMB'000

The Group	Carrying amount according to the original financial instruments standard 31 December 2017	Reclassification	**Carrying amount according to the New Financial Instruments Standard 1 January 2018**
Financial assets at amortized cost			
Cash and bank balances	2,050,538	–	**2,050,538**
Trade receivables	44,038	–	**44,038**
Notes receivable			
Balance presented according to the original financial instruments standard	123,096		
Less: transfer to financial assets at fair value through other comprehensive income (the New Financial Instruments Standard)		(123,096)	
Balance presented according to the New Financial Instruments Standard			**–**
Other receivables	10,355	–	**10,355**
Equity investments			
Balance presented according to the original financial instruments standard	5,000		
Less: transfer to financial assets at fair value through other comprehensive income – equity instruments (designated)		(5,000)	
Balance presented according to the New Financial Instruments Standard			**–**
Total balance presented of financial assets at amortized cost	2,233,027	(128,096)	**2,104,931**

For the year ended 31 December 2018 (Unit: RMB'000)

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

29. Changes in accounting policies and estimations (Continued)

(1) Changes in accounting policies (Continued)

2) The New Financial Instruments Standard (Continued)

The Group	Carrying amount according to the original financial instruments standard 31 December 2017	Reclassification	Carrying amount according to the New Financial Instruments Standard 1 January 2018
Financial assets at fair value through other comprehensive income			
Equity investments			
Balance presented according to the original financial instruments standard	–		
Add: transfer (designated) from available-for-sale financial assets (the original financial instruments standard)		5,000	
Balance presented according to the New Financial Instruments Standard			**5,000**
Notes Receivable			
Balance presented according to the original financial instruments standard	–		
Add: transfer (the New Financial Instrument standard) from loans and receivables (the original financial instruments standard)		123,096	
Balance presented according to the New Financial Instruments Standard			**123,096**
Total balance presented of financial assets at fair value through other comprehensive income	–	128,096	**128,096**
Financial assets at fair value through profit or loss			
Wealth management products	650,000	–	**650,000**
Total balance presented of financial assets at fair value through profit or loss	650,000	–	**650,000**
Total	2,883,027	–	**2,883,027**

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

29. Changes in accounting policies and estimations (Continued)

(1) Changes in accounting policies (Continued)

2) The New Financial Instruments Standard (Continued)

Unit: RMB'000

The Company	Carrying amount according to the original financial instruments standard 31 December 2017	Reclassification	Carrying amount according to the New Financial Instruments Standard 1 January 2018
Financial assets at amortized cost			
Cash and bank balances	1,961,403	–	**1,961,403**
Trade receivables	46,853	–	**46,853**
Notes receivable			
Balance presented according to the original financial instruments standard	123,096		
Less: transfer to financial assets at fair value through other comprehensive income (the New Financial Instruments Standard)		(123,096)	
Balance presented according to the New Financial Instruments Standard			**–**
Other receivables	10,355	–	**10,355**
Equity investments			
Balance presented according to the original financial instruments standard	5,000		
Less: transfer to financial assets at fair value through other comprehensive income – equity instruments (designated)		(5,000)	
Balance presented according to the New Financial Instruments Standard			**–**
Total balance presented of financial assets at amortized cost	2,146,707	(128,096)	**2,018,611**

For the year ended 31 December 2018 (Unit: RMB'000)

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

29. Changes in accounting policies and estimations (Continued)

(1) Changes in accounting policies (Continued)

2) The New Financial Instruments Standard (Continued)

The Company	Carrying amount according to the original financial instruments standard 31 December 2017	Reclassification	Carrying amount according to the New Financial Instruments Standard 1 January 2018
Financial assets at fair value through other comprehensive income			
Equity investments			
Balance presented according to the original financial instruments standard	–		
Add: transfer (designated) from available-for-sale financial assets (the original financial instruments standard)		5,000	
Balance presented according to the New Financial Instruments Standard			**5,000**
Notes Receivable			
Balance presented according to the original financial instruments standard	–		
Add: transfer (the New Financial Instrument standard) from loans and receivables (the original financial instruments standard)		123,096	
Balance presented according to the New Financial Instruments Standard			**123,096**
Total balance presented of financial assets at fair value through other comprehensive income	–	128,096	**128,096**
Total	2,146,707	–	**2,146,707**

On the first implementation date, the new loss provision classified and measured under the requirements of revised financial instruments standards did not have significant change as compared to the classification and measurement of the impairment provision for the original financial assets.

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

29. Changes in accounting policies and estimations (Continued)

(1) Changes in accounting policies (Continued)

3) Presentation of financial statement

To meet the requirements of the Notice on Revising and Issuing Format of 2018 Annual Financial Statements for General Business Enterprises (Cai Kuai [2018] No.15) (《關於修訂印發截至2018年度一般企業財務報表格式的通知》(財會[2018]15號)), except for the presentation changes of financial statements resulted from the implementation of the New Financial Instruments Standard and the New Revenue Standard mentioned above, in the balance sheet, the amounts previously presented in "notes receivable" and "trade receivables" separately shall be presented in the new item "notes and trade receivables"; the amounts previously presented in "interest receivable" and "dividends receivable" shall be presented in "other receivables"; the amounts previously presented in "property, plant, equipment pending for disposal" shall be presented in "property, plant, equipment"; the amounts previously presented in "construction materials" shall be presented in "construction in progress"; the amounts previously presented in "notes payable" and "trade payables" separately shall be presented in "notes and trade payables"; and the amounts previously presented in "grants payables" shall be presented in "long-term payables". In the income statement, the new item "research and development expenses" is added to present the expensed expenditures incurred during the research and development process, and the new items of "interest expenses" and "interest income" are added under "finance expenses". The Group has retrospectively adjusted the comparative amounts correspondingly. The changes in accounting policies have had no impact on the net profit and equity in the consolidated and company financial statements.

4) Changes in other accounting polices

Since 1 January 2018, the Group has adopted the "ASBE Interpretation No.9 Accounting Treatment on Net Loss of Investment under the Equity Method", "ASBE Interpretation No.10 Depreciation method based on income generated from the use of property plant and equipment, "ASBE Interpretation No.11 Amortization method Based on Income generated from the use of intangible assets", and "ASBE Interpretation No.12 Regarding whether the provider and recipient of the key management personnel service are related parties" (collectively the "Interpretation No. 9–12") promulgated by the Ministry of Finance in 2017. Based on the assessment of the Group, the implementation of the Interpretation No. 9–12 did not have a significant impact on the Group's financial position and operating results.

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

29. Changes in accounting policies and estimations (Continued)

(1) Changes in accounting policies (Continued)

4) Changes in other accounting polices (Continued)

The main impact of retrospective adjustments on financial statements caused by the above changes in accounting policies are as follows:

The Group

Unit: RMB'000

2018	Carrying amount according to the original standards 31 December 2017	The impact of the New Revenue Standard Reclassification	The impact of the New Financial Instruments Standard Reclassification	The impact of other changes in presentation of financial statements Reclassification	Carrying amount according to the new standards 1 January 2018
Notes receivable	123,096	–	(123,096)	–	–
Trade receivables	44,038	–	–	(44,038)	–
Notes and trade receivables	–	–	–	44,038	44,038
Other current assets	1,128,655	–	123,096	–	1,251,751
Available-for-sale financial assets	5,000	–	(5,000)	–	–
Other equity investments	–	–	5,000	–	5,000
Notes payable	80,700	–	–	(80,700)	–
Trade payables	2,074,594	–	–	(2,074,594)	–
Notes and trade payables	–	–	–	2,155,294	2,155,294
Interest payable	7,174	–	–	(7,174)	–
Other payables	1,484,738	–	–	7,174	1,491,912
Advances from customers	187,099	(187,099)	–	–	–
Contract liabilities	–	159,914	–	–	159,914
Other current liabilities	–	27,185	–	–	27,185

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

29. Changes in accounting policies and estimations (Continued)

(1) Changes in accounting policies (Continued)

4) Changes in other accounting polices (Continued)

Unit: RMB'000

2017	Before changes in accounting policies 1 January 2017	The impact of changes in accounting policies	After changes in accounting policies 1 January 2017
Notes receivable	19,435	(19,435)	–
Trade receivables	256,258	(256,258)	–
Notes and trade receivables	–	275,693	275,693
Notes payable	1,632,710	(1,632,710)	–
Trade payables	9,385,026	(9,385,026)	–
Notes and trade payables	–	11,017,736	11,017,736
Interest payable	117,013	(117,013)	–
Other payables	4,202,381	117,013	4,319,394

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

29. Changes in accounting policies and estimations (Continued)

(1) Changes in accounting policies (Continued)

4) Changes in other accounting polices (Continued)

The Company

Unit: RMB'000

2018	Carrying amount according to the original standards 31 December 2017	The impact of the New Revenue Standard Reclassification	The impact of the New Financial Instruments Standard Reclassification	The impact of other changes in presentation of financial statements Reclassification	Carrying amount according to the new standards 1 January 2018
Notes receivable	123,096	–	(123,096)	–	–
Trade receivables	46,853	–	–	(46,853)	–
Notes and trade receivables	–	–	–	46,853	46,853
Other current assets	478,510	–	123,096	–	601,606
Available-for-sale financial assets	5,000	–	(5,000)	–	–
Other equity investments	–	–	5,000	–	5,000
Notes payable	80,700	–	–	(80,700)	–
Trade payables	2,123,370	–	–	(2,123,370)	–
Notes and trade payables	–	–	–	2,204,070	2,204,070
Interest payable	7,174	–	–	(7,174)	–
Other payables	1,479,009	–	–	7,174	1,486,183
Advances from customers	185,905	(185,905)	–	–	–
Contract liabilities	–	158,893	–	–	158,893
Other current liabilities	–	27,012	–	–	27,012

III SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

29. Changes in accounting policies and estimations (Continued)

(1) Changes in accounting policies (Continued)

4) Changes in other accounting polices (Continued)

Unit: RMB'000

2017	Before changes in accounting policies 1 January 2017	The impact of changes in accounting policies	After changes in accounting policies 1 January 2017
Notes receivable	19,435	(19,435)	–
Trade receivables	258,568	(258,568)	–
Notes and trade receivables	–	278,003	278,003
Notes payable	1,632,710	(1,632,710)	–
Trade payables	9,429,515	(9,429,515)	–
Notes and trade payables	–	11,062,225	11,062,225
Interest payable	117,013	(117,013)	–
Other payabless	4,259,548	117,013	4,376,561

5) Issued but not yet effective accounting policies

According to "Accounting Standard for Business Enterprises No. 21 – Leasing", the lessee is required to recognize all lease under sole balance sheet model. At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). For short-term and low-value lease, the lessee could choose not to recognize the right-of-use asset and lease liability.

The Group has reappraised all leasing contracts under existing standards. The Group's existing leasing contracts are short-term operating leases commencing from 1 January 2019 and expiring on 31 December 2019, and the Group will adopt the exemption clause for short-term lease. The new lease standard will not have significant impact on the accounting treatment of the Group's existing leasing contracts.

For the year ended 31 December 2018 (Unit: RMB'000)

IV. TAXES

1. Main taxes and tax rates

Taxes	Tax bases	Tax rates
Value-added tax ("VAT")	The taxable revenue from sale of goods	VAT payable is the difference between VAT output and less deductible VAT input for the current year. VAT output has been calculated by applying a rate of 16% to the taxable value since 1 May 2018 (17% before 1 May 2018). Other tax rate: 3%, 6%, 10%, 11%
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	Amount of commodity turnover tax paid	7%
Education surcharge	Amount of commodity turnover tax paid	3%
Local education surcharge	Amount of commodity turnover tax paid	2%
Corporate income tax ("CIT")	Taxable income	15%, 25%

The applicable CIT rates of the Company and its subsidiaries are analyzed as follows:

Name of subject of taxation	Income tax rate
The Company	15%
Jingjiang CIS Huadong Trading Co., Ltd. ("Huadong Trading Company") (靖江重鋼華東商貿有限公司) *(Note)*	25%
Chongqing CIS Building Materials Sales Co., Ltd.	25%
Chongqing CISL high strength cold rolling steel Co., Ltd. ("Cold Rolling Company") (重慶重鋼高強冷軋板材有限公司) *(Note)*	25%

Note: Jingjiang CIS Huadong Trading Co., Ltd and Cold Rolling Company was dissolved respectively in October 2018 and May 2018, and the applicable income tax rate was 25% before the deregistration.

For the year ended 31 December 2018 (Unit: RMB'000)

IV. TAXES (CONTINUED)

2. Tax benefits

Pursuant to the requirement of the Notice Concerning Issues on Taxation Policies Relating to the Thorough Implementation of China's Strategy of Western Development (《關於深入實施西部大開發戰略有關稅收政策問題的通知》) promulgated by the MOF, the State Administration of Taxation and the General Administration of Customs, enterprises 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. These enterprises refer to the enterprises that are mainly engaged in the industrial projects stipulated in the Catalogue of Encouraged Industries, and whose main business income accounts for more than 70% of the total income of the enterprises. Pursuant to the Catalogue of Encouraged Industries in the Western Region issued by the National Development and Reform Commission on 20 August 2014, the Company has qualified to implement preferential tax policy of 15% for the Western Development as the business operations belong to the encouraged industries in the western region, and all of them are stipulated in the Catalogue of Encouraged Industries in the Western Region. Thus in this year, the Company's tax rates and preferential tax policies remained unchanged as compared with last year.

V. NOTES TO ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash and bank balances

(1) Details

Items	31 December 2018	31 December 2017
Cash on hand	**18**	41
Bank deposits	**1,969,525**	1,969,797
Other monetary assets	**795,088**	80,700
Total	**2,764,631**	2,050,538

For the year ended 31 December 2018 (Unit: RMB'000)

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

1. Cash and bank balances (Continued)

(2) Other descriptions

Restricted cash and bank balances:

Items	31 December 2018	31 December 2017
Deposits for notes and letter of credit	**795,088**	80,700
Reserve funds for the reorganisation plan	–	1,100,000
Others	–	876
Total	**795,088**	1,181,576

The restricted cash and bank balances at the end of the previous year have been released in the current year. As at 31 December 2018, the Group had restricted cash and bank balances for notes and letter of credit, details refer to Note V.47.

Interest income is generated from current savings as determined by the interest rate for the savings in banks. Short-term time deposits with durations from 1 to 3 months are made in accordance with the Group's need for cash, with interest income generated according to the respective time deposit interest rates.

2. Notes and trade receivables

(1) Details

Items	31 December 2018	31 December 2017
Notes receivable	–	123,096
Trade receivables	**30,340**	44,038
Total	**30,340**	167,134

As at 31 January 2017, the Group held bank acceptance notes amounted to RMB123,096,000.

For the year ended 31 December 2018 (Unit: RMB'000)

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

2. Notes and trade receivables (Continued)

(2) Trade receivables

1) Ageing Analysis is as follows:

Items	31 December 2018	31 December 2017
Within 3 months	**26,362**	4,607
4 to 12 months (within 1 year)	**2,063**	26,308
1–2 year	**791**	4,680
2–3 year	**2,547**	21,858
Above 3 year	**151,432**	130,085
Sub-total	**183,195**	187,538
Less: Provision for bad debts	**152,855**	143,500
Total	**30,340**	44,038

The ageing analysis was based on the month when incurred. The trade receivables recognized firstly will be firstly settled.

For the year ended 31 December 2018 (Unit: RMB'000)

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

2. Notes and trade receivables (Continued)

(2) Trade receivables (Continued)

2) Trade receivables disclosed on categories are as follows:

Categories	31 December 2018 Book Value Amount	Book Value Proportion (%)	Provision for bad debts Amount	Provision for bad debts Proportion (%)
Individually subject to separate provision	–	–	–	–
Receivables that are subject to provision by group with similar credit risk characteristics	**183,195**	**100**	**152,855**	**83**
Total	**183,195**	**100**	**152,855**	**83**

Categories	31 December 2017 Book value Amount	Book value Proportion (%)	Provision for bad debts Amount	Provision for bad debts Proportion (%)
Individually significant and subject to separate provision	31,710	17	1,680	5
Receivables that are subject to provision by group with similar credit risk characteristics	155,828	83	141,820	91
Individually not significant but subject to separate provision	–	–	–	–
Total	187,538	100	143,500	77

For the year ended 31 December 2018 (Unit: RMB'000)

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

2. Notes and trade receivables (Continued)

(2) Trade receivables (Continued)

2) Trade receivables disclosed on categories are as follows: (Continued)

a. As at 31 December 2018, the company did not have individually trade receivables to separate provision. There receivables that are individually significant and subject to separate provision as at 31 December 2017 as follows:

Name	Book value	Provision for bad debts	Provision proportion *(%)*	Reason for provision
Chongqing Iron & Steel Group Industrial limited company	31,710	1,680	5	Provision by expected return amount

b. Ageing Analysis

Ageing	31 December 2018 Estimated doubtful book value	Lifetime ECLs	ECLs proportion *(%)*
Within 3 months (third month inclusive)	**13,778**	**–**	**–**
4–12 months (first year inclusive)	**1,683**	**83**	**5**
1–2 years	**790**	**90**	**11**
2–3 years	**980**	**450**	**46**
Over 3 years	**137,934**	**137,934**	**100**
Total	**155,165**	**138,557**	**89**

For the year ended 31 December 2018 (Unit: RMB'000)

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

2. Notes and trade receivables (Continued)

(2) Trade receivables (Continued)

2) Trade receivables disclosed on categories are as follows: (Continued)

b. Ageing Analysis (Continued)

	31 December 2017		
Ageing	Book value	Provision for bad debts	Provision proportion *(%)*
Within 3 months (third month inclusive)	405	–	–
4–12 months (first year inclusive)	320	16	5
1–2 years	3,160	790	25
2–3 years	21,858	10,929	50
Over 3 years	130,085	130,085	100
Total	155,828	141,820	91

c. Receivables that are subject to provision by group with similar credit risk characteristics for which bad debts are provided for other method are as follows:

	31 December 2018		
Portfolios	**Book value**	**Lifetime ECLs**	**Provision proportion *(%)***
Trade receivables from historical related parties	**28,030**	**14,298**	**51**

For the year ended 31 December 2018 (Unit: RMB'000)

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

2. Notes and trade receivables (Continued)

(2) Trade receivables (Continued)

3) During the current year, the provision for ECLs or bad debts and recovery or reversal of provision for ECLs or bad debts are as follows:

	Opening Balance	Provided	Recovery	Written-off	Closing Balance
2018	**143,500**	**12,628**	**3,273**	**–**	**152,855**
2017	167,793	–	24,293	–	143,500

4) Top five trade receivables balances

As at 31 December 2018, the top five balances in respect of trade receivables aggregating RMB51,408,000, accounting for 28% of the total of closing balance of trade receivables. The closing balance in respect of ECLs provision made for the top five balances amounted to RMB45,538,000.

3. Prepayments

(1) Ageing analysis

	31 December 2018		31 December 2017	
Ageing	Book value	Proportion (%)	Book value	Proportion (%)
Within 1 year	**901,812**	**99**	70,022	100
1–2 years	**6,834**	**1**	–	–
Total	**908,646**	**100**	70,022	100

(2) Top five prepayments balances

As at 31 December 2018, the closing balances of the top five prepayments balances in aggregate to RMB760,350,000, representing 84% of the total closing balances of prepayments at the end of reporting year.

