



鞍 鋼 股 份 有 限 公 司
ANGANG STEEL COMPANY LIMITED*

Stock Code: 0347



2016 Interim Report

* For identification purposes only

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Important Notice and Definitions

IMPORTANT NOTICE

The Board and the Supervisory Committee, the Directors and the Supervisors and the senior management of the Company confirm that there are no false representations or misleading statements contained in, or material omissions from, this report, and jointly and severally take responsibilities for the truthfulness, accuracy and completeness of the contents contained herein.

Mr. Yao Lin, the Chairman of the Company, Mr. Zhang Jingfan, Chief Accountant and Mrs. Che Chengwei, person in charge of the accounting institution guarantee the truthfulness, accuracy and completeness of the financial statements in this interim report.

The 2016 interim financial report of the Company is unaudited.

The 2016 interim financial report of the Company is prepared in accordance with the Accounting Standards for Business Enterprises in the PRC.

DEFINITIONS

In this interim report, the following expressions shall have the following meanings unless the context indicates otherwise:

“Angang Financial Company”	Angang Group Financial Company Limited* (鞍鋼集團財務有限責任公司)
“Angang Group”	Angang Group Company and subsidiaries held by it as to 30% or more (excluding the Group)
“Angang Group Company”	Angang Group Company* (鞍鋼集團公司)
“Angang Holding”	Anshan Iron & Steel Group Complex* (鞍山鋼鐵集團公司)
“ANSC-TKS”	ANSC-TKS Automobile Steel Company Ltd. (鞍鋼蒂森克虜伯汽車鋼有限公司)

Important Notice and Definitions (*Continued*)

“Board”	the board of Directors of the Company
“Company” or “Angang Steel”	Angang Steel Company Limited* (鞍鋼股份有限公司)
“Group” or “Angang Steel Group”	Angang Steel Company Limited and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Karara”	Karara Mining Limited (卡拉拉礦業有限公司)
“Pangang Vanadium & Titanium”	Pangang Group Steel Vanadium & Titanium Co., Ltd* (攀鋼集團鋼鐵鈦股份有限公司)
“Pangang Vanadium & Titanium Group”	Pangang Vanadium & Titanium and its subsidiaries
“PRC”	the People’s Republic of China (for the purpose of this report, excluding Hong Kong and Macau Special Administrative Region)
“Reporting Period”	the six-month period ended 30 June 2016
“SFO”	Securities and Futures Ordinance (Cap. 571. Laws of Hong Kong)

Corporate Profile

I. CORPORATE INFORMATION

Stock Exchange Listings	Shenzhen Stock Exchange
Stock Abbreviation	Angang Steel Stock Code (A share) 000898
Stock Exchange Listings	Hong Kong Stock Exchange
Stock Abbreviation	Angang Steel Stock Code (H share) 00347
Chinese Name of the Company	鞍鋼股份有限公司
Chinese Name Abbreviation	鞍鋼股份
English Name of the Company	Angang Steel Company Limited
English Name Abbreviation	ANSTEEL
Legal Representative of the Company	Yao Lin

II. CONTACT PERSONS AND CONTACT METHODS

	Joint Company Secretary	Joint Company Secretary	Securities Affairs Representative
Name	Zhang Jingfan	Kwok Siu Man	Jin Yimin
Address	Production Area of Angang Steel, Tiexi District, Anshan City, Liaoning Province, the PRC	31/F, No. 148 Electric Road, North Point, Hong Kong	Production Area of Angang Steel, Tiexi District, Anshan City, Liaoning Province, the PRC
Telephone	0412-6734878	00852-2504 6911	0412-8417273 0412-6751100
Fax	0412-6727772	00852-2598 7500	0412-6727772
E-mail	zhangjf@ansteel.com.cn	seaman.kwok@boardroomlimited.com	ansteel@ansteel.com.cn

III. OTHER INFORMATION

1. Contact methods of the Company

There was no change in registered address, business address and postal code, website and email address of the Company during the Reporting Period. Please refer to the 2015 Annual Report of the Company for details.

2. Information disclosure and place for inspection

There was no change in Company's designated newspapers for disclosure of information, website for publication of interim report designated by the CSRC and place for inspection of the Company's interim report during the Reporting Period. Please refer to the 2015 Annual Report of the Company for details.

3. Changes in registration

There was no change in registration date and place of incorporation, registration number of legal person business license held by the Company, taxation registration number and organization code during the Reporting Period. Please refer to the 2015 Annual Report of the Company for details.

Pursuant to the requirements under the Opinions of the General Office of the State Council on Accelerating the "Three-in-One" Registration System Reform (Guo Ban Fa No. [2015] 50) and the Notice of the State Administration for Industry and Commerce and Other Five Departments on Implementing the Opinions of the General Office of the State Council on Accelerating the "Three-in-One" Registration System Reform (Gong Shang Qi Zhu Zi No. [2015] 121), the Company made application to the Administration for Industry & Commerce of Liaoning and changed its business license on 5 July 2016. The Company conducted "three-in-one" registration for its existing business license, existing organization code and existing taxation registration number. Upon consolidation, the uniform social credit code of the Company will be 912100002426694799.

4. Other relevant information

There was no change in other relevant information during the Reporting Period.

Summary of Accounting Figures and Financial Indicators

I. PRINCIPAL ACCOUNTING FIGURES AND FINANCIAL INDICATORS OF THE GROUP

Unit: RMB' million

	During the Reporting Period (from January to June)	Corresponding period of the previous year	Increase/decrease for the Reporting Period as compared with the corresponding period of the previous year (%)
Operating income	25,430	28,992	-12.29
Net profit attributable to the shareholders of the Company	300	155	93.55
Net profit attributable to the shareholders of the Company after non-recurring items	275	95	189.47
Basic earnings per share (RMB/share)	0.041	0.021	95.24
Diluted earnings per share (RMB/share)	0.041	0.021	95.24
Returns on net assets on weighted average basis (%)	0.69	0.32	Increased by 0.37 percentage point
Net cash flow from operating activities	1,439	1,691	-14.90

	As at the end of the Reporting Period	As at the end of the previous year	Increase/decrease as at the end of the Reporting Period as compared with the end of the previous year (%)
Total assets	87,208	88,596	-1.57
Equity (or shareholders' equity) attributable to the shareholders of the Company	43,580	43,274	0.71

Total share capital of the Company as at 29 August 2016:

Total share capital of the Company as at 29 August 2016 (<i>shares</i>)	7,234,807,847
Comprehensive diluted earnings per share calculated based on the latest share capital (RMB/share)	0.041

Summary of Accounting Figures and Financial Indicators (*Continued*)

II. NON-RECURRING ITEMS:

No.	Items	Effect on profit (RMB million)
1	Gains/losses from disposal of non-current assets	-10
2	Government subsidies (except for government subsidies which are closely related to the Company's operations and entitled in fixed amount or quantity in conformity with the standards of the State) attributable to gains or losses for the period	39
3	Other non-operating income and expenses apart from those stated above	4
4	Subtotal	33
5	Effect of income tax	-8
6	Total	25

Note: For non-recurring items, “+” refers to gains or incomes, “-” refers to losses or expenditures.

Notes for the Company's extraordinary gain or loss items as defined in the Explanatory Announcement on Information Disclosure by Companies Offering Securities to the Public No. 1 – Extraordinary Gains or Losses and the extraordinary gain or loss items as illustrated in the Explanatory Announcement on Information Disclosure by Companies Offering Securities to the Public No. 1 – Extraordinary Gains or Losses which have been defined as its recurring gain or loss items.

Applicable Not applicable

Report of the Board of Directors

I. SUMMARY

In the first half of 2016, China's steel market picked up as steel prices rose. However, the problem of overcapacity in the steel industry remained serious, and there was still a marked imbalance between supply and demand. The Company adhered to the principle of "efficiency as priority and focus on quality improvement" by strengthening the focus on key products to ensure the production and sales of high efficiency products. The Company continued to tap its internal potential in order to significantly reduce costs and increase efficiency and to enhance management standard. In line with the guidelines of China's supply-side reforms, the Company had increased its efforts in technological innovation to create unique and leading-edge products. The Company had also increased its efforts in developing personalized products to increase the proportion of high added-value and high-margin products so as to consistently improve the Company's market competitiveness.

In the first half of the year, the Company achieved net profit attributable to the shareholders of the Company of RMB300 million, representing an increase of 93.55% as compared with the corresponding period of the previous year. Basic earnings per share was RMB0.041, representing an increase of 95.24% as compared with the corresponding period of the previous year.

II. ANALYSIS OF PRINCIPAL BUSINESSES

1. Overview

During the Reporting Period, the Group achieved operating income of RMB25,430 million, representing a decrease of 12.29% as compared with the corresponding period of the previous year. The operating costs were RMB22,217 million, representing a decrease of 12.54% as compared with the corresponding period of the previous year. The Group also achieved operating profit of RMB275 million, total profit of RMB308 million, net profit of RMB297 million and net profit attributable to the shareholders of the Company of RMB300 million, representing an increase of 223.53%, 86.67%, 96.69% and 93.55%, respectively, as compared with the corresponding period of the previous year.