For the year ended 31 December 2018 (Unit: RMB'000)

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

4. Other receivables

(1) Details

1) Ageing analysis

Items	31 December 2018	31 December 2017
Within 3 months	**5,810**	2,686
4 to 12 months (within 1 year)	**4,275**	991
1–2 year	**1,131**	225
2–3 year	**192**	12,827
Above 3 year	**36,965**	33,361
Sub-total	**48,373**	50,090
Less: Provision for bad debts	**37,867**	39,735
Total	**10,506**	10,355

2) The ECLs movement based on 12-month and lifetime ECLs are as follows:

	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs Individual assessment	Stage 2 Lifetime ECLs Group assessment	Stage 3 Credit-impaired Lifetime	Total
Losses on 1 January 2018	97	6,406	39	33,193	39,735
Losses on 1 January 2018 among current year	–	–	–	–	–
– Transfer to Stage 2	(15)	–	15	–	–
– Transfer to Stage 3	–	(6,406)	–	6,406	–
– Turn back Stage 2	–	–	–	–	–
– Turn back Stage 1	–	–	–	–	–
Provided	522	–	365	6,406	7,293
Reversal	82	–	39	7,775	7,896
Resale	–	–	–	–	–
Written-off	–	–	–	1,265	1,265
Losses on 31 December 2018	522	–	380	36,965	37,867

For the year ended 31 December 2018 (Unit: RMB'000)

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

4. Other receivables (Continued)

(1) Details (Continued)

3) the book value of carrying amount movement:

	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs Individual assessment	Stage 2 Lifetime ECLs Group assessment	Stage 3 Credit-impaired Lifetime	Total
Amount on 1 January 2018	3,677	12,812	240	33,361	50,090
Amount on 1 January 2018 among current year	–	–	–	–	–
– Transfer to Stage 2	(1,323)	–	1,323	–	–
– Transfer to Stage 3	–	(12,812)	–	12,812	–
– Turn back stage 2	–	–	–	–	–
– Turn back stage1	–	–	–	–	–
Provided	11,090	–	–	–	11,090
Termination	3,359	–	240	7,943	11,542
Written-off	–	–	–	1,265	1,265
Amount on 31 December 2018	10,085	–	1,323	36,965	48,373

For the year ended 31 December 2018, provision for bad debts amounted to RMB7,293,000 (2017: RMB22,777,000), and provision for bad debts recovered or reversed amounted to RMB7,896,000 (2017: Nil).

The actual amount of trade receivables written-off was RMB1,265,000 (2017: Nil).

For the year ended 31 December 2018 (Unit: RMB'000)

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

4. Other receivables (Continued)

(1) Details (Continued)

4) As at 31 December 2017, other receivables categories are as follows:

Categories	31 December 2017			
	Book value		Provision for bad debts	
	Amount	Proportion (%)	Amount	Proportion (%)
Individually significant and subject to separate provision	23,052	46	16,646	72
Other receivables that were not impaired upon separate impairment test	–	–	–	–
Individually not significant but subject to separate provision	27,038	54	23,089	85
Total	50,090	100	39,735	79

5) As at 31 December 2017, other receivables that are individually significant and subject to separate provision are as follows:

Company	Book value	Provision for bad debts	Provision proportion (%)	Reasons for provision
Chongqing Iron & Steel Industry and Trade (ZhanJiang) Company (湛江重鋼工貿公司)	10,240	10,240	100	Low probability to recover
Changzhou Chunzhixin Metal Material Co., Ltd. (常州市春之鑫金屬材料有限公司)	7,222	3,611	50	Provision based on the expected recoverable amount
Jiangsu Hetuo International Trade Co., Ltd. (江蘇和拓國際貿易有限公司)	5,590	2,795	50	Provision based on the expected recoverable amount
Total	23,052	16,646	72	

For the year ended 31 December 2018 (Unit: RMB'000)

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

4. Other receivables (Continued)

(2) *Other receivables presented by nature*

Nature	31 December 2018	31 December 2017
Prepayments for trading	**33,297**	32,265
Guarantee deposits and staff advances	**10,293**	15,576
Others	**4,783**	2,249
Total	**48,373**	50,090

(3) As at 31 December 2018, the five largest other receivables are as follows:

Company	31 December 2018	nature	ageing	Ratio in other receivables (%)	Provision for bad debts
First	**10,240**	**Prepayment for trading**	**Above 3 Years**	**21**	**10,240**
Second	**7,222**	**Prepayment for trading**	**Above 3 Years**	**15**	**7,222**
Third	**5,590**	**Prepayment for trading**	**Above 3 Years**	**12**	**5,590**
Fourth	**4,126**	**Prepayment for trading**	**Above 3 Years**	**9**	**4,126**
Fifth	**3,921**	**Prepayment for trading**	**Above 3 Years**	**8**	**3,921**
Total	**31,099**			**64**	**31,099**

For the year ended 31 December 2018 (Unit: RMB'000)

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

4. Other receivables (Continued)

(3) (Continued)

As at 31 December 2017, the five largest other receivables are as follows:

Company	31 December 2107	Nature	Ageing	Ratio in other receivables (%)	Provision for bad debts
First	10,240	Prepayment for trading	Above 3 Years	20	10,240
Second	7,222	Prepayment for trading	2–3 Years	14	3,611
Third	5,590	Prepayment for trading	2–3 Years	11	2,795
Fourth	4,126	Prepayment for trading	Above 3 Years	8	4,126
Fifth	3,921	Prepayment for trading	Above 3 Years	8	3,921
Subtotal	31,099			62	24,693

5. Inventories

(1) Details

	31 December 2018			31 December 2017		
Items	**Book value**	**Provision for decline in value**	**Carrying amount**	Book value	Provision for decline in value	Carrying amount
Raw materials	**2,064,672**	**136,616**	**1,928,056**	824,355	169,466	654,889
Work in progress	**518,618**	**–**	**518,618**	292,914	476	292,438
Finished goods	**469,552**	**4,954**	**464,598**	152,224	–	152,224
Low value consumables and maintenance and spare parts	**470,991**	**190,062**	**280,929**	395,206	164,288	230,918
Total	**3,523,833**	**331,632**	**3,192,201**	1,664,699	334,230	1,330,469

For the year ended 31 December 2018 (Unit: RMB'000)

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

5. Inventories (Continued)

(2) Provision for inventories

1) Details

2018

Item	Opening balance	Increase: Provision	Increase: Others	Decrease: Reversal or Written-off	Closing balance
Raw materials	169,466	–	–	32,850	136,616
Work in progress	476	–	–	476	–
Finish goods	–	4,954	–	–	4,954
Low value consumables and maintenance and spare parts	164,288	25,774	–	–	190,062
Total	334,230	30,728	–	33,326	331,632

2017

Item	Opening balance	Increase: Provision	Increase: Others	Decrease: Reversal or written-off	Closing balance
Raw materials	–	169,466	–	–	169,466
Work in progress	35,265	476	–	35,265	476
Finish goods	–	–	–	–	–
Low value consumables and maintenance and spare parts	40,115	124,173	–	–	164,288
Sub-total	75,380	294,115	–	35,265	334,230

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

5. Inventories (Continued)

(2) Provision for inventories (Continued)

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

Items	Determination basis for provision for decline in value	Basis for determination of net realizable value	Reasons for the reversal or the written-off of provision for decline in value of inventories in the current year
Raw materials	Provision for inventories on an individual basis	The amount of the estimated selling price less the estimated costs of completion, selling expenses and relevant taxes and surcharges	Relevant inventories used or disposed
Work in progress	Provision for inventories on an individual basis	The amount of the estimated selling price less the estimated costs of completion, selling expenses and relevant taxes and surcharges	Relevant inventories used
Finish goods	Provision for inventories on an individual basis	The amount of the estimated selling price less the estimated selling expenses and relevant taxes and surcharges	Relevant inventories sold
Low value consumables and maintenance and spare parts	Provision for inventories on an individual basis	The amount of the estimated selling price less the estimated selling expenses and relevant taxes and surcharges	

For the year ended 31 December 2018 (Unit: RMB'000)

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

6. Other current assets

(1) Categories:

Items	**31 December 2018**	31 December 2017
Wealth management products from banks	**–**	650,000
Input VAT to be deducted	**–**	478,655
Input VAT to be verified	**279**	–
Notes Receivables	**575,652**	–
Total	**575,931**	1,128,655

As at 31 December 2017, the Group held valued RMB650,000,000 financial product, whose benefit depends on the yield of the underlying assets, classified as financial assets at fair value through profit or loss. As at 31 December 2018, the Group classified the financial product amounted to RMB30,000,000 as financial assets held for trading.

For the purposes of obtaining contractual cash flow and disposition, the Group managed the business model of the aforesaid notes receivable through the endorsement and discount of some bank acceptances during its daily capital management. Therefore, the Group reclassified such notes receivable as financial assets at fair value through other comprehensive income, presented as other current assets.

(2) Notes receivable

1) Details

Items	**31 December 2018**	31 December 2017
Commercial acceptance notes	**2,900**	–
Bank acceptance notes	**572,752**	–
Total	**573,652**	–

For the year ended 31 December 2018 (Unit: RMB'000)

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

6. Other current assets (Continued)

(2) Notes receivable (Continued)

2) As at 31 December 2018, the pledged notes receivable included are as follows:

Items	31 December 2018	31 December 2017
Commercial acceptance notes	–	–
Bank acceptance notes	20,000	–
Sub-total	20,000	–

Note: For details of notes receivable with ownership restricted, please refer to Note V.47.

3) Notes receivable has been endorsed or discounted but not yet due at the end of the year:

	2018		2017	
	Amount derecognized at the end of the year	Amount remained to be recognized at the end of the year	Amount derecognized at the end of the year	Amount remained to be recognized at the end of the year
Commercial acceptance notes	–	2,500	–	–
Bank acceptance notes	5,563,044	258,359	1,795,100	–
Total	5,563,044	260,859	1,795,100	–

4) As at 31 December 2018, there was no transfer of notes receivable into trade receivables due to default on the part of the drawer (31 December 2017: Nil).

For the year ended 31 December 2018 (Unit: RMB'000)

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

7. Available-for-sale financial assets (only applicable for 2017)

Item	31 December 2017 Book Value	Provision	Carrying Amount
Available-for-sale equity instruments measured at cost	5,000	–	5,000

8. Other equity investments (only applicable for 2018)

Item	Cost	Accumulated FVOCI	Fair Value	Dividend Income Derecognized equity instrument during 2018	Hold equity instrument	The reason of designated as FVOCI
Xiamen Shipbuilding Industry Co., Ltd. (廈門船舶重工股份有限公司)	5,000	–	5,000	–	–	Intention to long-term holding to obtain investment income

Note: Since 1 January 2018, the Group has adopted the New Financial Instrument Standards and reclassified the equity investments of available-for-sale financial assets to financial assets at FVOCI, presented as other equity investments accordingly.

For the year ended 31 December 2018 (Unit: RMB'000)

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

9. Long-term equity investments

(1) Categories

Item	31 December 2018 Book Value	Provision for impairments	Carrying Amount	31 December 2017 Book Value	Provision for impairments	Carrying Amount
Investment in an associate	–	–	–	124,158	–	124,158

(2) Details

Year ended 31 December 2018

Investees	Opening balance	Increase/(decrease) Investments decreased	Investment income recognized under equity method	Closing balance
Chongqing POSCO CISL automotive steel Co., Ltd. ("POSCO CISL", 重慶浦項重鋼汽車板有限公司) *(Note)*	**124,158**	**(121,530)**	**(2,628)**	**–**

Note: In May 2018, POSCO CISL had completed deregistration, and obtained the notice of deregistration of foreign-invested enterprises ((Yu Chang) Foreign-invested He Zhun [2018] No.000079).

Year ended 31 December 2017

Investees	Opening balance	Increase/(decrease) Investments decreased	Investment income recognized under equity method	Closing balance
Chongqing POSCO CISL automotive steel Co., Ltd. ("POSCO CISL", 重慶浦項重鋼汽車板有限公司)	131,015	–	(6,857)	124,158

For the year ended 31 December 2018 (Unit: RMB'000)

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

10. Property, plant and equipment

(1) Details

2018	Plants and buildings	Machineries and other equipment	Motor vehicles	Total
Cost				
Opening balance	**13,623,580**	**7,724,644**	**14,770**	**21,362,994**
Increase	**4,687**	**8,771**	**128**	**13,586**
1) Purchase	**–**	**88**	**128**	**216**
2) Transfer from construction in progress	**4,687**	**8,683**	**–**	**13,370**
Decrease	**–**	**1,847**	**2,961**	**4,808**
1) Disposal or retirements	**–**	**1,847**	**2,961**	**4,808**
Closing balance	**13,628,267**	**7,731,568**	**11,937**	**21,371,772**
Accumulated depreciation				
Opening balance	**1,688,230**	**2,066,284**	**12,781**	**3,767,295**
Increase	**338,326**	**354,950**	**493**	**693,769**
1) Provided	**338,326**	**354,950**	**493**	**693,769**
Decrease	**–**	**636**	**2,765**	**3,401**
1) Disposal or retirements	**–**	**636**	**2,765**	**3,401**
Closing balance	**2,026,556**	**2,420,598**	**10,509**	**4,457,663**
Provision for impairment				
Opening balance and closing balance	**–**	**–**	**–**	**–**
Carrying amount				
Carrying amount at the end of the year	**11,601,711**	**5,310,970**	**1,428**	**16,914,109**
Carrying amount at the beginning of the year	**11,935,350**	**5,658,360**	**1,989**	**17,595,699**

For the year ended 31 December 2018 (Unit: RMB'000)

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

10. Property, plant and equipment (Continued)

(1) Details (Continued)

2017	Plants and buildings	Machineries and other equipment	Motor vehicles	Total
Cost				
Opening balance	13,665,518	21,315,073	21,501	35,002,092
Increase	7,446	236,820	472	244,738
1) Purchase	–	–	472	472
2) Transfer from construction in progress	7,446	236,820	–	244,266
Decrease	49,384	13,827,249	7,203	13,883,836
1) Disposal or retirements	–	10,646	2,905	13,551
2) Disposal of bankruptcy reorganization	49,384	13,816,603	4,298	13,870,285
Closing balance	13,623,580	7,724,644	14,770	21,362,994
Accumulated depreciation				
Opening balance	1,390,281	4,102,849	17,642	5,510,772
Increase	313,603	900,651	1,606	1,215,860
1) Provided	313,603	900,651	1,606	1,215,860
Decrease	15,654	2,937,216	6,467	2,959,337
1) Disposal or retirements	–	1,978	2,674	4,652
2) Disposal of bankruptcy reorganization	15,654	2,935,238	3,793	2,954,685
Closing balance	1,688,230	2,066,284	12,781	3,767,295
Provision for impairment				
Opening balance	–	–	56	56
Decrease	–	–	56	56
1) Disposal of bankruptcy reorganization	–	–	56	56
Closing balance	–	–	–	–
Carrying amount				
Carrying amount at the end of the year	11,935,350	5,658,360	1,989	17,595,699
Carrying amount at the beginning of the year	12,275,237	17,212,224	3,803	29,491,264

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

10. Property, plant and equipment (Continued)

(2) PPE leased out under operating lease are as follows:

Items	Carrying amount as at 31 December 2018	Carrying amount as at 31 December 2017
Plant and buildings	**14,652**	14,469

(3) PPE without certificates of ownership are as follows:

Items	Carrying amount	Reason for lacking certificates of ownership
Workshop in Changshou district	1,082,123	Application materials in preparation

(4) For details of PPE with ownership restricted, please refer to Note V.47.

For the year ended 31 December 2018 (Unit: RMB'000)

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

11. Construction in progress

(1) Details

	31 December 2018			31 December 2017		
Projects	**Book value**	**Provision for impairment**	**Carrying amount**	Book value	Provision for impairment	Carrying amount
Continuous caster reconstruction project	**–**	**–**	**–**	3,590	–	3,590
Upgrading and reconstruction of continuous caster breakout detection system	**3,147**	**–**	**3,147**	–	–	–
Repair Technology Innovation Integration Project	**2,980**	**–**	**2,980**	–	–	–
Boiler supporting project	**3,384**	**–**	**3,384**	–	–	–
Others	**7,082**	**–**	**7,082**	5,105	–	5,105
Total	**16,593**	**–**	**16,593**	8,695	–	8,695

For the year ended 31 December 2018 (Unit: RMB'000)

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

11. Construction in progress (Continued)

(2) Changes in significant projects for the year

Name of project	Budget	Opening balance	Current year additions	Transferred to PPE	Closing balance	Source of funds	Invest proportion of budget
Continuous caster reconstruction project	4,500	3,590	–	3,590	**–**	Self-owned funds	80%
Upgrading and reconstruction of continuous caster breakout detection system	3,650	–	3,147	–	**3,147**	Self-owned funds	86%
Repair Technology Innovation Integration Project	4,610	–	3,107	128	**2,979**	Self-owned funds	67%
Boiler supporting project	5,800	–	3,384	–	**3,384**	Self-owned funds	58%
Others		5,105	11,630	9,652	**7,083**	Self-owned funds	
Sub-total		8,695	21,268	13,370	**16,593**		

For the year ended 31 December 2018 (Unit: RMB'000)

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

12. Intangible assets

Items	Land use rights 2018	Land use rights 2017
Cost		
Opening balance	**2,871,067**	2,942,233
Increase		–
Decrease		71,166
1) Disposal		71,166
Closing balance		2,871,067
Accumulated amortization		
Opening balance	**349,333**	293,649
Provided	**67,407**	63,610
Decrease		7,926
1) Disposal		7,926
Closing balance	**416,740**	349,333
Provision for impairment		
Opening balance and closing balance	**–**	
Carrying amount	**–**	
Carrying amount at the end of the year	**2,454,327**	2,521,734
Carrying amount at the beginning of the year	**2,521,734**	2,648,584

As at 31 December 2018, there was no land use right for which the Group had not obtained title certificates (31 December 2017: Nil). For details of intangible assets with ownership restricted, please refer to Note V.47.

For the year ended 31 December 2018 (Unit: RMB'000)

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

13. Deferred tax assets

(1) *Details of deferred tax assets without offset are as follows:*

Item	31 December 2018 Deductible temporary differences	31 December 2018 Deferred tax assets	31 December 2017 Deductible temporary differences	31 December 2017 Deferred tax assets
Deductible losses	**146,905**	**22,036**	–	–
Provision for assets impairment	**60,206**	**9,031**	–	–
Total	**207,111**	**31,067**	–	–

(2) *Particulars of deferred tax assets unrecognized are presented as follows:*

Items	31 December 2018	31 December 2017
Deductible losses	**4,821,780**	7,107,926
Deductible temporary differences	**1,137,323**	828,192
Sub-total	**5,959,103**	7,936,118

Deferred tax assets have not been recognized in respect of these losses and deductible temporary differences as it is not considered probable that future taxable profits will be available against which the above items can be utilized.