Report of the Board of Directors (Continued)

II. ANALYSIS OF PRINCIPAL BUSINESSES (Continued)

1. Overview (Continued)

Unit: RMB million

Item	The Reporting Period	Corresponding period of the previous year	Year-on-year increase/decrease (%)	Reasons for the changes
Operating income	25,430	28,992	-12.29	-
Operating costs	22,217	25,402	-12.54	-
Marketing expenses	961	1,191	-19.31	-
Administrative expenses	729	911	-19.98	-
Financial expenses	618	618	-	-
Income tax expenses	11	14	-21.43	-
Investment income	224	227	-1.32	-
Net cash flow from operating activities	1,439	1,691	-14.90	-
Net cash flow from investing activities	138	-1,549	108.91	Mainly attributable to (i) the dividend distribution and income from test run of RMB551 million received from joint ventures and associates, cash paid for purchase and construction of construction in progress and fixed assets of RMB413 million and net cash inflow of RMB138 million during the Reporting Period; (ii) the dividend distribution and income from test run received of RMB836 million, cash paid for purchase and construction of construction in progress and fixed assets of RMB2,385 million and net cash outflow of RMB1,549 million during the corresponding period of the previous year.
Net cash flows from financing activities	-2,752	339	-911.80	Mainly attributable to the increase in cash paid for settling debts.
Net increase of cash and cash equivalents	-1,194	478	-349.79	The amount of net cash flows decreased by RMB1,672 million as compared with the corresponding period of the previous year, which was mainly attributable to (i) the decrease in net cash flow of financing activities of RMB3,091 million due to the increase in cash paid for settling debts; (ii) the increase of RMB1,687 million as a result of net inflow from investing activities recorded during the Reporting Period while net outflow was recorded for the corresponding period of the previous year; (iii) the decrease in net cash flows of operating activities of RMB252 million; and (iv) impact from changes in exchange rates, resulting in a decrease of RMB16 million.

II. ANALYSIS OF PRINCIPAL BUSINESSES (*Continued*)

2. **During the Reporting Period, there was no substantial change in profit composition or sources of profit of the Company.**
3. **The Company's review of the progress of the operation plan disclosed in the previous period during the Reporting Period**

- (1) Precisely coordinating production to achieve stable operation

During the Reporting Period, the Group produced 10,800,000 tonnes of iron, 10,740,000 tonnes of steel, and 9,860,000 tonnes of steel products, representing a decrease of 1.34%, a decrease of 0.17% and an increase of 0.79%, respectively, over the corresponding period of the previous year. The Group's sale of steel products amounted to 9,610,000 tonnes, an increase of 2.54% over the corresponding period of the previous year, achieving a sale-to-production ratio of 97.47% for steel products.

- (2) Organizing cost reduction measures to improve cost saving and efficiency

The Company established a "system cost reduction team" to identify shortcomings through a theoretical modeling system and to find out the gaps through benchmarking with leading enterprises. The Company had clearly identified system cost reduction objectives in 45 task areas based on nine work themes including "iron element flow, carbon element flow, processing fee".

Innovative methods of procurement and product structure optimization continued to reduce procurement costs. Appropriate timing of procurement was identified, pricing was set flexibly based on market changes and comprehensive analysis was conducted to maximize benefit.

II. ANALYSIS OF PRINCIPAL BUSINESSES (*Continued*)

3. The Company's review of the progress of the operation plan disclosed in the previous period during the Reporting Period (*Continued*)

(3) Strengthening technological innovation to promote product upgrades

The Company firmly seized market opportunities and accurately identified its market position. The trend in key customers' demand and product upgrade was well grasped. Through strengthening technological innovation, the Company continuously improved product quality, product structure and product grading. The pace of developing new, leading-edge, unique and strategic products continued to accelerate. As a result, our products' market competitiveness continued to improve.

In the first half of the year, the Company succeeded in using large steel ingot to produce 16MND5 regulator steel plate for nuclear-grade 1 equipment, which had obtained the accreditation certificate from China General Nuclear Power Corporation and was successful in producing and supplying the regulator steel plate for Yangjiang No.6 Reactor. The Company was also successful in developing the steel plate used for the safety vessel of marine nuclear power platforms, therefore opening up a new world of nuclear power steel plate for the Company. The Company had completed the certification of crack arrest steel used for large container vessels by all classification societies. As a result, the Company became the first certified steel enterprise in China approved for using 90mm thick crack arrest steel for container vessels, therefore achieving full coverage of design specifications of crack arrest steel for large container vessels, and realizing domestic production of crack arrest steel which fully replaces imports. The Company succeeded for the first time in the mass production of ultra-thin wide-format low-alloy steel plate for cars with thickness of 2.0 mm and width of 1,500 mm. The Company successfully developed high-carbon steel SK85 for spring-assisted cutting tools with carbon content of 0.85%, which replaced imports and seized the high-end cutting tools market, therefore helped promote the Company's product restructuring and upgrading. Faced with the downturn of the domestic steel pipe and tube market, the Company took the initiative to tap the international market by engaging in in-depth technological exchange with users in Pakistan to develop and produce X70M steel pipes and tubes. Alloy cold heading steel products were also sold into global markets.

II. ANALYSIS OF PRINCIPAL BUSINESSES *(Continued)*

3. **The Company's review of the progress of the operation plan disclosed in the previous period during the Reporting Period** *(Continued)*

- (4) Creating an integrated marketing system to improve marketing services

The Company had adopted innovative marketing methods by implementing vertical marketing and creating sales platforms, service points of sale and direct sales experience. Centralized resources and coordinated policies enhanced the influence and control of our products' leading position in the market. An integrated marketing system was created by implementing brand marketing, technical marketing, service marketing and cultural marketing initiatives which helped transform the Company from a manufacturer to a comprehensive service provider providing customers with excellent services.

The Company strived to provide customers with customized ordering service and shorten the delivery time. Through regular visits and signing a memorandum of understanding for cooperation with users, the Company better understood the individual needs of users and came up with customized design to establish customized product standards and services, thereby enhancing customer satisfaction and dependence in maintaining stable customer channels.

Seizing market opportunities in different market conditions, the Company conducted extensive market research in various forms and channels and adopted a flexible pricing policy to ensure maximum benefits for the Company. The Company vigorously developed new markets and optimized its distribution channels, which helped transform its customer base to include more direct supply customers. In the first half of the year, the Company's ratio of sales to direct supply customers reached 73%.

II. ANALYSIS OF PRINCIPAL BUSINESSES (*Continued*)

3. **The Company's review of the progress of the operation plan disclosed in the previous period during the Reporting Period** (*Continued*)
- (4) Creating an integrated marketing system to improve marketing services (*Continued*)

Through strengthening brand image, Angang's steel bridge plate became the preferred choice for major bridge projects domestically and abroad. The Company successfully won the tenders for a series of world-class bridges, such as Hutong Railway Yangtze River Bridge, Bangladesh's Padma Bridge, Wuhu No. 2 Bridge, Humen No. 2 Bridge, Mozambique's Maputo-Catembe Bridge and Shenzhen-Maoming Railway Tanjiang Bridge. In particular, for the first time the Company's Q500qE steel plates were used in the Hutong Railway Yangtze River Bridge, a highway-railway bridge with the largest span in the world, making the Company the pioneering enterprise in the production of bridge steel plates. Angang successfully won the order for supplying 10,800 tonnes of 800Mpa grade hydropower steel for the Three Gorges Baihetan hydropower station project. Angang's container steel was the successful bidder for the Sri Lanka LPG receiving station's stage one tank project, thereby immensely enhancing the market position of Angang's container steel in tank steel.

II. ANALYSIS OF PRINCIPAL BUSINESSES *(Continued)*

3. The Company's review of the progress of the operation plan disclosed in the previous period during the Reporting Period *(Continued)*

- (5) Strengthening capital supervision and control to improve financial support ability

The Company consolidated and broadened its existing financing channels in order to ensure there will be sufficient sources of capital. The Company also enhanced its scope of cooperation with financial institutions and ensured smooth financing channels, thus achieving timely repayment of borrowings. The Company continued to develop its documentary letter of credit payment business. During the first half of the year, the Company issued letters of credit of RMB1,280 million. In addition, the Company facilitated the development of bulk raw material bill payment business and promoted the guaranteed discounting for commercial acceptance bills. During the first half of the year, the Company issued bills of RMB2,550 million, of which commercial acceptance bills amounted to RMB370 million. The Company re-launched the import trade financing business, and such business amounted to RMB180 million in June.

The Company strengthened its foreign exchange risk management and control. To avoid the risks brought about by US dollar exchange rate fluctuations, in the first half of the year, the Company made repayment of borrowings due in the amount of USD130 million and locked in the exchange rate for USD150 million held, such that exchange rate fluctuation risk was in a controllable range.

II. ANALYSIS OF PRINCIPAL BUSINESSES (*Continued*)

3. The Company's review of the progress of the operation plan disclosed in the previous period during the Reporting Period (*Continued*)

- (6) Accelerating the implementation of environmental protection projects to achieve the goals of the Blue Sky Project

In the first half of the year, the total discharge of pollutants of various types was lower than the national standards, and the Company achieved the set target of zero environmental pollution incident.

The Xidagou wastewater treatment project, Bayuquan sintering machine electrostatic precipitator environmental transformation project, the Company's West Iron Plant sintering machine electrostatic precipitator environmental transformation project and other environmental projects achieved their set targets.

4. Liquidity and Financial Resources

As of 30 June 2016, the Group had long-term borrowings of RMB1,424 million (exclusive of loans due within one year) with interest rates ranging from 4.2892% to 6.4% per annum. With terms of 3 to 25 years, the loans will expire during the period from 2017 to 2022. The loans are mainly used for replenishing working capital. The Group's long-term loans due within one year amounted to RMB147 million.

In 2016, with good credibility, the Group was reviewed and rated by the rating committee of China Chengxin International Credit Rating Co., Ltd. (中誠信國際信用評級有限責任公司) with a long-term credit rating of "AAA". The Group is capable of repaying its debts when they become due.

As of 30 June 2016, the Group had a capital commitment of RMB1,666 million, which was primarily attributable to construction and renovation contracts and external investment contracts which were entered into but not performed or not fully performed.

II. ANALYSIS OF PRINCIPAL BUSINESSES *(Continued)*

5. Foreign Exchange Risk

The Group adopts locked exchange rates in settling its transactions with export and import agents for export product sales, import and procurement of raw materials for production and equipment for projects, therefore the Group is not subject to any significant foreign currency risk arising from foreign currency transactions.

Foreign currency-denominated borrowings held by the Group amounted to USD270 million, in respect of which the foreign exchange risk depended on the foreign exchange rate of RMB to USD. In the first half of 2016, due to the changes in exchange rate of RMB to USD, the Company incurred an exchange loss of RMB33 million.

6. Gearing Ratio

As of 30 June 2016, the Group's ratio of equity to liability was 1.02 times and the figure was 0.97 times as at 31 December 2015.

7. During the Reporting Period, the Company did not have any pledge of assets.

8. Contingent Liabilities

As of 30 June 2016, the Group had no contingent liabilities.

III. COMPOSITION OF THE PRINCIPAL BUSINESSES

Principal businesses of the Group by industry and product

Unit: RMB million

	Operating income	Operating cost	Gross profit margin	Increase/ decrease in operating income as compared with the corresponding period of the previous year	Increase/ decrease in operating costs as compared with the corresponding period of the previous year	Increase/ decrease in gross profit margin as compared with the corresponding period of the previous year
			(%)	(%)	(%)	(Percentage point)
By industry						
Steel pressing and processing industry	25,374	22,164	12.65	-12.38	-12.65	0.27
By product						
Hot-rolled sheets products	7,753	6,578	15.16	-16.68	-24.64	8.97
Cold-rolled sheets products	9,063	7,945	12.34	-9.73	-4.64	-4.67
Medium-thick plates	3,429	3,241	5.48	-19.22	-10.44	-9.27
By geographical location						
China	23,298	20,062	13.89	-6.67	-7.24	0.53
Export sales	2,076	2,102	-1.25	-48.05	-43.89	-7.51

III. COMPOSITION OF THE PRINCIPAL BUSINESSES *(Continued)*

Principal businesses of the Group by industry and product *(Continued)*

Notes: The decrease in operating income from different series of steel products of the Company as compared with the corresponding period of the previous year was primarily due to lower product prices. The decrease in operating costs was primarily due to (i) further increased market analysis to understand market trends which enabled timely procurements at lower costs; (ii) continuous attempts to uncover internal potential and systematic cost control which resulted in significant decrease in production costs; and (iii) increased and refined cost management which significantly reduced fees and expenses.

IV. BUSINESS PLAN FOR THE SECOND HALF OF 2016

1. Stabilize iron smelting operation, create room for development. Centering on its iron smelting operation, the Company will stabilize its production procedures in order to achieve stable, efficient and low-energy consumption operation.
2. Improve quality, strengthen foundation. The Company will continue to improve its quality management standard, and optimize its quality management system, accountability system and evaluation system.
3. Closely monitor market trend, seizing opportunities as they arise. The Company will establish innovative sales models, actively adjust marketing strategies and promote direct sales in eastern and northern China. The Company will expand into the eastern and southern China markets, thereby increasing its market share.
4. Implement accountability mechanism, improve efficiency. The Company will implement in-depth management and control, and continue to facilitate the enhancement of system operating efficiency.

IV. BUSINESS PLAN FOR THE SECOND HALF OF 2016 (*Continued*)

5. Avoid risk exposures, maintain stable operation. The Company will remain committed to risk prevention, and establish long-term effective production safety mechanism. It will also strive to ensure security of funds and maintain stable operation.
6. Leverage on innovative operation, seek for development opportunities. Aiming to achieve full coverage of different products, the Company will promote the testing and application of new products, and increase the proportion of new products and unique leading products.

V. ANALYSIS ON THE CORE COMPETITIVENESS

There had been no change in the core competitiveness of the Company in the first half of 2016.

VI. ANALYSIS OF INVESTMENTS

1. External equity investments

- (1) The Company did not have any external investment during the Reporting Period.

Report of the Board of Directors (Continued)

VI. ANALYSIS OF INVESTMENTS (Continued)

1. External equity investments (Continued)

(2) Equity interest held by the Company in financial enterprises

Company name	Company type	Investment cost (RMB million)	Number of shares held at the beginning of the Reporting Period		Shareholding percentage at the beginning of the Reporting Period		Number of shares held at the end of the Reporting Period		Shareholding percentage at the end of the Reporting Period		Book value at the end of the Reporting Period	Profit or loss during the Reporting Period	Accounting item	Source of share
			Initial	of the Reporting Period	of the Reporting Period	of the Reporting Period	of the Reporting Period	of the Reporting Period	(RMB million)	(RMB million)				
Angang Financial Company	-	315	-	20	-	20	1,305	60	Long-term equity investment	Subscription for new issuance				

(3) Securities investment

Stock type	Stock code	Abbreviation	Number of shares held at the beginning of the Reporting Period		Shareholding percentage at the beginning of the Reporting Period		Number of shares held at the end of the Reporting Period		Shareholding percentage at the end of the Reporting Period		Book value at the end of the Reporting Period	Profit or loss during the Reporting Period	Accounting item	Source of share
			Investment	of the Reporting Period	of the Reporting Period	of the Reporting Period	of the Reporting Period	of the Reporting Period	(RMB million)	(RMB million)				
Share	600961	Zhuzhou Group (株冶集團)	81	5	0.88	5	0.88	47	-	Available for sale financial assets	Private placement			

VI. ANALYSIS OF INVESTMENTS *(Continued)*

2. Entrusted wealth management, derivatives investments and entrusted loans

(1) Entrusted financial management

Applicable Not applicable

(2) Derivatives investments

Unit: RMB million

Name of the derivatives investment operator	Relationship with the Group	Related party transaction or not	Type of derivatives investment	Initial investment		Investments at the beginning of the period	Purchase amount during the Reporting Period	Disposal amount during the Reporting Period	Provision for impairment (if any)	Investments at the end of the period	Proportion of investments at the end of the period to net assets of the Company	Actual profit or loss during the Reporting Period	
				amount of derivatives investment	Date of commencement								Date of termination
Angang Steel	None	No	Futures investment	1	29 April 2015	-	26	1,703	1,619	0	105	0.24%	-1
Total				1	-	-	26	1,703	1,619	0	105	0.24%	-1

VI. ANALYSIS OF INVESTMENTS (Continued)

2. Entrusted wealth management, derivatives investments and entrusted loans (Continued)

(2) Derivatives investments (Continued)

Source of funds for derivatives investments	Self-owned funds
Litigation (if applicable)	None
Date of the announcement disclosing the approval of derivatives investment by the Board	On 4 July 2016, the resolution in relation to the Company's carrying out the business of hedging with commodity futures in 2016 was approved at the second meeting of the Seventh Session of the Board.
Date of the announcement disclosing the approval of derivatives investment at shareholders' meeting	None
Risk analysis on positions in derivatives during the Reporting Period and explanations of risk control measures (including but not limited to market risk, liquidity risk, credit risk, operation risk, legal risk, etc.)	<p>(1) Market risk exists when the position held by the Company is related to the steel products industry, which is intricately linked with spot commodity operated by the Company. Although the Company makes regular analysis and estimation on the market, judgment on the market may be deviated, resulting in potential risk. However, the risk is controllable after futures hedging with spot commodities.</p> <p>(2) As the category of position held has sufficient liquidity, there is no liquidity risk.</p> <p>(3) The Futures Exchange provides credit guarantee for the category of position held, thus credit risk is minimal.</p>

VI. ANALYSIS OF INVESTMENTS (*Continued*)

2. **Entrusted wealth management, derivatives investments and entrusted loans** (*Continued*)

(2) Derivatives investments (*Continued*)

- (4) The Company carries out such business in strict compliance with the relevant requirements of hedging, and total position held and duration are in line with the Company's approval.
- (5) The Company has performed assessment of relevant legal risks. Business development is carried out in accordance with the laws and regulations of futures exchanges in the PRC, and accordingly, risks can be controlled.