(3) *The aforesaid unrecognized deductible losses will be due in the following years:*

Year	31 December 2018	31 December 2017
2018	**–**	1,480,858
2019	**–**	465,978
2020	**1,169,612**	1,506,919
2021	**3,650,870**	3,651,305
2022	**1,298**	2,866
2023	**–**	–
Sub-total	**4,821,780**	7,107,926

For the year ended 31 December 2018 (Unit: RMB'000)

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

14. Provision for impairment for assets

2018

Item	Opening balance	Provided	Deduction Reversal	Deduction Written-off	Closing balance
Provision for bad debts	**183,235**	**19,921**	**11,169**	**1,265**	**190,722**
Provision for inventories	**334,230**	**30,728**	**–**	**33,326**	**331,632**
Total	**517,465**	**50,649**	**11,169**	**34,591**	**522,354**

2017

Item	Opening balance	Provided	Deduction Reversal	Deduction Written-off	Closing balance
Provision for bad debts	184,751	22,777	24,293	–	183,235
Provision for inventories	75,380	294,115	–	35,265	334,230
Provision for impairment on PPE	56	–	–	56	–
Total	260,187	316,892	24,293	35,321	517,465

For the year ended 31 December 2018 (Unit: RMB'000)

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

15. Notes and Trade payables

(1) Details

Items	31 December 2018	31 December 2017
Bank acceptance notes	**1,199,147**	80,700
Trade payables	**1,747,169**	2,074,594
Total	**2,946,316**	2,155,294

(2) Trade payables ageing analysis

Ageing	31 December 2018	31 December 2017
Within 1 year	**1,579,730**	2,065,051
1–2 years	**162,640**	8,776
2–3 years	**4,763**	731
Over 3 years	**36**	36
Total	**1,747,169**	2,074,594

(3) Trade payables with ageing over one year:

Items	31 December 2018	Reasons for unsettlement
Trade payables	167,439	Continuation of the contract but temporarily not paid

For the year ended 31 December 2018 (Unit: RMB'000)

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

16. Contract liabilities (only applicable for 2018)

Item	Opening balance *(Note)*	Cash increase	Revenue recognized	Other movement	Closing balance
Contract for goods	159,914	22,679,220	21,834,854	–	**1,004,280**

Note: Since 1 January 2018, the Group has adopted the New Revenue Standard and recorded the obligation to transfer goods or services to customers based on the considerations received as contract liabilities, please refer to Note III.29.

17. Employee benefits payable

(1) Details

2018

Item	Opening balance	Increase	Decrease	Closing balance
Short-term employee benefits	**135,833**	**1,093,832**	**948,755**	**280,910**
Post-employment benefits – defined contribution plans	**427,714**	**109,646**	**537,333**	**27**
Termination benefits	**–**	**52,470**	**–**	**52,470**
Total	**563,547**	**1,255,948**	**1,486,088**	**333,407**

2017

Item	Opening balance	Increase	Decrease	Closing balance
Short-term employee benefits	221,543	764,456	850,166	135,833
Post-employment benefits – defined contribution plans	339,712	157,223	69,221	427,714
Total	561,255	921,679	919,387	563,547

For the year ended 31 December 2018 (Unit: RMB'000)

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

17. Employee benefits payable (Continued)

(2) *Details of short-term employee benefits*

2018

Item	Opening balance	Increase	Decrease	Closing balance
Salaries, bonuses, allowances and subsidies	**19,876**	**663,558**	**670,713**	**12,721**
Staff welfare	**–**	**16,608**	**16,608**	**–**
Social security contributions	**70**	**71,669**	**71,731**	**8**
Including: Medical insurance	**65**	**60,273**	**60,330**	**8**
Work injury insurance	**5**	**8,959**	**8,964**	**–**
Maternity insurance premium	**–**	**2,437**	**2,437**	**–**
Housing fund	**113,126**	**58,894**	**172,020**	**–**
Labor union funds and employee education funds	**2,543**	**32,154**	**16,707**	**17,990**
Incentive fund *(note)*	**–**	**250,000**	**–**	**250,000**
Others	**218**	**949**	**976**	**191**
Sub-total	**135,833**	**1,093,832**	**948,755**	**280,910**

Note: On 15 May 2018, the 2017 Annual General Meeting passed "the Employee Share Ownership Plan from 2018 to 2020 (draft) of Chongqing Iron and Steel Company Limited", and authorized the board of directors to deal with relevant matters regarding employee share ownership plan. On 18 December 2018, the fifth meeting of the eighth session of the Board passed the incentive fund for the current year. Based on the results of 2018 annual performance appraisal, the Group determined the list of employees who participated in the incentive fund, and accrued the incentive fund based on 12.5% of the audited consolidated profit before taxes (before picking up incentive fund). 50% of the above incentive fund should be used for the Employee Share Ownership Plan for the current year, and the remaining 50% should be used to reward the excellent staffs who did not participated in the Employee Share Ownership Plan.

For the year ended 31 December 2018 (Unit: RMB'000)

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

17. Employee benefits payable (Continued)

(2) Details of short-term employee benefits (Continued)

2017

Item	Opening balance	Increase	Decrease	Closing balance
Salaries, bonuses, allowances and subsidies	19,707	591,324	591,155	19,876
Staff welfare	–	16,098	16,098	–
Social security contributions	71	89,672	89,673	70
Including: Medical insurance	61	80,499	80,495	65
Work injury insurance	9	7,577	7,581	5
Maternity insurance premium	1	1,596	1,597	–
Housing fund	181,611	55,979	124,464	113,126
Labor union funds and employee education funds	19,869	10,228	27,554	2,543
Others	285	1,155	1,222	218
Sub-total	221,543	764,456	850,166	135,833

(3) Details of defined contribution plans

2018

Item	Opening balance	Increase	Decrease	Closing balance
Basic pension insurance	**427,710**	**106,826**	**534,509**	**27**
Unemployment insurance	**4**	**2,820**	**2,824**	**–**
Sub-total	**427,714**	**109,646**	**537,333**	**27**

For the year ended 31 December 2018 (Unit: RMB'000)

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

17. Employee benefits payable (Continued)

(3) Details of defined contribution plans (Continued)

2017

Item	Opening balance	Increase	Decrease	Closing balance
Basic pension insurance	339,711	134,907	46,908	427,710
Unemployment insurance	1	2,346	2,343	4
Unified planning of pension insurance	–	19,970	19,970	–
Sub-total	339,712	157,223	69,221	427,714

According to "the Labor Law of the People's Republic of China" and relevant laws and regulations, the Company and its subsidiaries paid basic pension insurance for employees. And the local government authorities were responsible for the entire pension obligations payable to retired employees who reached retirement age pursuant to relevant regulations or quitted the work force due to other reasons. The Company and its subsidiaries had no other obligation to make payment in respect of pension benefits.

18. Taxes payable

Items	**31 December 2018**	31 December 2017
Value-added tax (VAT)	**20,461**	50
Environmental protection tax	**6,109**	–
Stamp duty	**4,274**	13,045
Individual income tax	**1,506**	–
Corporate income tax	**882**	–
Others	**2,501**	–
Total	**35,733**	13,095

For the year ended 31 December 2018 (Unit: RMB'000)

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

19. Other payables

(1) Details

Item	31 December 2018	31 December 2017
Interest payable	**6,317**	7,174
Other payables	**348,348**	1,484,738
Total	**354,665**	1,491,912

(2) Other payable details

Details

Items	31 December 2018	31 December 2017
Reserve funds for the reorganization *(Note)*	**157,350**	999,792
Guarantee deposits	**75,606**	16,300
Rural network loan repayment	**47,063**	–
Accrued electricity expenses	**29,288**	13,180
Large and medium-sized reservoir resettlement support fund	**15,244**	–
Payment for trading and interest	**3,143**	422,890
Others	**20,654**	32,576
Total	**348,348**	1,484,738

Note: The decrease in reserve funds for the reorganization during the current year was mainly due to the payment of RMB785,831,000 to Chongqing Strategic Emerging Equity Investment Fund Partnership (Limited Partnership) (重慶戰略性新興產業股權投資基金合夥企業(有限合夥)).

For the year ended 31 December 2018 (Unit: RMB'000)

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

20. Non-current liabilities due within one year

Items	31 December 2018	31 December 2017
Long-term loan due within one year	**400,000**	400,000
Other non-current liabilities due within one year	**10,000**	–
Total	**410,000**	400,000

Long term loan due within one year was mortgage and guaranteed loan, which was guaranteed by Siyuanhe Equity Investment Management Co., Ltd. (四源合股權投資管理有限公司) free of charge. As at 31 December 2018, the interest rate of the above loan was 4.75% per annum (31 Decemenber 2017: 4.75%). Other non-current liabilities due within one year was loan of judicial reorganization from Changshou Iron & Steel, which bears interest at the rate of 4.9% (31 December 2017: 4.9%) per annum, details of loan refer to Note V.21 and V.24.

21. Long-term borrowings

(1) Details

Items	31 December 2018	31 December 2017
Mortgage and guaranteed loan *(Note)*	**300,000**	700,000

Note: The mortgage and guaranteed loan was guaranteed by Siyuanhe Equity Investment Management Co., Ltd. free of charge.

As at 31 December 2018, the interest rate of the above loan was 4.75% per annum (31 December 2017: 4.75%).

For the year ended 31 December 2018 (Unit: RMB'000)

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

21. Long-term borrowings (Continued)

(2) Analysis on due date of long-term borrowings is as follows:

Items	31 December 2018	31 December 2017
Spot or within 1 year	**400,000**	400,000
1–2 years	**300,000**	400,000
2 to 5 years	**–**	300,000
Over 5 years	**–**	–
Sub-total	**700,000**	1,100,000
Wherein:		
Long-term loans due within one year	**400,000**	400,000
Long-term loans due over one year	**300,000**	700,000

22. Long-term employee benefits payable

Items	31 December 2018	31 December 2017
Termination benefits	**203,775**	243,190
Net liabilities of the defined benefit plan	**36,840**	–
Total	**240,615**	243,190

1) Termination benefits

Termination benefits scheme was implemented by the Group due to the implementation of the human resource optimization policy, which allowed qualified employees to early retire on a voluntary basis. The Company undertakes obligation to pay the early retirement employees' living expenses, social insurance and housing fund during the early retirement period until the employees meet official retirement age (male: 60, female: 50 or 55). The amounts of social insurance and housing fund are determined on the base of the contributions, and the proportion of contributions in accordance with local social security requirement.

The present value of this liabilities of early retirement benefits was calculated by Towers Watson Consulting (Shenzhen) Company Limited (韜睿惠悅管理資詢(深圳)有限公司), on 31 December 2018 using the projected accumulated benefit units method. As at 31 December 2018, key actuarial assumptions used are as follows:

For the year ended 31 December 2018 (Unit: RMB'000)

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

22. Long-term employee benefits payable

1) Termination benefits (Continued)

Item	31 December 2018	31 December 2017
Discount rate	**3.00%**	3.75%
Retirement age		
Male	**60**	60
Female	**50/55**	50/55
Wealth increase rate	**5.5%–8%**	5.5%–8%

The Company adjusted the payment responsibility based on average mortality of Chinese people from "China Life Insurance Mortality Table (2010 to 2013)". The adjusted payment responsibility was discounted by the treasure bond rate of 31 December 2018 and accounted in profit or loss. As at 31 December 2018, the current portion of the payment responsibility was accounted for in short-term employee benefits.

2) Net liabilities of the defined benefit plan

The Group operates a defined benefit plan that has yet to receive capital injection for all eligible employees from the current year. Under the plan, an employee is entitled to retirement benefits comprising RMB38 and working age salary, apart from the basic pension insurance. The scheme is subject to interest rate risks, turnover rate and the risk of change in the life expectancy of the pension.

The present value of the net obligation of the defined benefit plans was determined by Towers Watson Consulting (Shenzhen) Company Limited (韜睿惠悅管理資詢(深圳)有限公司), a member of the China Association of Actuaries (中國精算學會), on 31 December 2018 using the projected accumulated benefit units method.

For the year ended 31 December 2018 (Unit: RMB'000)

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

22. Long-term employee benefits payable (Continued)

2) Net liabilities of the defined benefit plan (Continued)

The following table sets forth the principal actuarial assumptions used as at the balance sheet date:

Items	31 December 2018
Discount rate	**3.5%**
Turnover rate	**1.5%**

The Company adjusted the payment responsibility based on average mortality of Chinese people from "China Life Insurance Mortality Table (2010 to 2013)". The adjusted payment responsibility was discounted by the treasure bond rate of 31 December 2018 and accounted in profit or loss.

The following table sets forth the quantitative sensitivity analysis of significant assumptions used:

	Increase *(%)*	Increase/ (decrease) in present value of defined benefit obligations	Decrease *(%)*	Increase/ (decrease) in present value of defined benefit obligations
Discount rate	0.5%	(3,640)	0.5%	4,190
Leaving rate	0.5%	(330)	0.5%	350
Death rate	5%	(1,340)	5%	1,440

The above sensitivity analysis represents the inference on the impacts over the defined benefit obligations based on reasonable changes in key assumptions as at the balance sheet date. The sensitivity analysis is based on changes in major assumptions with other assumptions remain unchanged. As changes in assumptions are always not isolated from each other, the sensitivity analysis may not represent the actual changes in the defined benefit obligations.

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

22. Long-term employee benefits payable (Continued)

2) Net liabilities of the defined benefit plan (Continued)

Recognition in profit or loss of the plan as follows:

	2018
Current service costs	**36,840**
Past service costs	**–**
Net interest expense	**–**
Net post-employment benefits	**36,840**
Charged to administrative expenses	**36,840**

The movement in the present value of defined benefit obligation as follows：

	2018
Amount at beginning of the year	**–**
Charged to profit or loss	**36,840**
Current service costs	**36,840**
Past service costs	**–**
Net interest expense	**–**
Charged to other comprehensive income	**–**
Paid welfare	**–**
Amount at the end of the year	**36,840**

For the year ended 31 December 2018 (Unit: RMB'000)

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

23. Deferred income

(1) Details of deferred income

2018	**Opening balance**	**Increase**	**Decrease**	**Closing balance**	**Reasons**
Government grants	**43,154**	**–**	**2,659**	**40,495**	Government grants

2017	Opening balance	Increase	Decrease	Closing balance	Reasons
Government grants	97,376	3,170	57,392	43,154	Government grants
Unrealized gains and losses of sale-and-leaseback transactions	89,181	–	89,181	–	Sale-and-leaseback transactions
Less: Deferred income expected to be realized within one year	(12,231)	–	(12,231)	–	
Total	174,326	3,170	134,342	43,154	

For the year ended 31 December 2018 (Unit: RMB'000)

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

23. Deferred income (Continued)

(2) Details of government grants

2018	**Opening balance**	**Increase**	**Recognition during the year as other income** *(Note)*	**Closing balance**	**Related to assets/ income**
Grants for construction of environmental protection equipment and facilities	**6,028**	**–**	**221**	**5,807**	Related to assets
Grants for recycle heat power station	**37,126**	**–**	**2,438**	**34,688**	Related to assets
Sub-total	**43,154**	**–**	**2,659**	**40,495**	

2017	Opening balance	Increase	Recognition during the year as other income *(Note)*	Closing balance	Related to assets/ income
Grants for construction of environmental protection equipment and facilities	58,188	3,170	55,330	6,028	Related to assets
Grants for recycle heat power station	39,188	–	2,062	37,126	Related to assets
Sub-total	97,376	3,170	57,392	43,154	

Note: For details of government grants credited to the current profit or loss or offset against the related cost in the current year, please refer to explanation of government grants in Note V.37.

For the year ended 31 December 2018 (Unit: RMB'000)

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

24. Other non-current liabilities

(1) Details

Items	**31 December 2018**	31 December 2017
Borrowings from non-financial institutions		
– loan of judicial reorganization	**2,390,000**	2,400,000
– financial loan	**185,500**	–
Total	**2,575,500**	2,400,000

According to the reorganization plan, Changshou Iron & Steel provided loan of RMB2.4 billion to the Company for the execution of the reorganization plan. The loan term is 7 years, which is from 24 November 2017 to 23 November 2024, and bears interest at the rate of 4.9% (31 December 2017: 4.9%) per annum. Among them loan amounted to RMB10 million will mature on 24 November 2019, presented as other non-current liabilities due within one year. Changshou Iron & Steel provided financing facilities of RMB500 million to the Company for 3 years, from 1 January 2018 to 31 December 2018, with interest rate of 4.75% per annum. Up to 31 December 2018, the Company had utilized RMB185.5 million.

(2) The deadline analysis of other non-current liabilities

Items	**31 December 2018**	31 December 2017
Due within 1 year	**10,000**	–
1 to 2 year (within 2 year)	**140,000**	10,000
2 to 5 year (within 5 year)	**1,795,500**	1,130,000
Above 5 year	**640,000**	1,260,000
Subtotal	**2,585,500**	2,400,000
Other non-current liabilities due within 1 year	**10,000**	–
Other non-current liabilities due above 1 year	**2,575,500**	2,400,000

For the year ended 31 December 2018 (Unit: RMB'000)

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

25. Share capital

2018

Item	Opening balance	Increase/(decrease) during the current year: New shares issued	Bonus shares	Reserve transferred to shares	Restricted share unlocked	Others	Sub-total	Closing balance
Non-restricted shares	**8,918,602**	**–**	**–**	**–**	**–**	**–**	**–**	**8,918,602**
A shares	**8,380,475**	**–**	**–**	**–**	**–**	**–**	**–**	**8,380,475**
H shares	**538,127**	**–**	**–**	**–**	**–**	**–**	**–**	**538,127**
Total	**8,918,602**	**–**	**–**	**–**	**–**	**–**	**–**	**8,918,602**

2017

Item	Opening balance	Increase/(decrease) during the current year: New shares issued	Bonus shares	Reserve transferred to shares	Restricted share unlocked	Others	Sub-total	Closing balance
Non-restricted shares	8,918,602	–	–	4,482,579	–	–	–	8,918,602
A shares	8,380,475	–	–	4,482,579	–	–	–	8,380,475
H shares	538,127	–	–	–	–	–	–	538,127
Total	8,918,602	–	–	4,482,579	–	–	–	8,918,602

On 11 January 2018, Changshou Iron & Steel pledged 2,096,981,600 non-restricted shares of the Company to China Development Bank. The pledge period started from 11 January 2018, to the pledge registration is released through China Securities Depository and Cleaning Co., Ltd. (中國證券登記結算有限責任公司). The purpose of this pledge was to provide security for Changshou Iron & Steel to borrow RMB2.4 billion from China Development Bank. The loan term is 7 years, which is from 30 November 2017 to 29 November 2029. As at the report day, Changshou Iron & Steel held 2,096,981,600 shares of the Company, of which 2,096,981,600 shares has been pledged, accounting for 23.51% of the total share capital of the Company.

For the year ended 31 December 2018 (Unit: RMB'000)

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

26. Capital reserve

2018	Opening balance	Increase	Decrease	Closing balance
Share premium	**18,454,409**	**–**	**–**	**18,454,409**
Other capital reserves	**827,738**	**–**	**–**	**827,738**
Total	**19,282,147**	**–**	**–**	**19,282,147**

2017	Opening balance	Increase	Decrease	Closing balance
Share premium	6,341,095	16,595,893	4,482,579	18,454,409
Other capital reserves	813,108	14,630	–	827,738
Total	7,154,203	16,610,523	4,482,579	19,282,147

27. Special reserve

2018	Opening balance	Increase	Decrease	Closing balance
Safety fund	**–**	**20,520**	**6,876**	**13,644**

2017	Opening balance	Increase	Decrease	Closing balance
Safety fund	–	13,619	13,619	–

Special reserve was the safety fund accrued according to article of No. 16 "The regulation on the accrual and usage of enterprise's safety production fee" (Cai Qi [2012] No. 16) promulgated by the MOF and the State Administration of Work Safety (國家安全生產監管總局) on February 14, 2012.