Changes in market price or product fair value of derivatives invested during the Reporting Period, where specific methods and relevant assumptions and parameters used shall be disclosed in the analysis of derivatives' fair value

With reference to dominant contract settlement prices of deformed bar quoted on the Shanghai Futures Exchange, and dominant contract settlement prices of coking coal and iron ore quoted on the Dalian Commodity Exchange, on 4 January 2016, dominant contract settlement prices of deformed bar, hot-rolled coil, coking coal and iron ore were RMB1,797/tonne, RMB1,949/tonne, RMB559.5/tonne and RMB323.5/tonne, respectively; on 30 June 2016, dominant contract settlement prices of deformed bar, hot-rolled coil, coking coal and iron ore were RMB2,295/tonne, RMB2,467/tonne, RMB718/tonne and RMB424/tonne, respectively, representing an increase of RMB498/tonne, RMB518/tonne, RMB158.5/tonne and RMB100.5/tonne, respectively, as compared with that at the beginning of the period.

VI. ANALYSIS OF INVESTMENTS (Continued)

2. Entrusted wealth management, derivatives investments and entrusted loans (Continued)

(2) Derivatives investments (Continued)

Explanations of any significant changes in the Company's accounting policies and specific accounting principles on derivatives adopted during the Reporting Period as compared with those of the last reporting period

N/A

Specific opinions of independent Directors on the derivatives investment and risk control of the Company

- (1) The Company utilized self-owned capital for the development of futures hedging business under its assurance of its normal production and operation, and performed related approval procedures in compliance with relevant requirements of the relevant laws, regulations and the articles of association of the Company, which was beneficial to the reduction of operating risks of the Company, without prejudice to the Company and shareholders as a whole.
- (2) The Company established the Administrative Measures on Angang Steel Company Limited Commodity Futures Hedging, and clarified internal control procedures such as the business operation procedures, approval process and risks prevention and control, thereby providing assurance for the Company's control of hedging-related risks.

VI. ANALYSIS OF INVESTMENTS (*Continued*)

2. **Entrusted wealth management, derivatives investments and entrusted loans** (*Continued*)

(2) Derivatives investments (*Continued*)

(3) The Company confirmed that the maximum amount and the types of products for trading under the annual hedging guarantees were reasonable and in line with the actual situation of production and operation of the Company, and thus, favorable to the Company's reasonable control over trading risks.

3. **Use of proceeds**

Not applicable.

Report of the Board of Directors (Continued)

VI. ANALYSIS OF INVESTMENTS (Continued)

4. Analysis of major subsidiaries and associates

Unit: RMB million

Name	Type	Industry	Main products or services	Registered		Net assets	Operating	Operating	Net profit
				capital	Total assets		income	profit	
ANSC-TKS	Sino-foreign cooperative joint venture	Steel pressing and processing	Production of rolled hot dip galvanized steel products and alloyed steel plate and strip products, sale of self-produced products and provision of after-sale services	USD132 million	1,940	1,379	2,146	345	290
Angang Financial Company	Limited liability company	Finance	Deposit, lending and financing	2,000	20,031	6,549	546	403	302

5. Material projects of non-financing investment

Not applicable.

VII. IMPLEMENTATION OF PROFIT DISTRIBUTION OF THE COMPANY DURING THE REPORTING PERIOD

On 8 June 2016, the 2015 annual general meeting of the Company was held in Anshan to consider and approve the profit distribution proposal for the year of 2015. Since the Company had incurred losses, pursuant to PRC laws and regulations and the articles of association of the Company, the Company did not make allocation to surplus reserve for the year of 2015. The Company did not distribute dividend or convert capital surplus into share capital for the year of 2015.

VIII. THE COMPANY DID NOT DISTRIBUTE CASH DIVIDEND, AWARD BONUS SHARES OR TRANSFER CAPITAL RESERVE TO SHARE CAPITAL DURING THE REPORTING PERIOD.

IX. EMPLOYEES

As of 30 June 2016, the Company had 37,079 employees, amongst whom 26,281 were production personnel, 368 were sales personnel, 4,361 were technicians, 285 were accounting personnel and 1,074 were administration personnel. Among the employees of the Company, 8,968 had bachelor's degree or higher, representing 24.19% of the total number of employees; 9,649 employees held diploma, representing 26.02% of the total number of employees and 16,817 employees held certificates of secondary education, representing 45.35% of the total number of employees.

In the first half of 2016, the Company provided training from various points and implemented the training at different levels, focusing on key areas. From intensive training to self-learning, a multi-faceted training network was established and the effect of employees training was significantly enhanced.

In the first half of the year, 19,328 persons attended and completed centralized training courses, amongst which 533 senior management attended training on 兩學一做 (Two Studies One Act), political theory and strategic management, and 1,005 management and professional technical staff attended trainings on management knowledge, computer, English, technical training and human resources. 654 highly-skilled personnel attended trainings on the capability of innovation. 439 production staff attended trainings on technical grades and equipment inspection. 4,177 persons attended trainings on specialized operation security qualifications, while 1,176 persons attended trainings on team and group security and intellectual property. 10,437 staff members completed training on on-the-job knowledge. 907 staff members completed training by self-learning.

As a result of a series of trainings, extensive talent and intellectual support were provided to the Company for its development. The overall quality of employees had been substantially improved and corporate competitiveness was comprehensively enhanced.

The Company has adopted position-based incentive packages and risk-based annual remuneration packages for senior management personnel, position-based incentive packages and profit-sharing incentives of profit from newly-developed products for technical research personnel, sales/profit-related remuneration packages for sales personnel, and position-based incentive packages for other personnel.

X. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2016, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

XI. SECURITIES TRANSACTIONS OF DIRECTORS

The Board has adopted the relevant code for directors' securities transactions for the purpose of complying with the Hong Kong Listing Rules. In response to the Company's specific enquiries with all Directors, the Directors have confirmed that they have complied with the standards set out in Appendix 10 to the Hong Kong Listing Rules.

XII. INDEPENDENT NON-EXECUTIVE DIRECTORS

Throughout the Reporting Period, the Board had been in compliance with Rule 3.10(1) of the Hong Kong Listing Rules, which requires a company to maintain at least three independent non-executive directors, and Rule 3.10(2) of the Hong Kong Listing Rules, which requires one of the independent non-executive directors to possess professional qualifications or accounting or related financial management expertise.

XIII. AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") in compliance with Rule 3.21 of the Hong Kong Listing Rules.

The Audit Committee and the management have reviewed the accounting standards, principles and measurements adopted by the Company, and considered the interim financial report in relation to audit, internal control and the unaudited interim financial information for the six months ended 30 June 2016.

I. CORPORATE GOVERNANCE OF THE COMPANY

In strict compliance with the requirements of the Company Law, the Securities Law, the relevant requirements of the China Securities Regulatory Commission (the “CSRC”), the Hong Kong Listing Rules, the Rules Governing the Listing of Shares on the Shenzhen Stock Exchange and the Corporate Governance Guideline of Listed Companies and the Guidelines for the Internal Control of Listed Companies of the Shenzhen Stock Exchange, the Company has regulated its operations and established a comprehensive corporate governance system and an effective internal control system. There is no difference between the Company’s corporate governance practice and the Company Law and the relevant requirements of the CSRC.

With shares listed in both Hong Kong and Shenzhen, the Company is committed to improving its corporate governance in accordance with international corporate governance standards. The Board and the management understand that they are responsible for establishing good corporate governance practices and procedures and the strict implementation of such practices and procedures, in order to protect the interests of the shareholders and to create return for the shareholders in the long term.

The Company has adopted the code provisions of the Corporate Governance Code (the “Code Provisions”) set out in Appendix 14 to the Hong Kong Listing Rules as currently in force. The Company has periodically reviewed its corporate governance practices. Save as set out below, the Company has complied with all Code Provisions during the Reporting Period:

- (1) **According to provision A.1.8 in Appendix 14 to the Hong Kong Listing Rules, “an issuer should arrange appropriate insurance cover in respect of legal action against its directors”.**

The Company did not arrange any insurance cover for its Directors in the first half of 2016.

In strict compliance with the requirements of the Company Law, the Securities Law, the relevant requirements of the CSRC, the Hong Kong Listing Rules, the Rules Governing the Listing of Shares on the Shenzhen Stock Exchange, and other regulations, the Company has regulated its operations and established a comprehensive corporate governance system and an effective internal control system, which has lowered the legal risks to the Directors. Therefore, no insurance arrangement was made in respect of the Directors.