For the year ended 31 December 2018 (Unit: RMB'000)

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

28. Surplus reserve

2018 & 2017

Item	Opening balance	Increase	Decrease	Closing balance
Statutory surplus reserve	**606,991**	–	–	**606,991**

In accordance with Articles of Association of the Company, the net profits should be used first to make up for the previous year's losses. The company should appropriate 10% of the net profit which had been offset for the previous year's losses to the statutory surplus reserve, where the appropriation can be ceased when the statutory surplus reserve reaches 50% of the registered capital.

29. Accumulated losses

Items	Year ended 31 December 2018	Year ended 31 December 2017
Opening balance	**(12,077,625)**	(12,397,711)
Add: Net profit attributable to the shareholders of the parent company	**1,787,906**	320,086
Closing balance	**(10,289,719)**	(12,077,625)

30. Revenue and cost of sales

Items	Year ended 31 December 2018		Year ended 31 December 2017	
	Revenue	Cost	Revenue	Cost
Revenue from principal operations	**22,578,775**	**19,651,712**	13,211,356	13,509,132
Revenue from other operations	**60,182**	**30,134**	25,484	22,475
Total	**22,638,957**	**19,681,846**	13,236,840	13,531,607

For the year ended 31 December 2018 (Unit: RMB'000)

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

30. Revenue and cost of sales (Continued)

Revenue from principal operations:

Items	Year ended 31 December 2018	Year ended 31 December 2017
Sale of steel products	**21,834,854**	12,180,748
Processing	**–**	164,340
Others	**743,921**	866,268
Sub-total	**22,578,775**	13,211,356

Revenue from other operations:

Items	Year ended 31 December 2018	Year ended 31 December 2017
Sale of waste materials	**41,872**	12,586
Others	**18,310**	12,898
Sub-total	**60,182**	25,484

Revenue for the year ended 31 December 2018 are as follows:

1) *Revenue by products' categories are as follows:*

Main Product	Sale of steel products	Others	Total
Hot roll	11,714,937	–	11,714,937
Hot rolling	6,076,840	–	6,076,840
Bars	2,135,019	–	2,135,019
Profiles	1,908,058	–	1,908,058
Others	–	804,103	804,103
Total	21,834,854	804,103	22,638,957

For the year ended 31 December 2018 (Unit: RMB'000)

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

30. Revenue and cost of sales (Continued)

2) *All the Group's revenue was recognized at a certain point.*

The details of expected revenue recognized from remaining contract obligation

	2019	2020	2021	Total
Sale of goods	1,004,280	–	–	1,004,280

31. Taxes and surcharges

Items	**Year ended 31 December 2018**	Year ended 31 December 2017
Land use right tax	**42,371**	42,497
Housing property tax	**33,583**	33,847
Environmental protection tax	**22,000**	–
Stamp duty	**11,009**	5,972
City maintenance and construction tax	**10,907**	41
Education surcharge	**4,675**	4
Local education surcharge	**3,116**	3
Others	**14**	–
Total	**127,675**	82,364

32. Distribution and selling expenses

Items	**Year ended 31 December 2018**	Year ended 31 December 2017
Transportation expenses	**66,078**	38,880
Labor costs	**12,128**	9,466
Depreciation and amortization	**560**	549
Others	**9,291**	11,733
Total	**88,057**	60,628

For the year ended 31 December 2018 (Unit: RMB'000)

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

33. General and administrative expenses

Items	Year ended 31 December 2018	Year ended 31 December 2017
Labor costs	**171,761**	200,376
Incentive funds *(Note)*	**250,000**	–
Depreciation and amortization	**120,412**	121,291
Termination benefits	**53,545**	32,927
Net defined benefits	**36,840**	–
Loss on suspension of production	**69,080**	95,770
Consulting and services expenses	**14,173**	24,149
Safety expense	**15,648**	7,222
Environmental protection cost	**8,101**	5,044
Repair cost	**5,040**	27,133
Auditors' fee	**2,950**	4,600
Rental	**2,421**	1,465
Others	**45,421**	54,525
Total	**795,392**	574,502

Note: incentive fund refer to Note V.17.

34. Finance Expenses

Items	Year ended 31 December 2018	Year ended 31 December 2017
Bank interest and other in kind	**278,680**	528,458
Less: Interest income	**99,927**	9,244
Net exchange loss/(gain)	**3,100**	(16,813)
Others	**1,220**	9,880
Total	**183,073**	512,281

Interest income	Year ended 31 December 2018	Year ended 31 December 2017
Funds and others	**99,927**	9,244

For the year ended 31 December 2018 (Unit: RMB'000)

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

35. Impairment losses on assets

Items	**Year ended 31 December 2018**	Year ended 31 December 2017
Bad debts loss (only applicable for 2017)	**–**	(1,516)
Inventory write-down loss	**30,728**	294,115
Total	**30,728**	292,599

36. Impairment losses on financial assets (only applicable for 2018)

Items	**Year ended 31 December 2018**	Year ended 31 December 2017
Trade receivables	**9,355**	–
Other receivables	**(603)**	–
Total	**8,752**	–

37. Other income

Items	**Year ended 31 December 2018**	Year ended 31 December 2017	Amount included in non-recurring profit or loss
Government grants	**2,729**	47,198	2,729

For the year ended 31 December 2018 (Unit: RMB'000)

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

37. Other income (Continued)

Government grants related to daily operating activities are as follows:

Items	Year ended 31 December 2018	Year ended 31 December 2017	Relate to assets or income
Grants for recycle heat power project	**2,438**	2,062	Relate to assets
Others	**221**	2,848	Relate to assets
Subtotal	**2,659**	4,910	
Position stability subsidies	**–**	3,588	Relate to income
Special grants for environmental pollution reduction	**–**	37,750	Relate to income
Others	**70**	950	Relate to income
Subtotal	**70**	42,288	
Total	**2,729**	47,198	

38. Investment Income

Items	Year ended 31 December 2018	Year ended 31 December 2017
Investment loss from long-term equity investments under equity method	**(1,566)**	(6,857)
Gains on wealth management	**7,021**	9,112
Total	**5,455**	2,255

For the year ended 31 December 2018 (Unit: RMB'000)

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

39. Gains on disposal of assets

Items	Year ended 31 December 2018	Year ended 31 December 2017	Amount included in non-recurring profit or loss
Gains on disposal of PPE	**14,822**	(5,009,485)	14,822

40. Non-operating income

Items	Year ended 31 December 2018	Year ended 31 December 2017	Amount included in non-recurring profit or loss
Gains on reorganization of debts	**19,029**	7,226,377	19,029
Incomes from fines	**214**	–	214
Others	**584**	209	584
Total	**19,827**	7,226,586	19,827

41. Non-operating expenses

Items	Year ended 31 December 2018	Year ended 31 December 2017	Amount included in non-recurring profit or loss
Losses on the reorganization	**3,628**	515	3,628
Bankruptcy costs	**–**	126,937	–
Others	**3,906**	2,151	3,906
Total	**7,534**	129,603	7,534

For the year ended 31 December 2018 (Unit: RMB'000)

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

42. Expense categories

The group categories COGS, distribution and selling expenses, general and administrative expenses as follows:

Items	Year ended 31 December 2018	Year ended 31 December 2017
Raw materials and low value consumables, maintenance and spare parts, etc.	**17,564,043**	10,951,232
Movement in finished goods and work in progress	**(543,032)**	(321,003)
Labor costs	**1,302,481**	939,362
Repair costs	**944,283**	747,582
Depreciation and amortization	**761,176**	1,279,470
Rental	**282,109**	13,104
Loss on suspension of production	**69,080**	95,770
Office charges	**29,102**	34,251
Safety expenses	**6,876**	13,619
Others	**559,514**	413,350
Total	**20,975,632**	14,166,737

43. Income tax expenses

(1) Details

Items	Year ended 31 December 2018	Year ended 31 December 2017
Current income tax	**1,767**	2
Deferred tax	**(31,067)**	–
Total	**(29,300)**	2

For the year ended 31 December 2018 (Unit: RMB'000)

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

43. Income tax expenses (Continued)

(2) Income tax expense reconciliation from profit before tax

Items	Year ended 31 December 2018	Year ended 31 December 2017
Profit before tax	**1,758,733**	319,810
Tax rate	**15%**	15%
Income tax expenses calculated at the applicable tax rate	**263,810**	47,972
Effect of different tax rate applicable to subsidiaries	**466**	(1,119)
Expenses not deductible for tax purposes	**2,911**	18,674
Adjustment of income tax in the prior year	**265**	2
Utilization of deductible losses from prior years	**(343,122)**	(252,338)
Effect of unrecognized deductible temporary differences	**46,370**	186,811
Income tax expenses	**(29,300)**	2

(3) All the Group's profit is from Mainland China.

44. Earnings per share

Basic earnings per share is calculated by dividing the net profit for the current year attributable to the ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding. Shares are usually included in the weighted average number of shares from the date of their issuance according to the terms of contract of issuance.

The Group does not hold potential shares that are dilutive.

Basic earnings per share	Year ended 31 December 2018	Year ended 31 December 2017
Continuing operations	**0.20**	0.04
Total	**0.20**	0.04

For the year ended 31 December 2018 (Unit: RMB'000)

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

44. Earnings per share (Continued)

Items	**Year ended 31 December 2018**	Year ended 31 December 2017
Earnings		
Profit attributable to ordinary shareholders of the Company *(RMB)*	**1,787,906,000**	320,086,000
Number of shares		
Weighted average number of ordinary shares outstanding *(Note)*	**8,918,602,267**	8,002,150,000

Note: During the current year, the Company had not incurred any changes that may result in changes in the number of ordinary shares or potential ordinary shares outstanding. Therefore, the weighted average number of ordinary shares outstanding during the year was 8,918,602,267 shares, which was used by the Company to calculate the current earnings per share.

No change occurred in the year from the balance sheet date to the date of approval of the financial statements, resulting in changes in the number of ordinary shares or potential ordinary shares outstanding on the balance sheet date.

45. Notes to items of the consolidated cash flow statement

(1) Other cash received relating to operating activities

Items	**Year ended 31 December 2018**	Year ended 31 December 2017
Intercourse funds received	**–**	2,652,630
Guarantees and deposit	**50,954**	98,160
Interest income	**25,039**	–
Government grants received	**70**	45,458
Others	**99,274**	70,350
Total	**175,337**	2,866,598

For the year ended 31 December 2018 (Unit: RMB'000)

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

45. Notes to items of the consolidated cash flow statement (Continued)

(2) Other cash paid relating to operating activities

Items	Year ended 31 December 2018	Year ended 31 December 2017
Distribution and selling expenses	**75,179**	50,503
General and administrative expenses	**143,052**	124,138
Intercourse funds paid	**400,969**	–
Others	**382,131**	1,217,078
Total	**1,001,331**	1,391,719

(3) Other cash received relating to financing activities

Items	Year ended 31 December 2018	Year ended 31 December 2017
Reserve fund for the reorganization plan	**1,100,000**	–
Notes and letter of credit deposit	**80,700**	–
Financial guarantee deposits received	**–**	134,388
Financial funds received from notes and letter of credit	**–**	313,514
Special interest subsidies received from government	**–**	47,050
Others	**876**	100,000
Total	**1,181,576**	594,952

For the year ended 31 December 2018 (Unit: RMB'000)

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

45. Notes to items of the consolidated cash flow statement (Continued)

(4) Other cash paid relating to financing activities

Items	**Year ended 31 December 2018**	Year ended 31 December 2017
Financial funds paid to notes and letter of credit	**795,088**	–
Repayment of guarantee obligations from the reorganization	**669,940**	–
Payment to non-controlling interests of a subsidiary	**73,513**	–
Repayment of operating ordinary obligations from the reorganization	**48,909**	569,290
Withdrawal or deposits of reserve funds for reorganization	**–**	1,100,000
Repayment of financial fund from notes and letter of credit	**–**	670,228
Rentals of finance lease	**–**	2,000
Others	**–**	2,247
Total	**1,587,450**	2,343,765

For the year ended 31 December 2018 (Unit: RMB'000)

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

46. Supplementary information to the consolidated cash flow statement

(1) Supplement information to the consolidated cash flow statement

Supplementary Information	Year ended 31 December 2018	Year ended 31 December 2017
1) Reconciliation from net profit to cash flows from operating activities:		
Net profit	**1,788,033**	319,808
Add: Credit loss	**8,752**	–
Impairment provision	**30,728**	292,599
Depreciation of property plant and equipment	**693,769**	1,215,860
Amortization of intangible assets	**67,407**	63,610
Amortization of deferred income	**(2,659)**	(134,142)
Losses/(Gains) on disposal of assets	**(14,822)**	5,143,627
Financial expenses	**245,928**	483,931
Investment losses	**(5,455)**	(2,255)
Decease in deferred tax assets	**(31,067)**	–
Increase in inventories	**(1,904,352)**	(651,624)
Decrease/(increase) in operating receivables	**(857,315)**	435,124
Increase/(decrease) in operating payables	**1,305,604**	(6,660,723)
Others	**13,644**	–
Net cash flow from operating activities	**1,338,195**	505,815
2) Net changes in cash and cash equivalents:		
Cash at the end of the year	**1,969,543**	868,962
Less: cash at the beginning of the year	**868,962**	745,447
Net increase in cash and cash equivalents	**1,100,581**	123,515

For the year ended 31 December 2018 (Unit: RMB'000)

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

46. Supplementary information to the consolidated cash flow statement (Continued)

(2) Non-cash payment of material investing and financing activities:

Items	Year ended 31 December 2018
Proceeds from disposal of investment offset against debt *(Note)*	**120,942**

Note: On 29 March 2018, the company entrusted POSCO CISL to pay, on behalf of the Company, liquidation amount of RMB120,942,000 attributable to the company to Chongqing Strategic Emerging Equity Investment Fund Partnership (Limited Partnership) (重慶戰略性新興產業股權投資基金合夥企業(有限合夥)) for the settlement of its guaranteed creditor.

(3) Components of cash and cash equivalents

Items	31 December 2018	31 December 2017
1) Cash	**1,969,543**	868,962
Wherein: Cash on hand	**18**	41
Bank deposit available on demand for payment	**1,969,525**	868,921
2) Cash and cash equivalents at the end of the year	**1,969,543**	868,962

(4) Endorsement amount of notes receivable with no cash receipts and payments

Items	Year ended 31 December 2018	Year ended 31 December 2017
Endorsement amount of notes receivable	**10,451,024**	1,690,438
Including: Payment for goods and labor	**10,386,581**	1,666,028
Payment for others	**64,443**	24,410

For the year ended 31 December 2018 (Unit: RMB'000)

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

47. Assets with ownership or use right restricted

Items	Carrying amount on 31 December 2018	Carrying amount on 31 December 2017	Remarks
Cash and bank balances	**795,088**	1,181,576	*Note 1*
Notes and trade receivables	**20,000**	–	*Note 2*
PPE	**1,975,369**	962,898	*Note 3*
Intangible assets	**2,454,327**	1,405,002	*Note 4*
Total	**5,244,784**	3,549,476	

Note 1: As at 31 December 2018, the Group had cash and bank balances amounted to RMB795,088,000 restricted for bank acceptance notes and letter of credit. On 31 December 2017, the Group had cash and bank balances amounted to RMB1,181,576,000 restricted for bank acceptance notes and reserve funds for reorganization.

Note 2: As at 31 December 2018, the Group had notes receivable pledged amounted to RMB20,000,000 (31 December 2017: Nil) for bank acceptance notes.

Note3: As at 31 December 2018, the plant and buildings with a net carrying amount of RMB1,975,369,000 (31 December 2017: RMB962,898,000) were pledged to banks to secure the bank loans and facilities granted to the Group.

Note4: As at 31 December 2018, the land use right with a net carrying amount of RMB2,454,327,000 (31 December 2017: RMB1,405,002,000) were pledged to banks to secure the bank loans and facilities granted to the Group. The amortization of above land use right for the current year was RMB67,407,000.

For the year ended 31 December 2018 (Unit: RMB'000)

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

48. Foreign currency monetary items

31 December 2018	Original currency	Exchange rate	RMB equivalent
Cash and bank balances			
Wherein: USD	**50**	**6.8738**	**344**
HKD	**6**	**0.8777**	**5**

31 December 2017	Original currency	Exchange rate	RMB equivalent
Cash and bank balances			
Wherein: USD	11,060	6.5342	72,268
HKD	497	0.8945	445

49. Government grants

(1) Details

1) Government grants related to assets

Items	Opening deferred income	Newly-added grants for the year	Amortization for the year	Closing deferred income	Items stated of the amortization for the year
Construction of environmental protection equipment and facilities	6,028	–	221	**5,807**	Other income
Recycle heat power project	37,126	–	2,438	**34,688**	Other income
Total	43,154	–	2,659	**40,495**	

For the year ended 31 December 2018 (Unit: RMB'000)

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

49. Government grants (Continued)

(1) Details (Continued)

2) Government grants that related to the income and used to compensate for related costs and losses incurred by the Company

Items	Amount	Items stated
Others	**70**	Other income

(2) The total amount of government grants included in profit and loss was RMB2,729,000.

VI. CHANGES IN THE SCOPE OF CONSOLIDATED

Changes in the scope of consolidation caused by other reasons:

Name	Method for Disposal of equity interests	Time of disposal of equity interests	Net assets at the date of disposal	Net profits from the beginning of the year to the date of disposal
Cold Rolling Company	Cancellation	May 2018	739,765	1,273
Huadong Trading Company	Cancellation	Oct 2018	49,225	5,695

On 10 November 2017, the board of Cold Rolling Company decided to dissolve Cold Rolling Company. In May 2018, Cold Rolling Company had completed the deregistration of foreign investment corporation. For details please refer to Note XIII.3.

On 9 March 2016, the Proposal on Withdrawal of Four Sales Subsidiaries was approved by the 39th Session of the Seventh Board Meeting. The Board agreed to withdraw Huadong Trading Company. In October 2018, the Company had completed the deregistration of Huadong Trading Company.

For the year ended 31 December 2018 (Unit: RMB'000)

VII. INTERESTS IN OTHER ENTITIES

Equity in subsidiaries

Composition of significant subsidiaries

Name of the subsidiary	Main operating place	Place of registration	Business nature	shareholding proportion		Acquisition method
				Direct	Indirect	
Chongqing CIS Building Materials Sales Co., Ltd.	Changshou Economic Development District, Chongqing	Changshou Economic Development District, Chongqing	Trade industry	100%	–	Incorporation

On 31 December 2018, there were no subsidiaries with material interests of non-controlling shareholders.