Significant Events (*Continued*)

I. CORPORATE GOVERNANCE OF THE COMPANY (*Continued*)

- (2) **As required by provision E.1.2 in Appendix 14 to the Hong Kong Listing Rules, “the chairman of the board should attend the annual general meeting.”**

The chairman of the Company did not attend the annual general meeting of the Company due to other business commitments but had authorized Mr. Wang Yidong, a Director and general manager of the Company, to attend and preside over the annual general meeting.

II. MATERIAL LITIGATION AND ARBITRATION

The Company was not involved in any material litigation and arbitration during the Reporting Period.

III. MATTERS QUESTIONED BY MEDIA

The Company was not involved in matters widely contested by the media during the Reporting Period.

IV. MATTERS RELATING TO INSOLVENCY AND RESTRUCTURING

Not applicable.

V. TRANSACTIONS IN ASSETS

1. **During the Reporting Period, the Company did not purchase any asset.**
2. **During the Reporting Period, the Company did not dispose of any asset.**
3. **Business mergers**

Nil.

VI. IMPLEMENTATION OF THE SHARE-BASED INCENTIVES OF THE COMPANY AND THEIR IMPACT

Not applicable.

VII. MAJOR CONNECTED TRANSACTIONS

1. Connected transactions related to daily operations

A.	Related Party:	Angang Group
	Connected relationship:	Controlling shareholder of the Company
	Settlement method of the connected transaction:	Cash payment

Type	Details	Pricing principle	Price (RMB)	Transaction amount (RMB million)	As a percentage of the amount of similar transactions (%)	Transaction cap approved (RMB million)	Whether the transaction cap is exceeded	Possible market prices of similar transactions
Procurement of principal raw materials from the related party	Iron concentrate	Not higher than the monthly average value of the medium price of Platts Fe 65% (CFR) for Northern China (Qingdao port) as published daily by the SBB Steel Markets Daily Briefing for the preceding month (T-1)* plus the freight cost from Bayuquan port to Angang Steel. Price increase or reduction for grades shall be made to the price of each iron content calculated based on the average value of Platts Fe 65% index for the preceding month (T-1)*. Using this as the basis, a discount equal to 3% of the average value of Platts Fe 65% index for the preceding month (T-1)* shall be applied.	RMB 374/ tonne	1,879	58.73	-	-	RMB 413/ tonne
	Pellet	Market price	RMB 491/ tonne	1,097	100.00	-	-	RMB 513/ tonne
	Sinter ore	The price of iron concentrate plus processing cost in the preceding month (T-1)*, the processing cost of which should not be higher than that of similar products produced by Angang Steel Group.	RMB 432/ tonne	641	100.00	-	-	-

Significant Events (Continued)

VII. MAJOR CONNECTED TRANSACTIONS (Continued)

1. Connected transactions related to daily operations (Continued)

Type	Details	Pricing principle	Price (RMB)	Transaction amount (RMB million)	As a percentage of the amount of similar transactions (%)	Transaction cap approved (RMB million)	Whether the transaction cap is exceeded	Possible market prices of similar transactions
Procurement of principal raw materials from the related party	Karara mineral products	<p>Premium products (iron grade≥ 67.2%): Not higher than the average price of such product sold to independent third parties in Mainland China for the corresponding period (i.e. the month of shipment). The sales volume of premium products made by Karara to independent third parties in Mainland China shall not be less than 30% of the total sales volume of premium products of Karara for a given period.</p> <p>Standard grade products (67.2%>iron grade≥65%): The price is calculated based on the average value of the medium price of Platts Fe 65% (CFR) for Northern China (Qingdao port) as published daily by the SBB Steel Markets Daily Briefing for the month in which the freight was loaded at the loading port plus the freight cost differential for each dry metric tonne from Qingdao port to Bayuquan port, Liaoning, divided by 65 and multiplied by the actual product grade.</p> <p>Low grade products (65%>iron grade≥59%): The price is calculated based on the average value of the medium price of Platts Fe 62% (CFR) for Northern China (Qingdao port) as published daily by the SBB Steel Markets Daily Briefing for the month in which the freight was loaded at the loading port plus the freight cost differential for each dry metric tonne from Qingdao port to Bayuquan port, Liaoning, divided by 62 and multiplied by the actual product grade.</p>	RMB 332/ tonne	130	100.00	–	–	RMB 405/ tonne
	Scrap steel	Market price	–	101	30.91	–	–	–
	Steel billets		–	25	95.16	–	–	–
	Alloy and non-ferrous metal		–	28	2.37	–	–	–
	Sub-total		–	–	3,901	60.48	18,300	No

Significant Events (Continued)

VII. MAJOR CONNECTED TRANSACTIONS (Continued)

1. Connected transactions related to daily operations (Continued)

Type	Details	Pricing principle	Price (RMB)	Transaction amount (RMB million)	As a percentage of the amount of similar transactions (%)	Transaction cap approved (RMB million)	Whether the transaction cap is exceeded	Possible market prices of similar transactions
Procurement of energy and power from the related party	Electricity	State price	RMB 0.43/ Kwh	849	38.60	-	-	RMB 0.53/ Kwh
	Water	State price	RMB 2.10/ tonne	20	31.34	-	-	RMB 3.19/ tonne
	Steam	Cost of production plus gross profit margin of 5%	RMB 50/GJ	6	100.00	-	-	-
	Sub-total	-	-	875	38.55	2,500	No	-
Purchase of ancillary products from the related party	Lime stone	Not higher than the selling prices offered by relevant members of Angang Group to independent third parties	RMB 62/ tonne	90	76.18	-	-	-
	Lime powder		RMB 422/ tonne	336	93.80	-	-	-
	Refractory materials		-	43	11.94	-	-	-
	Spare parts		-	83	13.07	-	-	-
	Other ancillary materials		-	115	14.19	-	-	-
	Sub-total		-	-	667	29.29	2,815	No
Purchase of support services from the related party	Railway transportation services	State price	-	232	52.48	-	-	-
	Road transportation services	Market price	-	278	90.00	-	-	-
	Pipeline transportation services		-	25	100.00	-	-	-
	Agency services: -Import of raw materials, equipment, spare parts and ancillary materials -Export of finished products -Bidding and invitations for tenders	A commission of not higher than 1.5% (not to exceed the commission charged by major state-owned import and export companies in the PRC).	-	40	100.00	-	-	-

Significant Events (Continued)

VII. MAJOR CONNECTED TRANSACTIONS (Continued)

1. Connected transactions related to daily operations (Continued)

Type	Details	Pricing principle	Price (RMB)	Transaction amount (RMB million)	As a percentage of the amount of similar transactions (%)	Transaction cap approved (RMB million)	Whether the transaction cap is exceeded	Possible market prices of similar transactions
Purchase of support services from the related party	Examination, repair and maintenance of equipment and other relevant services	Market price	-	128	38.29	-	-	-
	Design and engineering services	Market price	-	162	79.61	-	-	-
	Educational facilities, occupational technical education, on-the-job training and translation services	Market price	-	0.1	41.78	-	-	-
	Newspapers and other publications	State price	-	0.1	74.36	-	-	-
	Telecommunications business, telecommunications services and information systems	State price or the sum of depreciation expenses and maintenance fees	-	8	70.46	-	-	-
	Production support and maintenance	Costs of labor, materials and management fees as paid according to their market price	-	329	62.92	-	-	-
	Welfare support and maintenance	Costs of labor, materials and management fees as paid according to their market price	-	103	85.33	-	-	-
	Employee transportation	Market price	-	0.8	94.16	-	-	-
	Environmental protection and security monitoring	State price	-	1	87.42	-	-	-

Significant Events (Continued)

VII. MAJOR CONNECTED TRANSACTIONS (Continued)

1. Connected transactions related to daily operations (Continued)

Type	Details	Pricing principle	Price (RMB)	Transaction amount (RMB million)	As a percentage of the amount of similar transactions (%)	Transaction cap approved (RMB million)	Whether the transaction cap is exceeded	Possible market prices of similar transactions
Purchase of support services from the related party	Business reception and meetings	Market price	-	0.7	55.06	-	-	-
	Heating supply	State price	-	0.02	0.15	-	-	-
	Landscape services	Costs of labor, materials and management fees as paid according to their market price	-	6	100.00	-	-	-
	Port agency services		-	102	100.00	-	-	-
	Sub-total	-	-	1,416	69.58	5,500	No	-
Buyout of steel products from related party	Steel products	Determined based on the price sold to third parties from Angang Steel deducting a commission of RMB20-35/tonne	-	-	-	500	No	-
Sale of goods to the related party	Steel products	The selling price charged by Angang Steel Group to the independent third parties; for provision of the aforesaid products for the development of new products by the counterparty, the price is based on the market price if market price exists; if market price is absent, the price is based on the principle of the cost plus a reasonable profit, while the reasonable profit rate is not higher than the average gross profit margin of related products provided by the relevant member company	RMB 2,822/ tonne	277	1.20	-	-	-
	Molten iron		-	17	100.00	-	-	-
	Billets		-	74	45.98	-	-	-
	Coke		RMB 379/ tonne	7	21.14	-	-	-
	Chemical by-products		-	17	2.80	-	-	-
	Sub-total		-	-	392	1.65	4,810	No
Sale of scrap steel and obsolete material to the related party	Scrap steel	Market price	-	86	74.88	-	-	-
	Obsolete material		-	7	64.32	-	-	-
	Sub-total	-	-	93	73.92	280	No	-

Significant Events (Continued)

VII. MAJOR CONNECTED TRANSACTIONS (Continued)

1. Connected transactions related to daily operations (Continued)

Type	Details	Pricing principle	Price (RMB)	Transaction amount (RMB million)	As a percentage of the amount of similar transactions (%)	Transaction cap approved (RMB million)	Whether the transaction cap is exceeded	Possible market prices of similar transactions
Provision of comprehensive services to the related party	Fresh water	State price	RMB 3.19/ tonne	26	98.67	-	-	RMB 3.19/ tonne
	Clean recycled water	Market price or production cost plus a gross profit margin of not lower than 5%	RMB 0.73/ tonne	9	59.91	-	-	-
	Soft water		RMB 4.90/ tonne	0.05	6.69	-	-	-
	Gas		RMB 44.74/ GJ	240	86.73	-	-	-
	Blast furnace gas		RMB 20.00/GJ	147	99.89	-	-	-
	Steam		RMB 52.00/GJ	14	66.37	-	-	RMB 52.00/GJ
	Nitrogen		RMB 200.00/ km ³	1	38.25	-	-	-
	Oxygen		RMB 499.46/ km ³	0.5	71.12	-	-	-
	Argon		RMB 1,000.00/ km ³	0.2	95.48	-	-	-
	Compressed air		RMB 106.10/ km ³	0.3	69.04	-	-	-
	Used hot water		RMB 27.67/GJ	36	93.65	-	-	RMB 27.43/GJ
	Liquefied nitrogen		RMB 292.00/ tonne	3	96.18	-	-	RMB 292.00/ tonne
	Liquefied oxygen		RMB 288.84/ tonne	4	96.03	-	-	RMB 288.84/ tonne
	Liquefied argon		RMB 455.78/ tonne	2	97.18	-	-	RMB 455.78/ tonne
	Product testing services		Market price	-	2	93.20	-	-
Transportation services			-	0.5	98.87	-	-	-
Sub-total		-	486	56.56	1,270	No	-	
Relevant explanation on connected transactions	As production in the iron and steel industry is on a continuous basis, Angang Group has been engaged in mining, supplying, processing and manufacturing of raw materials, auxiliary materials and energy and power, which is a part of the supply chain of the Company. In the meantime, its subsidiaries have a high technological level and service capabilities, which can provide necessary support services for production and operation of the Company. The Company would sell certain products, obsolete steel, obsolete materials and integrated services to Angang Group which is a client of the Company.							

Significant Events (Continued)

VII. MAJOR CONNECTED TRANSACTIONS (Continued)

1. Connected transactions related to daily operations (Continued)

B.	Related Party:	Angang Financial Company
	Connected relationship:	Indirectly controlled by the same controlling shareholder of the Company
	Settlement method of the connected transaction:	Cash payment

Type	Details	Pricing principle	Price	Transaction amount <i>(RMB million)</i>	As a percentage of the amount of similar transactions <i>(%)</i>	Transaction cap approved <i>(RMB million)</i>	Whether the transaction cap is exceeded
Financial services provided to the Company by the related party	Interest on settlement fund deposits	Prescribed annual interest rate for deposits promulgated by the People's Bank of China	-	7	30.75	50	No
	Maximum daily balance of deposit (including accrued interests)	-	-	1,988	-	2,000	No
	Interest payable on credit business	Not higher than the interest rate obtained	-	7	1.06	150	No
	Interest payable on entrusted loans	by the Group from commercial banks during the same period		13	100.00	100	No
Relevant explanation on connected transactions	<p>The Company utilizes the free settlement platform provided by Angang Financial Company and deposits a part of its saving for the use of daily settlement in order to improve the operational efficiency of capital settlement of the Company. Meanwhile, the Company can also acquire a financing channel from Angang Financial Company to provide safe protection for the capital of the Company.</p> <p>The Company has carried out strict budget control for the capital settlement in Angang Financial Company and, through online financial service system (i.e. N9 System) implemented monthly budget control, weekly expenditure plan, and daily implementation breakdown in accordance with the capital expenditure item. Each capital expenditure shall have a corresponding budget limit and weekly expenditure plan to ensure the security of the use of the Company's capital settlement.</p> <p>According to the Financial Services Agreement entered into between the Company and Angang Financial Company, the Company set up an alert system for the maximum daily deposit in the N9 System. When the deposit balance reaches 80% of the limit, the N9 System will alert the Company. The department in charge will adjust the deposit amount in a timely manner in accordance with the collection and payment plan of the period.</p>						

Significant Events (Continued)

VII. MAJOR CONNECTED TRANSACTIONS (Continued)

1. Connected transactions related to daily operations (Continued)

C.	Related Party:	Pangang Vanadium & Titanium Group
	Connected relationship:	Indirectly controlled by the same controlling shareholder of the Company
	Settlement method of the connected transaction:	Cash payment

Type	Details	Pricing principle	Price (RMB)	Transaction amount (RMB million)	As a percentage of the amount of similar transactions (%)	Transaction cap approved (RMB million)	Whether the transaction cap is exceeded	Market price of similar transactions available in the market
Purchase of raw materials from the related party	Iron concentrate	Not higher than the average of daily midpoint of Platts Fe 62% CFR North China (Qingdao port) issued by the SBB Steel Markets Daily Briefing in the month (T-1)* plus the transportation cost from Bayuquan Port to Angang Steel as well as adjustment subject to the price for iron concentrate with different iron content level calculated based on the average of Platts 65% index in the month (T-1)*. A discount equal to 3% of the average of Platts 65% index in the month (T-1)* was granted on such basis	RMB374/ tonne	481	14.45	-	-	RMB413/ tonne
	Alloy	Market price	-	17	1.50	-	-	-
	Total		-	498	11.10	1,780	No	-
Relevant explanation on connected transactions	Anqian Mining, a subsidiary of Pangang Vanadium & Titanium, has supplied iron concentrate for the Company for many years, and Pangang Vanadium & Titanium supplies alloy for the Company at the market price, which provides guarantee for the Company in obtaining continuous and stable supply of raw materials.							

VII. MAJOR CONNECTED TRANSACTIONS *(Continued)*

2. **During the Reporting Period, the Company did not conduct any connected transaction of assets acquisition and disposal.**
3. **Connected party credit and debt transaction**

During the Reporting Period, the Company was not involved in any connected party credit and debt transaction for non-operating purpose.

As of 30 June 2016, bank borrowings of RMB51 million were guaranteed by Angang Holding whereas bank borrowings of RMB1,000 million were guaranteed by Angang Group Company.

VIII. MATERIAL CONTRACTS AND THEIR PERFORMANCE

1. **Entrustment, contracting and leasing matters**

- (1) Entrustment

The Supply of Materials and Services Agreement (2016–2018) entered into between the Company and Angang Group Company was approved at the 2015 second extraordinary general meeting of the Company held on 12 October 2015. On 22 October 2015, the Company and Angang Holding entered into the Asset and Business Entrustment and Management Service Agreement, which is the specific agreement in relation to execution pursuant to the approved Supply of Materials and Services Agreement (2016–2018). Pursuant to the Asset and Business Entrustment and Management Service Agreement, Angang Holding authorized the Company to conduct daily operation and management over the assets, businesses, future assets and business expansion of its unlisted controlling subsidiaries.

During the Reporting Period, there was no entrusted project which generated profit of more than 10% of the gross profit of the Company for the Reporting Period.

Significant Events (*Continued*)

VIII. MATERIAL CONTRACTS AND THEIR PERFORMANCE (*Continued*)

1. Entrustment, contracting and leasing matters (*Continued*)

(2) Contracting

The Company did not enter into any contracting agreement during the Reporting Period.

(3) Leasing

The Company did not enter into any leasing agreement during the Reporting Period.

2. During the Reporting Period, there was no guarantee provided by the Company, nor was there any guarantee subsisting during the Reporting Period.