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS

1. Classification of financial instruments

As at 31 December 2018 and 31 December 2017, the carrying amount of financial instruments as follows:

(1) Financial assets

31 December 2018	Financial assets at fair value through other comprehensive income	Financial assets at amortized cost	Total
Cash and bank balances	–	2,764,631	2,764,631
Notes and Trade receivables	–	30,340	30,340
Other receivables	–	10,506	10,506
Other equity investment (designated)	5,000	–	5,000
Other current assets (acquired by standards)	575,652	30,000	605,652
Total	580,652	2,835,477	3,416,129

For the year ended 31 December 2018 (Unit: RMB'000)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

1. Classification of financial instruments (Continued)

(1) Financial assets (Continued)

31 December 2017	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Loans and trade receivables	Total
Cash and bank balances	–	–	2,050,538	2,050,538
Notes and trade receivables	–	–	167,134	167,134
Other receivables	–	–	10,355	10,355
Available-for-sale financial assets	5,000	–	–	5,000
Other current asset – Bank wealth management product	–	650,000	–	650,000
Total	5,000	650,000	2,228,027	2,883,027

(2) Financial liabilities

	Other financial liabilities	
	31 December 2018	31 December 2017
Notes and trade payables	**2,946,316**	2,155,294
Other payables	**354,665**	1,491,912
Non-current liabilities due within one year	**410,000**	400,000
Long-term borrowings	**300,000**	700,000
Other non-current liabilities	**2,575,500**	2,400,000
Total	**6,586,481**	7,147,206

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

2. Transfer of financial assets

1) *Financial assets transferred but fully derecognized and transferred but still continuing involved*

As at 31 December 2018, the Group endorsed bank acceptance notes and commercial acceptance notes to the suppliers with a carrying amount of RMB260,859,000 for settlement of trade payables (31 December 2017: Nil). As the Group was of the opinion that the Group had retained substantially all their risks and rewards, including the default risk associated, the Group continues to recognize them and the settled trade payables associated therewith in full. After the endorsement, the Group no longer reserved the rights to use these financial assets, including the rights to sell, transfer or pledge to any other third parties. As at 31 December 2018, the carrying amount of trade payables settled by the Group through these financial assets amounted to RMB260,859,000 (31 December 2017: Nil).

2) *Financial assets fully derecognized and transferred but still continuing involved*

As at 31 December 2018, the Group endorsed bank acceptance notes to the suppliers to settle the payables or discounted to obtain consideration of the bank acceptance notes with a carrying amount of RMB5,563,044,000 (31 December 2017: RMB1,795,100,000). As at 31 December 2018, their maturities period was within 9 months. Pursuant to the relevant provisions of "Law of Negotiable Instruments", the holders of commercial instruments shall have the right of recourse against the Group ("Continuing Involvement") if the relevant acceptance bank defaults. As the Group was of the opinion that the Group had transferred substantially all their risks and rewards, the Group derecognized the book value of the related trade payables that have been settled by the notes. The undiscounted cash flow and maximum loss of continuing involvement and repurchase were equal to the book value of the notes. The Group considers the fair value of continuing involvement is not significant.

During 2018, the Group did not recognize gains or losses at the date of transfer. The Group had no current or accumulated gain or expense arising from the continuing involvement in financial assets which had been derecognized. The endorsement and discount were incurred evenly throughout this year.

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

3. Risk of financial instruments

The Group is exposed to various types of risks from financial instruments during its ordinary course of business, mainly including credit risk, liquidity risk and market risk with foreign exchange risk and interest rate risk inclusive. Financial instruments of the Group are mainly comprised of cash and bank balances, loans, notes receivable and trade receivables and notes payable and trade payables, etc. Risks related to these financial instruments and the Group's risk management policies adopted to reduce such risks are described as follows:

Directors are responsible for planning and establishing the risk management structure of the Group, designating the risk management policies and the related guidance for the Group, and monitoring the implementation of risk management measures. The Group has risk management policies in place to identify and analyze the risk exposure of the Group. These risk management policies have defined particular risks, covering the aspects of the management of market risk, credit risk and liquidity risk. The Group will decide whether it is necessary to update the risk management policies and system by regularly evaluating changes in market environment and the operating activities of the Group. Risk management of the Group is carried out by the risk management committee in accordance with the policies approved by the board. Risk management committee identifies, evaluates and mitigates the relevant risks by closely working with other business departments. Internal audit department of the Group will conduct audit regularly on risk management control and procedures, and submit the audit results to the audit committee of the Group.

The Group spreads the risks from financial instruments by diversified investment and business portfolio, and develops risk management policies accordingly to mitigate the risk of overconcentration on any single industry, particular region or particular counterparties.

(1) Credit risk

The Group trades only with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, balances of trade receivables are monitored on an ongoing basis to ensure that the Group's exposure to bad debt is not significant.

Since the counterparties of cash and bank balances and bank acceptance notes are placed in the well-established banks with high credit ratings, these financial instruments are exposed to lower credit risk.

The credit risk of the Group's other financial assets, which comprise cash and bank balances, other receivables, other equity investments, and other current assets, etc. arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

3. Risk of financial instruments (Continued)

(1) Credit risk (Continued)

The Group is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in Note XI.2.

Since the Group traded only with recognized and creditworthy third parties, there was no requirement for collateral. Credit risk was managed in accordance with customer and industry. At the end of the reporting year, the Group had a certain concentration of credit risk as 28% (31 December 2017: 35%) of the Group's trade receivables were due from the Group's five largest customers in terms of trade receivables. The Group did not hold any collateral or credit enhancements for the balance of trade receivables.

Year for 2018

Criteria for judging significant increase in credit risk

The Group assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at each balance sheet date. While determining whether the credit risk has significantly increased since initial recognition or not, the Group takes into account the reasonable and substantiated information that is accessible without exerting unnecessary cost or effort, including qualitative and quantitative analysis based on the historical data of the Group, external credit risk rating, and forward-looking information. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Group compares the risk of default of financial instruments on the balance sheet date with that on the initial recognition date in order to figure out the changes of default risk in the expected lifetime of financial instruments.

The Group considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative, qualitative or backstop criteria have been met:

- Quantitative criteria mainly comprise of the circumstance that at the reporting date, the increase in remaining lifetime probability of default is considered significant comparing with the one at initial recognition.

- Qualitative criteria mainly comprise of the circumstances that significant adverse change in debtor's operation or financial status and being listed on the watch-list, etc.

- the upper limit indicator is the debtor's contract payment (including principal and interest) is overdue for more than 30 days.

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

3. Risk of financial instruments (Continued)

(1) Credit risk (Continued)

Definition of credit-impaired asset

The standard adopted by the Group to determine whether a credit impairment occurs is consistent with the internal credit risk management objectives of the relevant financial instrument, taking into account quantitative and qualitative criteria. When the Group assesses whether the credit impairment of debtor occurred, the following factors are mainly considered:

- Significant financial difficulty of the issuer or the debtor;
- Debtors are in breach of contract, such as defaulting on interest or becoming overdue on interest or principal payments overdue;
- The creditor of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession that the creditor would not otherwise consider;
- It is becoming probable that the debtor will enter bankruptcy or other financial restructuring;
- The disappearance of an active market for that financial asset because of financial difficulties of the issuer or the debtor;
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;

The credit impairment on a financial asset may be caused by the combined effect of multiple events and may not be necessarily due to a single event.

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

3. Risk of financial instruments (Continued)

(1) Credit risk (Continued)

Parameters of ECLs measurement

Based upon whether credit risk has significantly increased or impaired, the Group measures impairment provision for different assets upon the ECLs during 12 months or entire lifetime. The key measuring parameters of ECLs include probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Group takes into account the quantitative analysis of historical statistics (such as ratings of counterparties, manners of guarantees and types of collaterals, repayments, etc.) and forward-looking information in order to establish the model of PD, LGD and EAD.

Relative definitions are listed as follows:

- PD refers to the possibility that the debtor will not be able to fulfil its obligations of repayment throughout the future 12 months or entire remaining lifetime. The Group's PD is adjusted based on historical loss rate, taking into account the forward-looking information to reflect the debtor's PD under the current macroeconomic environment;

- LGD refers to the Group's expectation of the extent of the loss resulting from the default exposure. Depending on the type of counterparty, the method and priority of the recourse, and the type of collaterals, the LGD varies. The LGD is the percentage of loss of risk exposure at the time of default, calculated throughout the future 12 months or entire remaining lifetime;

- EAD is the amount that the Group should be reimbursed at the time of the default throughout the future 12 months or entire remaining lifetime.

For the year ended 31 December 2018 (Unit: RMB'000)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

3. Risk of financial instruments (Continued)

(1) Credit risk (Continued)

Forward-looking information

The assessment of a significant increase in credit risk and the calculation of ECLs both involve forward looking information. Through the analysis of historical data, the Group identifies the key economic indicators that affect the credit risk and ECLs of various business types.

As at 31 December 2018, the analysis of gross carrying amounts and credit risk exposure of financial assets are as follows:

Item	12-month ECLs Stage 1	Lifetime ECLs Stage 2	Stage 3	Simplified approach	Total
Cash and bank balance	**2,764,631**	**–**	**–**	**–**	**2,764,631**
Notes and trade receivables	**–**	**–**	**–**	**183,195**	**183,195**
Other receivables	**10,085**	**1,323**	**36,965**	**–**	**48,373**
Other current assets	**575,652**	**–**	**–**	**–**	**575,652**
Total	**3,350,368**	**1,323**	**36,965**	**183,195**	**3,571,851**

As at 31 December 2017, the aging analysis of the Group's financial assets not impaired is as follows:

	31 December 2017				
		Overdue and no impaired			
Items	Neither overdue nor impaired	Less than 1 year	1–2 years	Over 2 years	Total
Cash and bank balances	2,050,538	–	–	–	2,050,538
Notes and trade receivables	127,939	25,029	12,355	1,811	167,134
Other receivables	10,355	–	–	–	10,355
Total	2,188,832	25,029	12,355	1,811	2,228,027

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

3. Risk of financial instruments (Continued)

(1) Credit risk (Continued)

Forward-looking information (Continued)

As at 31 December 2017, trade receivables that were not past due and not impaired related to a large number of customers who had no recent history of default.

As at 31 December 2017, the Group's trade receivables that were not considered to be impaired mainly relate to a number of independent customers that had a good track record with the Group. Based on past experience, the Group was of the opinion that no provision for impairment was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

(2) 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 were 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 of directors of the Company when the borrowings exceeded certain predetermined levels of authority). The Group's liquidity management method was to make sure enough liquidity for the performance of matured debts, so as not to cause any unacceptable losses or any damage to its reputation. As at 31 December 2018, the Group's current liabilities already exceeded current assets by RMB2,267,179,000 (31 December 2017: RMB53,774,000).

For the year ended 31 December 2018 (Unit: RMB'000)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

3. Risk of financial instruments (Continued)

(2) Liquidity risk (Continued)

Classification of financial liabilities based on the rest maturity date:

	31 December 2018					
Items	**Carrying amount**	**Undiscounted contract amount**	**Within 1 year**	**1–2 years**	**2 to 5 years**	**Over 5 years**
Notes and trade payables	**2,946,316**	**2,946,316**	**2,946,316**	**–**	**–**	**–**
Other payables	**354,665**	**354,665**	**354,665**	**–**	**–**	**–**
Non-current liabilities due within one year	**410,000**	**420,833**	**420,833**	**–**	**–**	**–**
Long-term borrowings	**300,000**	**323,592**	**14,250**	**309,342**	**–**	**–**
Other non-current liabilities	**2,575,500**	**2,884,709**	**129,183**	**255,946**	**1,840,459**	**659,121**
Total	**6,586,481**	**6,930,115**	**3,865,247**	**565,288**	**1,840,459**	**659,121**

	31 December 2017					
Items	Carrying amount	Undiscounted contract amount	Within 1 year	1–2 years	2 to 5 years	Over 5 years
Notes and trade payables	2,155,294	2,155,294	2,155,294	–	–	–
Other payables	1,491,912	1,491,912	1,491,912	–	–	–
Non-current liabilities due within one year	400,000	415,014	415,014	–	–	–
Long-term borrowings	700,000	767,203	33,250	424,739	309,214	–
Other non-current liabilities	2,400,000	2,995,669	117,600	127,550	1,299,879	1,450,640
Total	7,147,206	7,825,092	4,213,070	552,289	1,609,093	1,450,640

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

3. Risk of financial instruments (Continued)

(3) 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.

The Group's revenue and operating cash flows are largely unaffected by fluctuation in market interest rate. As at 31 December 2018, all the Group's bank loans were calculated by stable interest rate.

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 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 to ensure that the net risk exposure is maintained at an acceptable level.

During the current year, the transactions of sales are denominated in RMB, and only 0.87% (2017: Nil) of purchase were denominated in foreign currency, besides, the Group's operating activities were carried out in Mainland China. The Group expected that fluctuation of the foreign currency exchange rate of the RMB did not have a significant impact on the Group's operating results. As a result, the Group had not carried out a large amount of hedging trade to reduce the foreign exchange risk.

For the year ended 31 December 2018 (Unit: RMB'000)

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximize shareholders' value.

The Group manages its capital structure and makes adjustments according to changes in economic conditions and the risk characteristics of the relevant assets. In order to maintain or adjust the capital structure, the Group may adjust the distribution of profits to shareholders, return capital to shareholders or issue new shares. The Group is not subject to externally imposed capital requirements constraints and monitors capital using debt-to-asset ratio. In 2018 and 2017, there had been no change in the objectives, policies or procedures of capital management of the Group.

On 31 December 2018 and 31 December 2017, the Group's debt-to-asset ratio, which is total liabilities divided by total assets at the end of the reporting year, is as follows:

	31 December 2018	31 December 2017
Debt-to-asset ratio	**31.19%**	32.82%

For the year ended 31 December 2018 (Unit: RMB'000)

IX. DISCLOSURE OF FAIR VALUE

1. Assets and liabilities measured at fair value

	Fair value measurement using			
As at 31 December 2018	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Other equity investments	**–**	**–**	**5,000**	**5,000**
Other current assets – notes receivable	**–**	**576,652**	**–**	**576,652**

	Fair value measurement using			
As at 31 December 2017	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Available-for-sale financial assets	–	–	5,000	5,000

2. Assets and liabilities disclosed at fair value

	Fair value measurement using			
As at 31 December 2018	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Long-term borrowings	**–**	**277,919**	**–**	**277,919**
Other non-current liabilities	**–**	**2,426,152**	**–**	**2,426,152**
Total	**–**	**2,704,071**	**–**	**2,704,071**

For the year ended 31 December 2018 (Unit: RMB'000)

IX. DISCLOSURE OF FAIR VALUE (CONTINUED)

2. Assets and liabilities disclosed at fair value (Continued)

	Fair value measurement using			
As at 31 December 2017	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Long-term borrowings	–	647,466	–	647,466
Other non-current liabilities	–	2,254,423	–	2,254,423
Total	–	2,901,889	–	2,901,889

3. Fair value estimation

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values due to short term to maturity, are as follows:

	31 December 2018		1 January 2018		31 December 2017	
Financial liabilities	**Carrying Amount**	**Fair value**	Carrying Amount	Fair value	Carrying Amount	Fair value
Long-term borrowings	**300,000**	**277,919**	700,000	647,466	700,000	647,466
Other non-current liabilities	**2,575,500**	**2,426,152**	2,400,000	2,254,423	2,400,000	2,254,423
Total	**2,875,500**	**2,704,071**	3,100,000	2,901,889	3,100,000	2,901,889

Management has assessed that the fair values of cash and cash equivalents, notes receivable and trade receivables, other receivables, other current assets-debt investment, notes payable and trade payables, other payables, non-current liabilities due within one year approximate to their carrying amounts due to short remaining period.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The fair values of the long-term borrowings and other non-current liabilities are determined using discount cash flows, at rates equal to market yield of other financial instruments with similar contract terms, credit risks and remaining Term. As at 31 December 2018, non-performance risks underlying long-term borrowings and other non-current liabilities were appraised as immaterial.

X. RELATED PARTY AND RELATED PARTY TRANSACTIONS

1. Controlling shareholder

Unit: RMB'000

Name of the controlling shareholder	Place of registration	Business nature	Registered capital	Shareholding proportion over the company (%)	Voting right proportion over the Company (%)
Chongqing Changshou Iron & Steel Company Limited	Chongqing	Technology development, technology transfer, technology service and management consultancy services of the fields of iron and steel, metallurgy and mining, coal, chemical industry, electricity and transportation; sales of raw materials, namely steel; operation of terminals; warehouse services; leases of owned property and equipment; import and export of goods and technology; corporate management and consultancy services	4,000,000	23.51%	23.51%

In December 2017, Chongqing Municipal First Intermediate People's Court (重慶市第一中級人民法院) judged that the reorganization plan had been completed. Changshou Iron & Steel received 2,096,981,600 shares held by CISG and became the Company's largest shareholder. Since that, CISG (with registered capital of RMB1,650,706,000) was no longer the parent company, and the controlling shareholder is Changshou Iron & Steel, whose substantial controller is Siyuanhe Equity Investment Management Co., Ltd. According to Article 71 (3) of the "Administrative Measures on Information Disclosure of Listed Companies" (Order No. 40 of the CSRC), CISG "directly or indirectly inter-ground control a listed company as the legal person, within the past 12 months or within the next 12 months according to relevant agreements", which is a historical related party of the company.

2. Please refer to note VII. Interets in other entities for details of the Company's subsidiaries.

X. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

3. Information about other related parties of the Company

Name of the other related parties	Relationship between the Company and the other related parties
CISG (重慶鋼鐵(集團)有限責任公司)	Other *(Note 1)*
Chongqing Iron & Steel Group San Feng Industrial Company Limited (重慶鋼鐵集團三峰工業有限公司)	Other *(Note 1)*
Chongqing Iron & Steel Group Chaoyang Gas Company Limited (重慶朝陽氣體有限公司)	Other *(Note 1)*
Chongqing Iron & Steel Group Industrial Company Limited (重慶鋼鐵集團產業有限公司)	Other *(Note 1)*
Chongqing Iron & Steel Group Yingsite Mould Company Limited (重慶鋼鐵集團英斯特模具有限公司)	Other *(Note 1)*
Chongqing Iron & Steel Group Mining Company Limited (重慶鋼鐵集團礦業有限公司)	Other *(Note 1)*
Chongqing Iron & Steel Group Steel Pipe Company Limited (重慶鋼鐵集團鋼管有限責任公司)	Other *(Note 1)*
Chongqing Iron & Steel Research Institute (重慶鋼鐵研究所有限公司)	Other *(Note 1)*
Chongqing Iron & Steel Group Construction and Engineering Company Limited (重慶鋼鐵集團建設工程有限公司)	Other *(Note 1)*
Chongqing Iron & Steel Group Electronic Company Limited (重慶鋼鐵集團電子有限責任公司)	Other *(Note 1)*
Chongqing Iron & Steel Group Transportation Company Limited (重慶鋼鐵集團運輸有限責任公司)	Other *(Note 1)*
Chongqing Hongfa Real Estate Development Company (重慶宏發房地產開發公司)	Other *(Note 1)*
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)	Other *(Note 1)*
Chongqing Iron & Steel Group Design Institute (重慶鋼鐵集團設計院)	Other *(Note 1)*
Chongqing Sanhuan Construct Supervision Consultant Company Limited (重慶三環建設監理諮詢有限公司)	Other *(Note 1)*
Chongqing Iron & Steel Group General Hospital (重鋼總醫院)	Other *(Note 1)*
Chongqing Iron & Steel Group Steel Company Limited (重慶鋼鐵集團鐵業有限責任公司)	Other *(Note 1)*
Chongqing Dadukou District Qianye Education Company Limited. (重慶市大渡口區千業教育培訓有限責任公司)	Other *(Note 1)*

X. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

3. Information about other related parties of the Company (Continued)

Name of the other related parties	Relationship between the Company and the other related parties
Chongqing Steel Structure Industrial Company Limited (重慶鋼結構產業有限公司)	Other *(Note 1)*
Chongqing Iron & Steel Group Refractory Material Company Limited (重慶鋼鐵集團耐火材料有限責任公司)	Other *(Note 1)*
Chongqing Iron & Steel Design and Research Institute (重慶鋼鐵設計研究院)	Other *(Note 1)*
Chongqing Xingang Loading and Transportation Company Limited (重慶新港裝卸運輸有限公司)	Other *(Note 1)*
Chongqing San Gang Steel Company Limited (重慶三鋼鋼業有限責任公司)	Other *(Note 1)*
Chongqing Iron & Steel Group Qijiang Iron Mine Construction and Installation Engineering Company (重鋼綦江鐵礦建築安裝工程公司)	Other *(Note 1)*
Chongqing Xin Gang Chang Long Logistics Company Limited (重慶新港長龍物流有限責任公司)	Other *(Note 2)*
San FengJingjiang Port Logistics Company Limited (三峰靖江港務物流有限責任公司)	Other *(Note 2)*
Chongqing Qianxin Energy Environmental Protection Company Limited (重慶千信能源環保有限公司)	Other *(Note 3)*
Siyuanhe Equity Investment Management Co., Ltd. (四源合股權投資管理有限公司)	Other *(Note 4)*

Note 1: All of the aforesaid companies are the subsidiaries of CISG, and under common control of CISG before the reorganization plan was completed. According to Article 71 of the "Administrative Measures on Information Disclosure of Listed Companies" (Order No. 40 of the CSRC), those companies were disclosed as historical related parties of the Company during the year.

Note 2: In November and December 2017, CISG transferred its 30% equity interest in Chongqing Xingang Changlong Logistics Co., Ltd. and its 35% equity interest in Sanfeng Jingjiang Port Logistics Co., Ltd. to Qianxin International. Respectively. After the completion of the equity transfer, Chongqing Xingang Changlong Logistics Co., Ltd. and Sanfeng Jingjiang Port Logistics Co., Ltd. were no longer affiliated with the Company due to under common control of CISG. Chongqing Xingang Changlong Logistics Co., Ltd., Sanfeng Jingjiang Port Logistics Co., Ltd. and the Company were "the subsidiaries of CISC and under common control of CISG within the past 12 months". According to Article 71 of the "Administrative Measures on Information Disclosure of Listed Companies" (Order No. 40 of the CSRC), those companies were disclosed as historical related parties of the Company during the year.

For the year ended 31 December 2018 (Unit: RMB'000)

X. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

3. Information about other related parties of the Company (Continued)

Note 3: In August 2017, CISG transferred its 40% equity interest in Chongqing Qianxin Energy Environmental Protection Co., Ltd. ("Qianxin Environmental Protection") to Qianxin International. Qianxin Environmental Protection was "a legal person holding more than 5% of the company's shares in the past 12 months", which according to Article 71 of the "Administrative Measures on Information Disclosure of Listed Companies" (Order No. 40 of the CSRC), was disclosed as historical related parties of the Company during the year. As at 31 December 2018, Qianxin Environmental Protection held 4.23% of the shares of the Company due to the reorganization plan.

Note 4: Siyuanhe Equity Investment Management Co., Ltd. is the substantial controller of Changshou Iron & Steel.

4. Information about related party transactions

(1) Transaction of goods and services with related parties

1) Purchase of goods and receiving of services from related parties

Related party	Content of transaction	**Year ended 31 December 2018**	Year ended 31 December 2017
Chongqing Iron & Steel Group Chaoyang Gas Company Limited (重慶朝陽氣體有限公司)	Purchase of goods, receiving of services	**526,951**	378,974
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	**520,715**	396,662
Chongqing Qianxin Energy Environmental Protection Company Limited (重慶千信能源環保有限公司)	Purchase of goods	**495,670**	113,400
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	**187,205**	71,868
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	**134,035**	75,720
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	**112,329**	136,287

For the year ended 31 December 2018 (Unit: RMB'000)

X. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Information about related party transactions (Continued)

(1) Transaction of goods and services with related parties (Continued)

1) Purchase of goods and receiving of services from related parties (Continued)

Related party	Content of transaction	**Year ended 31 December 2018**	Year ended 31 December 2017
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	**108,948**	90,378
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	**87,465**	79,100
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	**42,713**	17,855
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	**27,204**	2,951
Chongqing Iron & Steel Research Institute (重慶鋼鐵研究所有限公司)	Purchase of goods, receiving of services	**7,556**	7,991
Chongqing Iron & Steel Group Design Institute (重慶鋼鐵集團設計院)	Purchase of goods, receiving of services	**3,442**	13,339
Chongqing Iron & Steel Group General Hospital (重鋼總醫院)	Receiving of services	**2,946**	2
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	**2,508**	4,872

For the year ended 31 December 2018 (Unit: RMB'000)

X. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Information about related party transactions (Continued)

(1) Transaction of goods and services with related parties (Continued)

1) Purchase of goods and receiving of services from related parties (Continued)

Related party	Content of transaction	**Year ended 31 December 2018**	Year ended 31 December 2017
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	**2,229**	388
Chongqing Iron & Steel Group Steel Company Limited (重慶鋼鐵集團鐵業有限責任公司)	Purchase of goods	**1,841**	–
Chongqing San Gang Steel Company Limited (重慶三鋼鋼業有限責任公司)	Purchase of goods	**463**	1,050
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	**17**	–
San FengJingjiang Port Logistics Company Limited (三峰靖江港務物流有限責任公司)	Purchase of goods, receiving of services	**–**	1,905
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	**–**	114
CISG (重慶鋼鐵(集團)有限責任公司)	Receiving of services	**–**	52
Total		**2,264,237**	1,392,908

For the year ended 31 December 2018 (Unit: RMB'000)

X. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Information about related party transactions (Continued)

(1) Transaction of goods and services with related parties (Continued)

2) Sale of goods and rendering of services to related parties

Related party	Content of transaction	**Year ended 31 December 2018**	Year ended 31 December 2017
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	**282,407**	562
Chongqing Iron & Steel Group Mining Company Limited (重慶鋼鐵集團礦業有限公司)	Sale of steels, energy	**88,653**	70,668
Chongqing Iron & Steel Group Industrial Company Limited (重慶鋼鐵集團產業有限公司)	Sale of steels, energy	**22,228**	9,216
Chongqing Qianxin Energy Environmental Protection Company Limited (重慶千信能源環保有限公司)	Sale of energy, rendering of services	**11,295**	4,671
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.	**1,644**	2,194
Chongqing Iron & Steel Group Chaoyang Gas Company Limited (重慶朝陽气体有限公司)	Sale of energy	**1,155**	281,485
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. and rendering of services	**907**	241
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	**668**	423

For the year ended 31 December 2018 (Unit: RMB'000)

X. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Information about related party transactions (Continued)

(1) Transaction of goods and services with related parties (Continued)

2) Sale of goods and rendering of services to related parties (Continued)

Related party	Content of transaction	**Year ended 31 December 2018**	Year ended 31 December 2017
Chongqing Iron & Steel Group Steel Pipe Company Limited (重慶鋼鐵集團鋼管有限責任公司)	Sale of energy	**374**	–
Chongqing Iron & Steel Group Electronics Company Limited (重慶鋼鐵集團電子有限責任公司)	Sale of energy	**39**	306
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)	Sale of energy	**73**	57
CISG (重慶鋼鐵(集團)有限責任公司)	Sale of energy, etc.	**12**	146
Total		**409,455**	369,969

3) Other descriptions

For the purchase price of commodities from 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' bidding 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.

For the year ended 31 December 2018 (Unit: RMB'000)

X. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Information about related party transactions (Continued)

(2) Leases

1) As a lessor

Name of Lessee	Type of assets leased	**Lease income in year ended 31 December 2018**	Lease income in year ended 31 December 2017
Chongqing Iron & Steel Group Industrial Company Limited (重慶鋼鐵集團產業有限公司)	Plant and buildings	**316**	331
Chongqing Iron & Steel Group Electronic Company Limited (重慶鋼鐵集團電子有限責任公司)	Plant and buildings	**190**	190
Chongqing Iron & Steel Group Chaoyang Gas Company Limited (重慶朝陽气体有限公司)	Plant and buildings	**127**	127
Chongqing Iron & Steel Group Construction and Engineering Company Limited (重慶鋼鐵集團建設工程有限公司)	Plant and buildings	**101**	50
Chongqing Qianxin Energy Environmental Protection Company Limited (重慶千信能源環保有限公司)	Plant and buildings	**71**	42
Chongqing Iron & Steel Group Transportation Company Limited (重慶鋼鐵集團運輸有限責任公司)	Plant and buildings	**66**	70
Chongqing Iron & Steel Group Mining Company Limited (重慶鋼鐵集團礦業有限公司)	Plant and buildings	**63**	63
Chongqing Xin Gang Chang Long Logistics Company Limited (重慶新港長龍物流有限責任公司)	Plant and buildings	**48**	48
Chongqing Iron & Steel Group Steel Pipe Company Limited (重慶鋼鐵集團鋼管有限責任公司)	Plant and buildings	**7**	–

For the year ended 31 December 2018 (Unit: RMB'000)

X. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Information about related party transactions (Continued)

(2) Leases (Continued)

1) As a lessor (Continued)

Name of Lessee	Type of assets leased	**Lease income in year ended 31 December 2018**	Lease income in year ended 31 December 2017
Chongqing Iron & Steel Group San Feng Industrial Company Limited (重慶鋼鐵集團三峰工業有限公司)	Plant and buildings	**–**	21
Chongqing Dadukou District Qianye Education Company Limited. (重慶市大渡口區千業教育培訓有限責任公司)	Plant and buildings	**9**	–
Chongqing Iron & Steel Group General Hospital (重鋼總醫院)	Plant and buildings	**–**	17
Total		**998**	959

2) As a lessee

Name of lessor	Types of asset leased	**Lease expenses in year ended 31 December 2018**	Lease expenses in year ended 31 December 2017
Chongqing Changshou Iron & Steel Company Limited (重慶長壽鋼鐵有限公司) *(note)*	Machinery and other equipment	**184,387**	–
CISG (重慶鋼鐵(集團)有限責任公司) *(note)*	Machinery and other equipment	**141,884**	–
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)	Plant and buildings	**–**	388
Total		**326,271**	388

X. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Information about related party transactions (Continued)

(2) Leases (Continued)

2) As a lessee (Continued)

The transactions stated above constitute connected transactions or continuing connected transactions as defined under Chapter 14A of the Rules Governing the Listing of Securities of the Stock Exchange of Hong Kong Limited. The Company confirms that it has complied with the disclosure requirements under Chapter 14A of the Listing Rules.

Note: In order to raise funds, during the reorganization period the administrator conducted a public auction in respect of pre-ironmaking assets (mainly including machinery and equipment of coking plants, sintering plants and smelting plants, etc.), and the second system and related assets (mainly including the machinery and equipment at the second steel making plant and for bar and wire rod and profile steel). Changshou Iron & Steel acquired pre-ironmaking assets at a transaction price of RMB3.9 billion, and CISG acquired second system and related assets at a transaction price of RMB3 billion. As at 31 December 2017, the Company had completed the delivery of the relevant assets to Changshou Iron & Steel and CISG.

In February 2018, the Proposal on Leasing the Relevant Assets of Related Companies by the Company in 2018 was considered and approved by the 14th Session of the Seventh Board Meeting. The Board agreed that the Company shall lease the aforesaid pre-ironmaking assets from Changshou Iron & Steel and lease the aforesaid second system and related assets from CISG.

On 27 February 2018, the Group entered into an asset leasing contract with Changshou Iron & Steel to lease the aforesaid pre-ironmaking assets, with a monthly rent of RMB17,875,000 and a lease term from 9 December 2017 to 31 December 2018. On 27 December 2018, the Group entered into the renewal leasing contract of the aforesaid pre-ironmaking assets, with a monthly rent of RMB17,875,000 with the lease term from 1 January 2019 to 31 December 2019. On 27 February 2018, the Group entered into an asset leasing contract with CISG to lease the aforesaid second system assets, with a monthly rent of RMB13,750,000 and a lease term from 1 January 2018 to 31 December 2018. If neither the Group nor the CIGS proposes terminating the lease contract, the lease period would automatically extend 1 year.

For the year ended 31 December 2018 (Unit: RMB'000)

X. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Information about related party transactions (Continued)

(3) Guarantee

Guarantee provided by related parties:

Guaranteed party	Amount guaranteed	Commencement date	Maturity date	Performance of guarantee completed or not
Siyuanhe Equity Investment Management Co., Ltd. *(Note 1)*	400,000	2017/12/27	2018/4/20–2018/10/20	Yes
Siyuanhe Equity Investment Management Co., Ltd. *(Note 1)*	700,000	2017/12/27	2019/4/20–2020/12/26	No
Changshou Iron & Steel *(Note 2)*				Yes
Changshou Iron & Steel *(Note 3)*	1,000,000	2018/6/19	2019/6/19	No

Notes of guarantee provided by related parties

Note 1: According to the reorganization plans in 2017, the Company applied for a loan of RMB1.1 billion from China Development Bank, and Siyuanhe Investment Management Co., Ltd. provided guarantees for the above loan. As at 31 December 2018, the Company had payback RMB400 million to China Development Bank, and the guarantee granted by Siyuanhe Investment Management Co., Ltd., has been matured.

Note 2: On 5 December 2017, the Group entered a purchase agreement with Qianxin International. Changshou Iron & Steel provided a guarantee for the payables within RMB2 billion, the actual guarantees was the payables for Qianxin International by the Company. At the same time, the Group's inventories and machinery and equipment were pledged to secure the above purchases. In 2018, the guarantee has been fulfilled.

Note 3: On 19 June 2018, the Company obtained banking facilities of RMB1 billion from China Minsheng Bank Chongqing Branch. Changshou Iron & Steel provided guarantee, free of charge, the guarantee period is 1 year.

For the year ended 31 December 2018 (Unit: RMB'000)

X. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Information about related party transactions (Continued)

(4) Interest fee paid to a related party

Related party	Amount borrowed	Interest in the current year
Changshou Iron & Steel *(Note)*	2,585,500	123,682

Note: Pursuant to the reorganization plan, Changshou Iron & Steel provided RMB2.4 billion loans to the Company for its execution of the reorganization plan. The loan term is 7 years, which is from 24 November 2017 to 23 November 2024, and bears interest at the rate of 4.9% (31 December 2017: 4.9%) per annum. Changshou Iron & Steel provided financing facilities of RMB500 million to the Company with a term of 3 years, from 1 January 2018 to 31 December 2018, with annual interest rate of 4.75%. Up to 31 December 2018, the company has utilized RMB185.5 million.

(5) Remuneration of key management personnel

Items	Year ended 31 December 2018	Year ended 31 December 2017
Remuneration of key management personnel	**23,483**	4,185

For the year ended 31 December 2018 (Unit: RMB'000)

X. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Information about related party transactions (Continued)

(5) Remuneration of key management personnel (Continued)

	Current year cumulative					
	Fees	Wage, bonus, allowance, and subsidy	Pension insurance premium	Housing fund	Other social insurance premium	Total
Director – executive director:						
Li Yong Xiang *(Note 1)*	–	5,444	50	17	28	5,539
Tu De Ling	–	1,680	42	25	26	1,773
Zhang Shuo gong *(Note 1)*	–	2,310	–	–	–	2,310
Li Ren Sheng *(Note 1)*	–	1,607	42	25	26	1,700
Zhang Li Quan *(Note 1)*	–	67	3	2	2	74
Yao Xiao Hu *(Note 1)*	–	50	3	2	2	57
Director – non-executive director:						
Zhou Zhu Ping *(Note 1)*	–	–	–	–	–	–
Zheng Jie *(Note 1)*	–	–	–	–	–	–
Liu Da Wei *(Note 1)*	–	–	–	–	–	–
Zhou Hong *(Note 1)*	–	–	–	–	–	–
Xin Qing Quan	137	–	–	–	–	137
Xu Yi Xiang	137	–	–	–	–	137
Wang Zhen Hua	137	–	–	–	–	137
Zheng Yu Chun *(Note 2)*	105	–	–	–	–	105
Huang Yu Chang *(Note 2)*	32	–	–	–	–	32
Supervisor:						
Xiao Yu Xin *(Note 3)*	–	2,446	42	14	24	2,526
Xia Tong *(Note 3)*	–	444	31	19	18	512
Zhou Ya Ping *(Note 3)*	–	218	28	17	16	279
Xu Chun *(Note 3)*	–	125	17	10	9	161
Jia Zhi Gang *(Note 3)*	–	109	17	10	9	145
Lu Jun Yong *(Note 3)*	–	–	–	–	–	–
Yin Dong *(Note 3)*	–	–	–	–	–	–
Li Zheng *(Note 3)*	–	–	–	–	–	–

For the year ended 31 December 2018 (Unit: RMB'000)

X. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Information about related party transactions (Continued)

(5) Remuneration of key management personnel (Continued)

	Current year cumulative					
	Fees	Wage, bonus, allowance, and subsidy	Pension insurance premium	Housing fund	Other social insurance premium	Total
Senior Management:						
Li Yong Xiang	–	–	–	–	–	–
Lv Feng	–	2,443	50	17	28	2,538
Meng Xiang Yun *(Note 4)*	–	1,715	17	6	10	1,748
Wang Bu Lin *(Note 4)*	–	1,017	9	3	5	1,034
Zeng Jing *(Note 5)*	–	–	–	–	–	–
Yu Hong *(Note 5)*	–	2,444	50	17	28	2,539
Li Ren Sheng *(Note 5)*	–	–	–	–	–	–
Zhang Li Quan *(Note 5)*	–	–	–	–	–	–
Total	548	22,119	401	184	231	23,483

During the current year, the directors including Mr. Zhou Zhu Ping, Mr. Zheng Jie, Mr. Liu Da Wei, Mr. Zhou Hong, Supervisors including Mr. Lu Jun Yong, Mr. Yin dong, Mr. Li Zheng agree abandoning the remuneration for the current year.

The top five remuneration employees for the current year including two directors (four in 2017), one supervisor (one in 2017) and two senior managers. Refer to the above table for detailed remunerations.

In 2018, 9 directors, supervisors and senior management members participated in the Employee Share Ownership Plan, their sharings account for 51% of the Employee Share Ownership Plan, please refer to Note V.17. Up to 31 December 2018, the detailed share number given to each directors, supervisors and senior management who participated in the Employee Share Ownership Plan have not yet been determined.