3. The Company did not enter into any other material agreement during the Reporting Period.

4. The Company did not entrust financial management during the Reporting Period.

IX. UNDERTAKINGS BY THE COMPANY OR SHAREHOLDERS WITH SHAREHOLDING OF 5% OR MORE DURING OR WHICH SUBSISTED DURING THE REPORTING PERIOD

Undermaking made during the restructuring of assets	Undermaking Party	Type of Undermaking	Contents of Undermaking	Date of Undermaking	Period of Undermaking	Performance of Undermaking
	Angang Holding	Industry competition commitments	<p>The Non-competition Undertaking Letter of Anshan Iron & Steel Group Complex (鞍鋼鋼鐵集團公司避免同業競爭承諾狀) 下, Angang Holding and its wholly-owned and holding subsidiaries have complied with relevant requirements of the state on the non-competition.</p> <p>(1) Angang Holding and its wholly-owned and holding subsidiaries have never engaged in any business which directly or indirectly competes with the iron and steel business, the principal business of the Company.</p> <p>(2) Angang Holding undertakes that the Company is entitled to the preemptive rights for the assets and business to be disposed by Angang Holding or the wholly-owned and controlling subsidiaries of Angang Holding, which are related to the iron and steel business of the Company.</p> <p>(3) If the enterprises in which Angang Holding holds equity interests produce products or engage in business which compete or may compete with the Company, Angang Holding undertakes that it will transfer all the capital contribution, shares or equity interests and grant the Company pre-emptive rights for such capital contribution, shares or equity interests.</p> <p>(4) If Angang Holding and its wholly-owned and holding subsidiaries have assets and business which compete or may compete with the Company, when the Company proposes the purchase requirement, Angang Holding and its wholly-owned and holding subsidiaries will transfer relevant assets and business to the Company with priority based on reasonable prices and conditions according to the processes required by laws.</p> <p>(5) During the effective period of the undertakings, on the premise of equal investment qualifications, Angang Holding shall inform the Company first for the opportunity of new business.</p> <p>(6) If the Company accepts such opportunity of new business, Angang Holding shall transfer such new business to the Company for free. Angang Holding and its wholly-owned and holding subsidiaries have the rights to invest in the new business only if the Company expressly refuses such opportunity.</p> <p>If the Company proposes the purchase requirement in the future, Angang Holding and its wholly-owned and holding subsidiaries still need to transfer the assets and business formed by such opportunities to the Company with priority based on reasonable prices and conditions.</p>	20 May 2007	Indefinite	There was no breach of such undertaking

Significant Events (Continued)

IX. UNDERTAKINGS BY THE COMPANY OR SHAREHOLDERS WITH SHAREHOLDING OF 5% OR MORE DURING OR WHICH SUBSISTED DURING THE REPORTING PERIOD

Undertaking Party	Type of Undertaking	Contents of Undertaking	Date of Undertaking	Period of Undertaking	Performance of Undertaking
Other commitments made to minority shareholders	Commitments of concerted actions of shareholders	<p>(7) Other effective measures to avoid and eliminate horizontal competition.</p> <p>The above undertakings do not limit the business of Angang Holding and its wholly-owned and holding subsidiaries which do not compete with the Company, especially the business of provision of required materials or services necessary for the operation of the Company.</p> <p>All the undertakings made by Angang Holding are based on the national requirements and subject to the adjustments according to the national requirements. Angang Holding is eligible for engaging in business not prohibited by the state.</p> <p>Such undertakings became effective from the date of issuance, and shall be terminated once one of following conditions occurs:</p> <p>(1) Angang Holding ceases to be the controlling shareholder of the Company;</p> <p>(2) The shares of the Company cease to be listed on any stock exchanges (except for temporary suspension of the shares of the Company due to any reason);</p> <p>(3) When the state does not require the contents of certain undertakings, relevant section shall be terminated automatically.</p> <p>Considering that Angang Holding does not have any iron and steel production projects in production which compete with the Company, therefore, the undertakings made in the undertaking letter shall prevail if any inconsistencies occur between such undertakings and all the undertakings made by Angang Holding concerning the competition with the Company before the date of the issuance of the undertaking letter.</p> <p>Angang Group Company and persons acting in concert do not reduce their shareholding in the Company for six months from the date of commitment.</p>	15 July 2015	6 months	There was no breach of such undertaking
Whether the commitments are fulfilled on time	Yes				

X. APPOINTMENT AND DISMISSAL OF ACCOUNTING FIRM

This interim financial report has not been audited.

XI. EXPLANATION ON OTHER SIGNIFICANT EVENTS

There are no explanations on other significant events of the Company.

Movements in Share Capital and Shareholding of Substantial Shareholders

I. SHARE CAPITAL STRUCTURE

As at 30 June 2016, the structure of share capital of the Company was as follows:

Unit: Share

	Before the change		Increase/decrease during the period (+, -)					After the change	
	Number	Percentage (%)	Issue of new shares	Bonus shares	Shares transferred from accumulated fund	Others	Sub-total	Number	Percentage (%)
I. Shares subject to trading moratorium	55,337	0.00	-	-	-	-23,850	-23,850	31,487	0.00
1. State-owned shares	-	-	-	-	-	-	-	-	-
2. State-owned legal person shares	-	-	-	-	-	-	-	-	-
3. Other domestic shares	-	-	-	-	-	-	-	-	-
Including: Shares held by domestic legal persons	-	-	-	-	-	-	-	-	-
Shares held by domestic natural persons	55,337	0.00	-	-	-	-23,850	-23,850	31,487	0.00
4. Foreign investment shares	-	-	-	-	-	-	-	-	-
Including: Shares held by overseas legal persons	-	-	-	-	-	-	-	-	-
Shares held by overseas natural persons	-	-	-	-	-	-	-	-	-
II. Shares not subject to trading moratorium	7,234,752,510	100.00	-	-	-	23,850	23,850	7,234,776,360	100.00
1. Renminbi ordinary shares	6,148,952,510	84.99	-	-	-	23,850	23,850	6,148,976,360	84.99
2. Domestically listed foreign investment shares	-	-	-	-	-	-	-	-	-
3. Overseas listed foreign investment shares	1,085,800,000	15.01	-	-	-	-	-	1,085,800,000	15.01
4. Others	-	-	-	-	-	-	-	-	-
III. Total shares	7,234,807,847	100.00	-	-	-	0	0	7,234,807,847	100.00

Note: Reasons for movement in shares:

Movements in Share Capital and Shareholding of Substantial Shareholders (Continued)

I. SHARE CAPITAL STRUCTURE (Continued)

During the Reporting Period, movements in (i) the number of shares subject to trading moratorium; (ii) shares held by domestic natural persons; (iii) shares not subject to trading moratorium; and (iv) the number of RMB ordinary shares of the Company were primarily attributable to the changes of certain Directors of the Company.

II. NUMBER OF SHAREHOLDERS AND DETAILS OF SHAREHOLDING OF THE COMPANY

Unit: Share

The total number of shareholders of the Company as at the end of the Reporting Period 113,938, of which 562 were holders of H shares

Shareholding of shareholders of ordinary shares interested in 5% or more of the shares of the Company or top ten shareholders of ordinary shares

Name of shareholder	Nature of shareholder	Percentage of shareholding (%)	Number of ordinary shares as at the end of the Reporting Period	Increase/ decrease during the Reporting Period	Number of ordinary shares held subject to trading moratorium	Number of ordinary shares held not subject to trading moratorium	Number of shares Pledged or frozen	Status of shares	Amount
Anshan Iron & Steel Group Complex* (鞍山鋼鐵集團公司)	State-owned legal person	67.29	4,868,547,330	0	-	4,868,547,330	-	-	
HKSCC Nominees Limited	Overseas legal person	14.85	1,074,172,722	+225,241	-	1,074,172,722	-	-	
China Securities Finance Corporation Limited	Domestic general legal person	2.99	216,322,910	0	-	216,322,910	-	-	
Central Huijin Investment Ltd.	Domestic general legal person	1.00	72,575,900	0	-	72,575,900	-	-	
ICBC Credit Suisse Fund - Agricultural Bank of China - ICBC Credit Suisse China Securities Financial Asset Management Plan	Others	0.23	16,652,700	0	-	16,652,700	-	-	
Lombarda China Fund - Agricultural Bank of China - Lombarda China Fund China Securities Financial Asset Management Plan	Others	0.23	16,652,700	0	-	16,652,700	-	-	
Bosera Fund - Agricultural Bank of China - Bosera China Securities Financial Asset Management Plan	Others	0.23	16,652,700	0	-	16,652,700	-	-	
Dacheng Fund - Agricultural Bank of China - Dacheng China Securities Financial Asset Management Plan	Others	0.23	16,652,700	0	-	16,652,700	-	-	
Harvest Fund - Agricultural Bank of China - Harvest China Securities Financial Asset Management Plan	Others	0.23	16,652,700	0	-	16,652,700	-	-	
E Fund - Agricultural Bank of China - E Fund China Securities Financial Asset Management Plan	Others	0.23	16,652,700	0	-	16,652,700	-	-	

Movements in Share Capital and Shareholding of Substantial Shareholders (Continued)

II. NUMBER OF SHAREHOLDERS AND DETAILS OF SHAREHOLDING OF THE COMPANY (Continued)

Explanations on the connected relationship or concerted action among the shareholders mentioned above	The Company is not aware of any connected relationship among the above-mentioned shareholders of the Company or any party to any concerted action as provided in the Procedures for the Administration of Information Disclosure for Changes in Shareholdings of the Shareholders of Listed Companies.
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Shareholding of the top ten shareholders of ordinary shares not subject to trading moratorium