For the year ended 31 December 2018 (Unit: RMB'000)

X. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Information about related party transactions (Continued)

(5) Remuneration of key management personnel (Continued)

	Preceding year comparative					
Items	Fees	Wage, bonus, allowance, and subsidy	Pension insurance premium	Housing fund	Other social insurance premium	Total
Directors – executive directors:						
Li Ren Sheng	–	456	38	24	31	549
Zhang Li Quan	–	372	38	24	31	465
Yao Xiao Hu	–	359	38	24	31	452
Tu De Qing	–	392	38	24	31	485
Directors – non-executive directors:						
Liu Da Wei	–	–	–	–	–	–
Xin Qing Quan	74	–	–	–	–	74
Xu Yi Xiang	74	–	–	–	–	74
Wang Zhen Hua	74	–	–	–	–	74
Zhou Hong	–	–	–	–	–	–
Supervisors:						
Xia Tong	–	457	38	24	31	550
Xu Chun	–	290	38	24	31	383
Chen Hong *(Note 6)*	–	112	6	4	5	127
Xie Chuan Xin *(Note 6)*	–	–	–	–	–	–
Jia Zhi Gang	–	92	16	10	4	122

For the year ended 31 December 2018 (Unit: RMB'000)

X. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Information about related party transactions (Continued)

(5) Remuneration of key management personnel (Continued)

	Preceding year comparative					
Items	Fees	Wage, bonus, allowance, and subsidy	Pension insurance premium	Housing fund	Other social insurance premium	Total
Senior management:						
Li Yong Xiang	–	–	–	–	–	–
Li Ren Sheng	–	–	–	–	–	–
Lv Feng	–	–	–	–	–	–
Yu Hong	–	–	–	–	–	–
You Xiao An *(Note 6)*	–	331	35	22	28	416
Zeng Jing	–	329	35	22	28	414
Total	222	3,190	320	202	251	4,185

Note 1: On 30 November 2017, Mr. Li Yong Xiang was appointed as the general manager. On 29 January 2018, Mr. Zhou Zhu Ping was appointed as Chairman of the Board, Mr. Li Yong Xiang was appointed as the deputy Chairman of the Board, Mr. Zhang Shuo gong was appointed as an executive director of the company, Mr. Zheng Jie was appointed as a non-executive director. Due to work adjustment, Mr. Liu Da Wei was resigned as the Chairman of the company, Mr. Li Ren Sheng, Mr. Zhang Li Quan and Mr. Yao Xiao Hu were resigned as executive directors, Mr. Zhou Hong was resigned as a non-executive director.

Note 2: On 29 January 2018, Mr. Huang Jue Chang was appointed as an independent director. On 15 May 2018, Mr. Huang Jue Chang was resigned as an independent director, at the same time, Mr. Zheng Yu Chun was appointed as an independent director. On 20 December 2018, due to work adjustment, Mr. Zheng Yu Chun was resigned as an independent director.

X. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Information about related party transactions (Continued)

(5) Remuneration of key management personnel (Continued)

Note 3: On 29 January 2018, due to work adjustment, Mr. Xia Tong was resigned as the Chairman of the supervisory committee. At the same time, Mr. Xiao Yu Xin was appointed as the Chairman of the supervisory committee, Mr. Lu Jun Yong and Mr. Yin Dong were appointed as supervisors, Mr. Li Zheng was resigned as supervisor due to work adjustment. On 15 May 2018, due to work adjustment, Mr. Xu Chun and Mr. Jia Zhi Gang were resigned as Staff Representative Supervisors, meanwhile Mr. Xia Tong, and Mr. Zhou Ya Ping were appointed as Staff Representative Supervisors of the eighth session of the supervisory committee of the Company.

Note 4: On 16 August 2018, Ms. Meng Xiang Yun was appointed as deputy general manager of the company. On 29 October 2018, Mr. Wang Bu Lin was appointed as deputy general manager of the company.

Note 5: On 18 December 2018, Mr. Li Ren Sheng was resigned as deputy general manager of the company, Ms. Yu Hong was resigned as the secretary to the Board of the Company. At the same time, Mr. Zhang Li Quan, and Mr. Zeng Jing were appointed as the deputy general managers, and Ms. Meng Xiang Yun was appointed as the secretary to the Board of the Company.

Note 6: Due to work adjustment, Ms. Chen Hong was resigned a Staff Representative Supervisor on 21 August 2017, Mr. Xie Chuan Xin, was resigned as a Supervisor on 5 September 2017, and Mr. You Xiao An was resigned as the secretary to the Board of the Company on 29 November 2017.

X. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Information about related party transactions (Continued)

(6) Other related-party transactions

Non-planned and unified social insurance management

The Company has joined the supplementary pension insurance plan implemented by CISG and paid non-integrated pension insurance. The total pension insurance of the Company is calculated and contributed on the basis of the salary paid during the year and the basic pension insurance contribution percentage as stipulated by the State, in which, after deducting the basic pension insurance payable to the social security authorities, the remaining balance is passed on to CISG as the supplementary pension insurance for retired employees of the Company for centralized administration, and in turn, CISG 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 CISG, the Company shall pay supplementary pension insurance to CISG, and the retired personnel of the Company is entitled to supplementary pension benefits. Supplementary pension paid by CISG 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 paid by the Company to CISG, with shortfalls borne by CISG. In February 2018, the Company and CISG entered into an agreement that both parties unanimously confirmed the termination of the "Agreement on Payment of Supplementary Pension Insurance for Retired Employees" on 31 December 2017, hereby the Company shall no longer participate in the supplementary pension insurance plan implemented by CISG. The Company no longer paid supplementary pension insurance and labor union fee to CISG during the current year.

During the year of 2017, pursuant to the relevant requirements, the Company made contributions to the supplementary medical insurance centrally managed by CISG. Such contributions were used for the payment of medical expenses of the Company's employees with heavy individual financial burdens and retired personnel. From January to March in 2018, as medical insurance of the Company has been managed by CISG, the supplementary medical insurance collected and paid by the Company through CISG amounted to RMB4,960,000. From April 2018, the Company has begun to manage the medical insurance separately with CISG. The Company no longer paid medical insurance to CISG.

X. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Information about related party transactions (Continued)

(6) Other related-party transactions (Continued)

Non-planned and unified social insurance management (Continued)

During the year of 2017, pursuant to the relevant requirements, the Company pays for the labor union fee centrally managed by CISG. Such contributions are used for the payment of the operation expenses of the labor union of the Company. The Company no longer paid medical insurance to CISG during the current year.

According to the "Agreement on Withholding and Remitting Basic Medical Insurance" and the "Agreement on Withholding and Remitting Large Amount Medical Insurance" entered into between the Company and CISG, the Company's basic medical insurance and large amount medical insurance are calculated and contributed to CISG on the payment base of the current year's salary and the proportion stipulated by the state, and in turn paid by CISG to the Medical Insurance Management Centre on behalf of the Company. From January to March in 2018, the basic medical insurance and the large amount medical insurance collected and paid by the Company through CISG amounted to RMB15,728,000 (2017: RMB25,755,000). The Company no longer paid the basic medical insurance and the large amount medical insurance to CISG form April in 2018. CISG has not charged any handling fee for the above transactions.

For the year ended 31 December 2018 (Unit: RMB'000)

X. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Balance due to or from related parties

(1) Balance due from related parties

Items	Related party	31 December 2018 Book value	31 December 2018 Provision for bad debts	31 December 2017 Book value	31 December 2017 Provision for bad debts
Notes and Trade receivables					
	Chongqing Iron & Steel Group Industrial Company Limited (重慶鋼鐵集團產業有限公司)	**16,648**	**10,777**	31,710	1,680
	Chongqing Iron & Steel Group Mining Company Limited (重慶鋼鐵集團礦業有限公司)	**5,037**	**–**	–	–
	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 Steel Pipe Company Limited (重慶鋼鐵集團钢管有限責任公司)	**1,496**	**741**	1,482	371
	Chongqing Qianxin Energy Environmental Protection Company Limited (重慶千信能源環保有限公司)	**1,041**	**–**	–	–
	Chongqing Iron & Steel Group San Feng Industrial Company Limited (重慶鋼鐵集團三峰工業有限公司)	**987**	**19**	–	–
	Chongqing Xin Gang Chang Long Logistics Company Limited (重慶新港長龍物流有限責任公司)	**60**	**–**	–	–
	Chongqing Hongfa Real Estate Development Company (重慶宏发房地產開发公司)	**5**	**5**	5	5
	Chongqing Iron & Steel Research Institute (重慶鋼鐵研究所有限公司)	**–**	**–**	506	28
Sub-total		**28,030**	**14,298**	36,459	4,840

For the year ended 31 December 2018 (Unit: RMB'000)

X. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Balance due to or from related parties (Continued)

(1) Balance due from related parties (Continued)

Items	Related party	31 December 2018 Book value	31 December 2018 Provision for bad debts	31 December 2017 Book value	31 December 2017 Provision for bad debts
Other Receivables					
	Chongqing Iron & Steel Group Industrial Company Limited (重慶鋼鐵集團產業有限公司)	**332**	**–**	–	–
	Chongqing Iron & Steel Group Electronics Company Limited (重慶鋼鐵集團電子有限責任公司)	**200**	**–**	–	–
	Chongqing Iron & Steel Group Chaoyang Gas Company Limited (重慶朝陽气体有限公司)	**133**	**–**	–	–
	Chongqing Iron & Steel Group Construction and Engineering Company Limited (重慶鋼鐵集團建設工程有限公司)	**106**	**–**	–	–
	Chongqing Qianxin Energy Environmental Protection Company Limited (重慶千信能源環保有限公司)	**75**	**–**	–	–
	Chongqing Iron & Steel Group Transportation Company Limited (重慶鋼鐵集團運輸有限責任公司)	**69**	**–**	–	–
	Chongqing Iron & Steel Group Mining Company Limited (重慶鋼鐵集團礦業有限公司)	**66**	**–**	–	–
	Chongqing Xin Gang Chang Long Logistics Company Limited (重慶新港長龍物流有限責任公司)	**50**	**–**	–	–
	Chongqing Dadukou District Qianye Education Company Limited. (重慶市大渡口區千業教育培訓有限責任公司)	**10**	**–**	–	–
	Chongqing Iron & Steel Group Steel Pipe Company Limited (重慶鋼鐵集團鋼管有限責任公司)	**7**	**–**	–	–
Sub-total		**1,048**	**–**	–	–
Prepayment					
	Chongqing Iron & Steel Group Steel Company Limited (重慶鋼鐵集團鐵業有限責任公司)	**90**	**–**	–	–

For the year ended 31 December 2018 (Unit: RMB'000)

X. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Balance due to or from related parties (Continued)

(2) Balance due to related parties

Items	Related party	31 December 2018	31 December 2017
Notes and Trade payables			
	Chongqing Qianxin Energy Environmental Protection Company Limited (重慶千信能源環保有限公司)	**99,653**	45,444
	Chongqing Iron & Steel Group Mining Company Limited (重慶鋼鐵集團礦業有限公司)	**87,363**	184,349
	Chongqing Iron & Steel Group Construction and Engineering Company Limited (重慶鋼鐵集團建設工程有限公司)	**52,746**	67,345
	Chongqing Iron & Steel Group San Feng Industrial Company Limited (重慶鋼鐵集團三峰工業有限公司)	**25,792**	22,536
	Chongqing Iron & Steel Group Industrial Company Limited (重慶鋼鐵集團產業有限公司)	**22,576**	–
	Changshou Iron & Steel (重慶長壽鋼鐵有限公司)	**17,875**	–
	Chongqing Iron & Steel Group Electronics Company Limited (重慶鋼鐵集團電子有限責任公司)	**17,833**	6,764
	CISG (重慶鋼鐵(集團)有限責任公司)	**13,750**	–
	Chongqing Iron & Steel Group Chaoyang Gas Company Limited (重慶朝陽氣體有限公司)	**7,265**	92,528

For the year ended 31 December 2018 (Unit: RMB'000)

X. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Balance due to or from related parties (Continued)

(2) Balance due to related parties (Continued)

Items	Related party	31 December 2018	31 December 2017
	Chongqing Iron & Steel Group Transportation Company Limited (重慶鋼鐵集團運輸有限責任公司)	**4,506**	2,704
	Chongqing Iron & Steel Group Refractory material Company Limited (重慶鋼鐵集團耐火材料有限責任公司)	**3,390**	–
	Chongqing Iron & Steel Group General Hospital (重鋼總醫院)	**2,946**	–
	Chongqing Iron & Steel Research Institute (重慶鋼鐵研究所有限公司)	**1,565**	–
	Chongqing Iron & Steel Group Design Institute (重慶鋼鐵集團設計院)	**732**	2,570
	Chongqing Sanhuan Construct Supervision Consultant Company Limited (重慶三環建設監理諮詢有限公司)	**94**	–
	Chongqing Xin Gang Chang Long Logistics Company Limited (重慶新港長龍物流有限責任公司)	**43**	2,345
	Chongqing Iron & Steel Group Steel Pipe Company Limited (重慶鋼鐵集團鋼管有限責任公司)	**20**	–
	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)	**–**	487
Sub-total		**358,149**	427,072

For the year ended 31 December 2018 (Unit: RMB'000)

X. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Balance due to or from related parties (Continued)

(2) Balance due to related parties (Continued)

Items	Related party	31 December 2018	31 December 2017
Contract liabilities			
	Chongqing Steel Structure Industrial Company Limited (重慶鋼結構產業有限公司)	**5,482**	–
	Chongqing Iron & Steel Group Construction and Engineering Company Limited (重慶鋼鐵集團建設工程有限公司)	**3,830**	–
	Chongqing Iron & Steel Group Transportation Company Limited (重慶鋼鐵集團運輸有限責任公司)	**302**	–
	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)	**53**	–
	CISG (重慶鋼鐵(集團)有限責任公司)	**16**	–
	Chongqing Iron & Steel Group Electronics Company Limited (重慶鋼鐵集團電子有限責任公司)	**2**	–
Sub-total		**9,685**	–
Other payables			
	Chongqing Iron & Steel Design and Research Institute (重慶鋼鐵设計研究院)	**3,618**	3,618
	Chongqing Iron & Steel Group San Feng Industrial Company Limited (重慶鋼鐵集團三峰工業有限公司)	**1,592**	1,592
	Chongqing Iron & Steel Research Institute (重慶鋼鐵研究所有限公司)	**1,157**	1,157
	Chongqing Iron & Steel Group Industrial Company Limited (重慶鋼鐵集團產業有限公司)	**468**	468

For the year ended 31 December 2018 (Unit: RMB'000)

X. RELATED PARTY AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Balance due to or from related parties (Continued)

(2) Balance due to related parties (Continued)

Items	Related party	31 December 2018	31 December 2017
	Chongqing Iron & Steel Group Electronic Company Limited (重慶鋼鐵集團電子有限責任公司)	**407**	407
	Chongqing Iron & Steel Group Mining Company Limited (重慶鋼鐵集團礦業有限公司)	**145**	145
	Chongqing Iron & Steel Group Transportation Company Limited(重慶鋼鐵集團運輸有限責任公司)	**126**	126
	CISG (重慶鋼鐵(集團)有限責任公司)	**104**	332,488
	Chongqing Iron & Steel Group Steel Pipe Company Limited (重慶鋼鐵集團鋼管有限責任公司)	**1**	1
	Chongqing Iron & Steel Group Chaoyang Gas Company Limited (重慶朝陽氣體有限公司)	**–**	90,506
	Chongqing Iron & Steel Group Construction and Engineering Company Limited (重慶鋼鐵集團建設工程有限公司)	**–**	19,330
	Chongqing Iron & Steel Group Qijiang Iron Mine Construction and Installation Engineering Company (重鋼綦江鐵礦建築安裝工程公司)	**–**	271
Sub-total		**7,618**	450,109
Non-current liabilities due within one year	Changshou Iron & Steel (重慶長壽鋼鐵有限公司)	**10,000**	–
Other non-current liabilities	Changshou Iron & Steel (重慶長壽鋼鐵有限公司)	**2,575,000**	2,400,000

For the year ended 31 December 2018 (Unit: RMB'000)

XI. COMMITMENTS AND CONTINGENCIES

1. Significant commitments

Significant capital commitment:

Item	31 December 2018
Contracted, but not provided for	**26,298**

2. Contingencies

On 26 February 2018, all the independent directors of the Company issued the Special Statement and Independent Opinion of Independent Directors on External Guarantees which stated the Company's guarantees in 2017. A supplementary statement is as follows.

In 2012, each of China Development Bank and Agricultural Bank of China Taizhou Branch provided San Feng Jingjiang Port Logistics Company Limited (三峰靖江港務物流有限責任公司, "San Feng Jingjiang") with syndicated loans (loan contract no.: 3200577162012540569, "Syndicated Loan"), for which the Company assumed joint guarantee liability. After the Company underwent judicial reorganization, Qianxin International submitted an "Alternative Guarantee Commitment Letter" to the Company's Reorganization Administrator on 13 November 2017, confirming that it would communicate with China Development Bank and Agricultural Bank of China Taizhou Branch and go through relevant procedures and undertaking to pay off debt to assume its guarantee liability in case they claim compensation when the principal debtor San Feng Jingjiang defaults.

On 28 December 2017, Qianxin International, China Development Bank, Agricultural Bank of China Taizhou Branch and San Feng Jingjiang jointly signed the Change of RMB Syndicated Loan Contract (contract no.: 3200577162012540569004) which provided that Qianxin International, as the guarantor of Syndicated Loan, assumed joint guarantee liability. On the same day, Qianxin International, as the guarantor, entered into the Syndicated Loan Guarantee Contract with San Feng Jingjiang, China Development Bank and Agricultural Bank of China Taizhou Branch which served as a guarantee contract of Syndicated Loan (contract No. 3200577162012540569).

XII. EVENTS AFTER BALANCE SHEET DATE

The Resolution in Relation to Participation in Online Bidding for Acquisition of Equity Interest was approved at the 7th meeting of the eighth session of the board of directors of the Company by voting. It approved the Company to participate in the online bidding for the 28% equity interest (listing-for-sale price: RMB28,480,000) in Chongqing Xingang Changlong Logistics Co., Ltd. with self-owned funds based on its business development demands and authorized the management of the Company to execute relevant agreements, documents and handle other specific matters in accordance with relevant procedures and laws and regulations. The bidding falls within the scope of approval of the board of directors of the Company and does not need to be submitted to the general meeting of the Company for consideration.

As at the date of approval of this financial report, the Group had no other significant events after the balance sheet date that need to be disclosed.

XIII. OTHER SIGNIFICANT EVENTS

1. Segment information

(1) *Identification basis and accounting policies for reportable segments*

The Group will determine different segments based on the internal organizational structure, management requirements and internal report system. The Group's operation 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) Management of the Group can regularly evaluate the operating results of the segment to decide on the allocation of resources to it and evaluate its performance;

3) The segment's financial position, operation result, cash flow and other accounting information can be obtained by analysis.

(2) *Financial information of reportable segments*

The Group's revenue and profit are mainly comprised of steel manufacturing and domestic sales. The Group's major assets are all in China. The management of the Company evaluates the Group's operating results as a whole. Therefore, no segment report has been prepared in the current year.

(3) *Information of significant customers*

The Group generated revenue from one customer (Year ended 31 December 2017: one) that reached or exceeded 10% of the Group's revenue, which accounting for 32% of the Group's revenue (Year ended 31 December 2017: 91%).

The information of this customer stated below:

Name of Customer	Revenue	Proportion of the Group's revenue *(%)*
Chongqing Qianxin International Trade Co., Ltd (重慶千信國際貿易有限公司)	7,236,646	32

Note: The revenue above was the total amount generated form Chongqing Qianxin International Trade Co., Ltd and its subsidies for the current year by the Group.

XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

2. Matters relating to the cooperation in purchase and sales

In December 2016, the Company entered into a cooperation framework agreement with Qianxin International, agreeing that the parties thereto would cooperate in the purchase of main materials needed in the production and sales of steel products, and would determine the purchase prices and selling prices following the market pricing principle with an agreed cooperation period of three years from 1 January 2017 to 31 December 2019. In March 2017 and July 2017, the parties entered into a supplemental agreement on the purchase and selling prices, respectively, to set forth details on such major terms as the pricing principle, acceptance and settlement of the transactions relating to ores, coal and metallurgical materials as well as steel products. In December 2017, the parties re-entered into a cooperative framework agreement with an agreed cooperation period of three years, agreeing to terminate the original cooperative framework agreement on 31 December 2017 and specifying the mode of cooperation for 2018 and afterwards. According to the agreement, the parties thereto agreed to negotiate and determine the prices for purchase settlement with reference to the interests on the fund utilized by Qianxin International, and to enter into specific supply and sales agreements separately to specify the rules of operations for supply and sales cooperation. According to the cooperation framework agreement, the total amount of raw materials such as ores and coal purchased by the Company from Qianxin International in 2018 was RMB5,600 million (excluding tax), and the total amount of steel products sold by the Company to Qianxin International was RMB7,725 million (excluding tax). It has been confirmed by both parties that the balance received in advance by the Company from Qianxin International as at 31 December 2018 was RMB322 million. In September 2018, the Company and Qianxin International entered into a termination agreement to terminating the above agreement, after which, the trading model between the Group and Qianxin International is identical to other suppliers and customers.

3. Termination of significant investment event

On 6 August 2015, the Company reached a primary consensus and signed a cooperation framework agreement with POSCO Korea Co., Ltd. ("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 Cold Rolling Company and Joint Venture Contract Between Chongqing Iron & Steel Company Limited and POSCO on POSCO CISL 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 million, and the total amount of investment at the time of establishment is RMB3,231 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 POSCO CISL. 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.

For the year ended 31 December 2018 (Unit: RMB'000)

XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

3. Termination of significant investment event (Continued)

Based on the decision made by the Company's bankruptcy administrator to terminate the joint venture contract, in November 2017, the Board of Cold Rolling Company and POSCO CISL decided to dissolve the joint venture company and separately set up a liquidation group to liquidate the joint venture company. In May 2018, Cold Rolling Company and POSCO CISL had completed the cancellation of foreign investment corporation registration, and the relevant disposal amount of RMB785,831,000 had been paid in full to the Chongqing Strategic Emerging Industry Equity Investment Fund Partnership (Limited Partnership) to settle the secured claims.

On 9 March 2016, the Proposal on Withdrawal of Four Sales Subsidiaries was approved by the 39th Session of the Seventh Board Meeting. The Board agreed to withdraw Huadong Trading Company. In October 2018, the Company had completed the deregistration of Huadong Trading Company.

4. Lease

As a lessee, under the lease contract with the lessor, the minimum payment for the non-cancellable lease is as follows:

Item	31 December 2018
Within one year (including one year)	**379,500**

XIV. COMPARABLE AMOUNTS

The Group represented repair and maintenance cost of production equipment as cost of sales which represented as administrative expense originally, and the change will result in greater comparability with other companies in the iron & steel industry. The Group and the Company had adjusted comparative amounts, which resulted in a decrease in administrative expense by RMB720,499,000, and an increase in cost of sales by RMB720,449,000 in 2017. This change in disclosure had no impact on the consolidated income statement and shares' equity of the year ended 2017.

For the year ended 31 December 2018 (Unit: RMB'000)

XV. NOTES TO MAJOR ITEMS IN THE PARENT COMPANY'S FINANCIAL STATEMENTS

1. Notes and trade receivables

(1) Details

Items	**31 December 2018**	31 December 2017
Notes receivable	**–**	123,096
Trade receivables	**29,851**	46,853
Total	**29,851**	169,949

As at 31 December 2017, the Group held bank acceptance notes amounted to RMB123,096,000.

(2) Trade receivables

1) Ageing Analysis is as follows:

Items	**31 December 2018**	31 December 2017
Within 3 months	**26,405**	7,907
4 to 12 months (within 1 year)	**2,063**	26,990
1–2 year	**790**	3,371
2–3 year	**1,572**	21,556
Above 3 year	**151,432**	130,085
Sub-total	**182,262**	189,909
Less: Provision for bad debts	**152,411**	143,056
Total	**29,851**	46,853

The ageing analysis was based on the month when incurred. The trade receivables recognized firstly will be firstly settled.

For the year ended 31 December 2018 (Unit: RMB'000)

XV. NOTES TO MAJOR ITEMS IN THE PARENT COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

1. Notes and trade receivables (Continued)

(2) Trade receivables (Continued)

2) Trade receivables disclosed on categories are as follows:

	31 December 2018			
	Book Value		Provision for bad debts	
Categories	**Amount**	**Proportion** *(%)*	**Amount**	**Proportion** *(%)*
Individually subject to separate provision	–	–	–	–
Receivables that are subject to provision by group with similar credit risk characteristics	**182,262**	**100**	**152,411**	**84**
Total	**182,262**	**100**	**152,411**	**84**

	31 December 2017			
	Book value		Provision for bad debts	
Categories	Amount	Proportion *(%)*	Amount	Proportion *(%)*
Individually significant and subject to separate provision	31,710	17	1,680	5
Receivables that are subject to provision by group with similar credit risk characteristics	158,199	83	141,376	89
Individually not significant but subject to separate provision	–	–	–	–
Total	189,909	100	143,056	75

For the year ended 31 December 2018 (Unit: RMB'000)

XV. NOTES TO MAJOR ITEMS IN THE PARENT COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

1. Notes and trade receivables (Continued)

(2) Trade receivables (Continued)

2) Trade receivables disclosed on categories are as follows: (Continued)

a. Receivables that are individually significant and subject to separate provision as at 31 December 2017 are as follows:

Name	Book value	Provision for bad debts	Provision proportion *(%)*	Reason for provision
Chongqing Iron & Steel Group Industrial limited company	31,710	1,680	5	Provision based on the expected recoverable amount

b. Ageing Analysis

	31 December 2018			31 December 2017		
Ageing	**Estimated doubtful book value**	**Lifetime ECLs**	**ECL proportion** *(%)*	Book value	Provision for bad debts	Provision proportion *(%)*
Within 3 months (third month inclusive)	**13,819**	**–**	**–**	3,705	–	–
4–12 months (first year inclusive)	**1,683**	**83**	**5**	1,002	50	5
1–2 years	**790**	**90**	**11**	1,851	463	25
2–3 years	**10**	**6**	**60**	21,556	10,778	50
Over 3 years	**137,934**	**137,934**	**100**	130,085	130,085	100
Total	**154,236**	**138,113**	**90**	158,199	141,376	89

For the year ended 31 December 2018 (Unit: RMB'000)

XV. NOTES TO MAJOR ITEMS IN THE PARENT COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

1. Notes and trade receivables (Continued)

(2) Trade receivables (Continued)

2) Trade receivables disclosed on categories are as follows: (Continued)

c. Receivables that are subject to provision by group with similar credit risk characteristics for which bad debts are provided for other method are as follows:

	31 December 2018		
Portfolios	**Book value**	**Lifetime ECLs**	**Provision proportion** *(%)*
Trade receivables from historical related parties	**28,026**	**14,298**	**51**

3) During the current year, the provision for ECLs or bad debts and recovery or reversal of provision for ECLs or bad debts are as follows:

	Opening balance	**Provided**	**Recovery**	**Written-off**	**Closing balance**
2018	143,056	12,628	3,273	–	**152,411**
2017	167,501	–	24,445	–	**143,056**

4) Top five trade receivables balances

As at 31 December 2018, the top five balances in respect of trade receivables aggregating RMB51,404,000, accounting for 28% of the total of closing balance of trade receivables. The closing balance in respect of bad debt provision made for the top five balances amounted to RMB45,496,000.

For the year ended 31 December 2018 (Unit: RMB'000)

XV. NOTES TO MAJOR ITEMS IN THE PARENT COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

2. Other receivables

(1) Details

1) Ageing analysis

Items	31 December 2018	31 December 2017
Within 3 months	**5,809**	2,686
4 to 12 months (within 1 year)	**4,271**	991
1–2 year	**1,130**	225
2–3 year	**192**	12,827
Above 3 year	**36,965**	33,361
Sub-total	**48,367**	50,090
Less: Provision for bad debts	**37,867**	39,735
Total	**10,500**	10,355

2) The ECLS movement based on 12-month and lifetime ECLs are as follows:

	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs Individual assessment	Stage 2 Lifetime ECLs Group assessment	Stage 3 Credit-impaired Lifetime	Total
Losses on 1 January 2018	97	6,406	39	33,193	39,735
Losses on 1 January 2018 among current year	–	–	–	–	–
– Transfer to Stage 2	(15)	–	15	–	–
– Transfer to Stage 3	–	(6,406)	–	6,406	–
– Turn back Stage 2	–	–	–	–	–
– Turn back Stage 1	–	–	–	–	–
Provided	522	–	365	6,406	7,293
Reversal	82	–	39	7,775	7,896
Resale	–	–	–	–	–
Written-off	–	–	–	1,265	1,265
Other change	–	–	–	–	–
Losses on 31 December 2018	522	–	380	36,965	37,867

For the year ended 31 December 2018 (Unit: RMB'000)

XV. NOTES TO MAJOR ITEMS IN THE PARENT COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

2. Other receivables (Continued)

(1) Details (Continued)

3) The book value of carrying amount movement:

	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs Individual assessment	Stage 2 Lifetime ECLs Group assessment	Stage 3 Credit-impaired Lifetime	Total
Amount on 1 January 2018	3,677	12,812	240	33,361	50,090
Amount on 1 January 2018 among current year	–	–	–	–	–
– Transfer to Stage 2	(1,322)	–	1,322	–	–
– Transfer to Stage 3	–	(12,812)	–	12,812	–
– Turn back stage 2	–	–	–	–	–
– Turn back stage1	–	–	–	–	–
Provided	11,084	–	–	–	11,084
Termination	3,359	–	240	7,943	11,542
Written-off	–	–	–	1,265	1,265
Other change	–	–	–	–	–
Amount on 31 December 2018	10,080	–	1,322	36,965	48,367

For the year ended 31 December 2018, provision for bad debts amounted to RMB7,293,000 (2017: RMB22,777,000), and provision for bad debts recovered or reversed amounted to RMB7,896,000 (2017: Nil).

The actual amount of trade receivables written-off was RMB1,265,000 (2017: Nil).

For the year ended 31 December 2018 (Unit: RMB'000)

XV. NOTES TO MAJOR ITEMS IN THE PARENT COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

2. Other receivables (Continued)

(1) Details (Continued)

4) As at 31 December 2017, other receivables categories as follows:

	31 December 2017			
	Book value		Provision for bad debts	
Categories	Amount	Proportion *(%)*	Amount	Proportion *(%)*
Individually significant and subject to separate provision	23,052	46	16,646	72
Other receivables that were not impaired upon separate impairment test	–	–	–	–
Individually not significant but subject to separate provision	27,038	54	23,089	85
Total	50,090	100	39,735	79

5) On 31 December 2017, other receivables that are individually significant and subject to separate provision are as follows:

Company	Book value	Provision for bad debts	Provision proportion *(%)*	Reasons for provision·
Chongqing Iron & Steel Industry and Trade (ZhanJiang) Company (湛江重鋼工貿公司)	10,240	10,240	100	Low probability to recover
Changzhou Chunzhixin Metal Material Co., Ltd. (常州市春之鑫金屬材料有限公司)	7,222	3,611	50	Provision based on the expected recoverable amount
Jiangsu Hetuo International Trade Co., Ltd. (江蘇和拓國際貿易有限公司)	5,590	2,795	50	Provision based on the expected recoverable amount
Sub-total	23,052	16,646	72	

For the year ended 31 December 2018 (Unit: RMB'000)

XV. NOTES TO MAJOR ITEMS IN THE PARENT COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

2. Other receivables (Continued)

(2) Other receivables presented by nature

Nature	31 December 2018	31 December 2017
Prepayments for trading	**33,297**	32,352
Guarantee deposits and staff advances	**10,293**	15,576
Others	**4,777**	2,162
Total	**48,367**	50,090

(3) As at 31 December 2018, the five largest other receivables are as follows:

Company	31 December 2018	Nature	Ageing	Ratio in other receivables (%)	Provision for bad debts
First	10,240	Prepayment for trading	Above 3 Years	21	10,240
Second	7,222	Prepayment for trading	Above 3 Years	15	7,222
Third	5,590	Prepayment for trading	Above 3 Years	12	5,590
Fourth	4,126	Prepayment for trading	Above 3 Years	9	4,126
Fifth	3,921	Prepayment for trading	Above 3 Years	8	3,921
Subtotal	31,099			64	31,099

For the year ended 31 December 2018 (Unit: RMB'000)

XV. NOTES TO MAJOR ITEMS IN THE PARENT COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

2. Other receivables (Continued)

(3) (Continued)

As at 31 December 2017, the five largest other receivables are as follows:

Company	31 December 2017	nature	ageing	Ratio in other receivables (%)	Provision for bad debts
First	10,240	Prepayment for trading	Above 3 Years	20	10,240
Second	7,222	Prepayment for trading	2–3 years	14	3,611
Third	5,590	Prepayment for trading	2–3 years	11	2,795
Fourth	4,126	Prepayment for trading	Above 3 Years	8	4,126
Fifth	3,921	Prepayment for trading	Above 3 Years	8	3,921
Subtotal	31,099			62	24,693

3. Long-term equity investments

(1) Details

	31 December 2018			31 December 2017		
Items	**Book value**	**Provision for impairment**	**Carrying amount**	Book value	Provision for impairment	Carrying amount
Investment in subsidiaries	–	–	–	711,622	–	711,622
Investment in an associate	–	–	–	124,158	–	124,158
Total	–	–	–	835,780	–	835,780

For the year ended 31 December 2018 (Unit: RMB'000)

XV. NOTES TO MAJOR ITEMS IN THE PARENT COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

3. Long-term equity investments (Continued)

(2) Investments in subsidiaries

2018	Opening balance	Increase	Decrease	Closing balance	Provision for impairment made in current year	Closing balance of provision for impairment
Jingjiang CIS Huadong Trading Co., Ltd. *(Note 2)*	**50,000**	–	**50,000**	–	–	–
Chongqing CIS Building Materials Sales Co., Ltd. *(Note1)*	–	–	–	–	–	–
Cold Rolling Company *(Note2)*	**661,622**	–	**661,622**	–	–	–
Sub-total	**711,622**	–	**711,622**	–	–	–

2017	Opening balance	Increase	Decrease	Closing balance	Provision for impairment made in current year	Closing balance of provision for impairment
Jingjiang Sanfeng Steel Processing Distribution Co., Ltd	51,000	–	51,000	–	–	–
Huadong Trading Company	50,000	–	–	50,000	–	–
Chongqing CIS Building Materials Sales Co., Ltd.	–	–	–	–	–	–
Cold Rolling Company	661,622	–	–	661,622	–	–
Sub-total	762,622	–	51,000	711,622	–	–

For the year ended 31 December 2018 (Unit: RMB'000)

XV. NOTES TO MAJOR ITEMS IN THE PARENT COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

3. Long-term equity investments (Continued)

(3) *Investments in joint venture*

2018	**Opening balance**	**Increase/(decrease) Investments decreased**	**Investment income recognized under equity method**	**Closing balance**
POSCO CISL *(Note2)*	**124,158**	**(122,592)**	**(1,566)**	**–**

2017	Opening balance	Increase/(decrease) Investments decreased	Investment income recognized under equity method	Closing balance
POSCO CISL *(Note2)*	131,015	–	(6,857)	124,158

(4) *Investments in unlisted companies*

Items	**31 December 2018**	31 December 2017
Investments in unlisted companies	**–**	835,780

Note 1: The Company incorporated Chongqing CIS Building Materials Sales Co., Ltd., and the amount of the subscribed contribution is RMB10 million. As at the financial position date, the Company has not yet paid the above capital contribution.

Note 2: Cold Rolling Company, POSCO CISL and Huadong Trading Company were dissolved. For details please refer to Note XIII.3.

For the year ended 31 December 2018 (Unit: RMB'000)

XV. NOTES TO MAJOR ITEMS IN THE PARENT COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

4. Revenue and cost of sales

	Year ended 31 December 2018		Year ended 31 December 2017	
Items	**Revenue**	**Cost**	Revenue	Cost
Revenue from principal operations	**22,578,622**	**19,651,712**	13,116,756	13,415,044
Revenue from other operations	**54,614**	**30,130**	25,484	22,475
Total	**22,633,236**	**19,681,842**	13,142,240	13,437,519

Revenue from principal operations:

Items	**Year ended 31 December 2018**	Year ended 31 December 2017
Sale of steel products	**21,834,701**	12,086,148
Processing	**–**	164,340
Others	**743,921**	866,268
Sub-total	**22,578,622**	13,116,756

Revenue from other operations:

Items	**Year ended 31 December 2018**	Year ended 31 December 2017
Sale of waste materials	**41,872**	12,586
Others	**12,742**	12,898
Sub-total	**54,614**	25,484

For the year ended 31 December 2018 (Unit: RMB'000)

XV. NOTES TO MAJOR ITEMS IN THE PARENT COMPANY'S FINANCIAL STATEMENTS (CONTINUED)

4. Revenue and cost of sales

Revenue for the year ended 31 December 2018 are as follows:

1) *Revenue by products' categories are as follows:*

Main Product	Sale of steel products	Others	Sub-total
Plate	11,714,820	–	11,714,820
Hot rolling	6,076,804	–	6,076,804
Bars	2,135,019	–	2,135,019
Profiles	1,908,058	–	1,908,058
Other	–	798,535	798,535
Sub-total	21,834,701	798,535	22,633,236

2) *All the Company's revenue was recognized at a certain point.*

The details of expected revenue recognized from remaining contract obligation

	2019	2020	2021	Sub-total
Sale of goods	1,004,280	–	–	1,004,280

5. Investment income

Items	Year ended 31 December 2018	Year ended 31 December 2017
Investment income from long-term equity investments under equity method	**(1,566)**	(6,857)
Investment income from disposal of long-term equity investments	**3,392**	(2,112)
Total	**1,826**	(8,969)

For the year ended 31 December 2018 (Unit: RMB'000)

XVI. OTHER SUPPLEMENTARY INFORMATION

1. Non-recurring profit or loss

Items	Amount
Gains from disposal of non-current assets, including offset portion of impairment provision for such asset	14,822
Government grants charged in profit or loss, except for those closely related to the ordinary operation and gained constantly at a fixed amount or quantity according to certain standard based on state policies	2,729
Capital occupied income from non-financial entities	74,888
Loss from debt restructuring	19,029
Income from disposal of wealth management products	7,021
Non-operating income and expenses other than the above items	(6,736)
Sub-total	111,753
Less: Impact of income tax	1,104
Less: Impact of non-controlling interests (after tax)	331
Non-recurring profit or loss attributable to owners of the parent	110,318

Note: The items of non-recurring profit or loss were stated at the pre-tax amount. The Group recognized extraordinary profit and loss items in accordance with the provisions in Explanatory Announcement on Information Disclosure for Companies Offering their Securities to the Public No. 1 – Extraordinary Items (CSRC Announcement [2008] No. 43).

2. Return on net assets and earnings per share

		Earnings per share *(RMB)*	
Profit of the reporting year	Weighted average return on net assets *(%)*	Basic earnings per share	Diluted Earnings per share
Net profit attributable to ordinary shareholders of the Company	10.14	0.20	0.20
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	9.66	0.19	0.19

Section XII Documents Available For Inspection

Document available for inspection	Annual Report contained with the signature of the current legal representative of the Company and company seal
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 and on the website of SSE during the Reporting Period

Chairman: **Zhou Zhu Ping**
The date of approval by the Board for submission: 28 March 2019

REVISION

☐ Applicable ☑ Not applicable