Name of shareholder	Number of shares held not subject to trading moratorium as at the end of the Reporting Period	Type of share	Amount
		Type of share	
Anshan Iron & Steel Group Complex* (鞍山鋼鐵集團公司)	4,868,547,330	Renminbi ordinary shares	4,868,547,330
HKSCC Nominees Limited	1,074,172,722	Overseas listed foreign investment shares	1,074,172,722
China Securities Finance Corporation Limited	216,322,910	Renminbi ordinary shares	216,322,910
Central Huijin Investment Ltd.	72,575,900	Renminbi ordinary shares	72,575,900
ICBC Credit Suisse Fund – Agricultural Bank of China – ICBC Credit Suisse China Securities Financial Asset Management Plan	16,652,700	Renminbi ordinary shares	16,652,700
Lombarda China Fund – Agricultural Bank of China – Lombarda China Fund China Securities Financial Asset Management Plan	16,652,700	Renminbi ordinary shares	16,652,700

Movements in Share Capital and Shareholding of Substantial Shareholders (Continued)

II. NUMBER OF SHAREHOLDERS AND DETAILS OF SHAREHOLDING OF THE COMPANY (Continued)

Name of shareholder	Number of shares held not subject to trading moratorium as at the end of the Reporting Period	Type of share		Amount
		Type of share	Amount	
Bosera Fund – Agricultural Bank of China – Bosera China Securities Financial Asset Management Plan	16,652,700	Renminbi ordinary shares	16,652,700	
Dacheng Fund – Agricultural Bank of China – Dacheng China Securities Financial Asset Management Plan	16,652,700	Renminbi ordinary shares	16,652,700	
Harvest Fund – Agricultural Bank of China – Harvest China Securities Financial Asset Management Plan	16,652,700	Renminbi ordinary shares	16,652,700	
E Fund – Agricultural Bank of China – E Fund China Securities Financial Asset Management Plan	16,652,700	Renminbi ordinary shares	16,652,700	

Explanations on the connected relationship or concerted action among the top ten shareholders not subject to trading moratorium, and the top ten shareholders not subject to trading moratorium and the top ten shareholders

The Company is not aware of any connected relationship among the above-mentioned shareholders of the Company or any party to any concerted action as provided in the Procedures for the Administration of Information Disclosure for Changes in Shareholdings of the Shareholders of Listed Companies.

The top ten holders of ordinary shares and the top ten holders of ordinary shares not subject to trading moratorium of the Company did not make any agreed repurchase transactions during the Reporting Period.

Movements in Share Capital and Shareholding of Substantial Shareholders (Continued)

III. MOVEMENTS OF CONTROLLING SHAREHOLDERS OR DE FACTO CONTROLLER

There was no movement of controlling shareholders or de facto controller of the Company during the Reporting Period.

IV. INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY HELD BY SUBSTANTIAL SHAREHOLDERS AND OTHERS

Save as disclosed below, as at 30 June 2016, no other person (other than the Company's Directors, Supervisors and senior management) had any interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Interests in ordinary shares of the Company

Name of shareholder	Number and class of shares held	Percentage	Percentage in	Percentage in	Capacity
		in total share capital (%)	total issued H shares (%)	total issued domestic shares (%)	
Angang Holding	4,868,547,330 state-owned shares	67.29	–	79.18	Beneficial owner
HKSCC Nominees Limited	1,074,172,722 H shares	14.85	98.93	–	Nominee

Directors, Supervisors and Senior Management

I. CHANGES IN THE SHARES HELD BY DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Unit of number of shares: share

Name	Position	Status of Position	No. of shares held at the beginning of the Reporting Period	No. of shares increased during the Reporting Period	No. of shares reduced during the Reporting Period	Shares held at the end of the Reporting Period	Restricted shares		Restricted shares granted at the end of the Reporting Period
							Restricted shares granted during the Reporting Period	Restricted shares granted at the end of the Reporting Period	
Yao Lin	Chairman	In office	10,000	-	-	10,000	-	-	-
Wang Yidong	Director, General Manager	In office	7,650	-	-	7,650	-	-	-
Li Zhongwu	Director, Deputy General Manager	In office	0	-	-	0	-	-	-
Zhang Jingfan	Director, Chief Accountant, Joint Company Secretary	In office	0	-	-	0	-	-	-
Wu Dajun	Independent non-executive Director	In office	0	-	-	0	-	-	-
Ma Weiguo	Independent non-executive Director	In office	0	-	-	0	-	-	-
Luo Yucheng	Independent non-executive Director	In office	0	-	-	0	-	-	-
Lin Daqing	Chairman of the Supervisory Committee	In office	0	-	-	0	-	-	-
Liu Xiaohui	Supervisor	In office	0	-	-	0	-	-	-
Yuan Peng	Supervisor	In office	0	-	-	0	-	-	-
Xu Shishuai	Deputy General Manager	In office	0	-	-	0	-	-	-
Meng Jinsong	Deputy General Manager	In office	0	-	-	0	-	-	-
Kwok Siu Man	Joint Company Secretary	In office	0	-	-	0	-	-	-
Zhang Lifen	Former Director, Former Deputy General Manager	Resigned	8,250	-	-	8,250	-	-	-
Chen Fangzheng	Former Independent non-executive Director	Resigned	0	-	-	0	-	-	-
Qu Xuanhui	Former Independent non-executive Director	Resigned	0	-	-	0	-	-	-
Liu Zhengdong	Former Independent non-executive Director	Resigned	0	-	-	0	-	-	-
Chau Chi Wai, Wilton	Former Independent non-executive Director	Resigned	0	-	-	0	-	-	-
Song Jun	Former Supervisor	Resigned	0	-	-	0	-	-	-
Bai Hai	Former Supervisor	Resigned	0	-	-	0	-	-	-
Liu Jun	Former Deputy General Manager	Resigned	0	-	-	0	-	-	-

Directors, Supervisors and Senior Management (Continued)

II. INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY HELD BY DIRECTORS AND SUPERVISORS

Save as disclosed above, as at 30 June 2016, none of the Directors, Supervisors and senior management of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register required to be kept under Section 352 of the SFO, or which were otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) set out in Appendix 10 of the Hong Kong Listing Rules.

III. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

Name	Position	Category	Date	Reason
Yao Lin	Chairman	Elected	8 June 2016	Re-election
Wang Yidong	Executive Director	Elected	8 June 2016	Re-election
Li Zhongwu	Executive Director	Elected	8 June 2016	Re-election
	Deputy General Manager	Appointed	30 March 2016	–
Zhang Jingfan	Executive Director	Elected	8 June 2016	Re-election
Wu Dajun	Independent non-executive Director	Elected	8 June 2016	Re-election
Ma Weiguo	Independent non-executive Director	Elected	8 June 2016	Re-election
Luo Yucheng	Independent non-executive Director	Elected	8 June 2016	Re-election
Lin Daqing	Chairman of the Supervisory Committee	Elected	8 June 2016	Re-election
Liu Xiaohui	Supervisor	Elected	8 June 2016	Re-election
Yuan Peng	Supervisor	Elected	8 June 2016	Re-election
Xu Shishuai	Deputy General Manager	Appointed	30 March 2016	–
Meng Jinsong	Deputy General Manager	Appointed	30 March 2016	–
Zhang Lifen	Deputy General Manager	Resigned	30 March 2016	Change of job

Directors, Supervisors and Senior Management (*Continued*)

III. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD (*Continued*)

Name	Position	Category	Date	Reason
	Executive Director	Resigned upon expiry of term	8 June 2016	Resigned upon expiry of term
Chen Fangzheng	Independent non-executive Director	Resigned upon expiry of term	8 June 2016	Resigned upon expiry of term
Qu Xuanhui	Independent non-executive Director	Resigned upon expiry of term	8 June 2016	Resigned upon expiry of term
Liu Zhengdong	Independent non-executive Director	Resigned upon expiry of term	8 June 2016	Resigned upon expiry of term
Chau Chi Wai, Wilton	Independent non-executive Director	Resigned upon expiry of term	8 June 2016	Resigned upon expiry of term
Song Jun	Supervisor	Resigned upon expiry of term	8 June 2016	Resigned upon expiry of term
Bai Hai	Supervisor	Resigned upon expiry of term	8 June 2016	Resigned upon expiry of term
Liu Jun	Deputy General Manager	Resigned	30 March 2016	Change of job

Consolidated Balance Sheet

As of 30 June 2016 (Prepared by: Angang Steel Company Limited Monetary unit: RMB million)

Assets	Notes	30 June 2016	31 December 2015
Current assets:			
Cash at bank and on hand	6(1)	2,407	3,601
Financial assets at fair value through profit or loss	6(2)		4
Notes receivable	6(3)	7,900	8,311
Accounts receivable	6(4)	1,579	1,123
Prepayments	6(6)	3,063	2,493
Dividends receivable	6(7)	6	6
Other receivables	6(5)	47	49
Inventories	6(8)	8,613	8,008
Non-current assets due within 1 year			
Other current assets			
Total current assets		23,615	23,595
Non-current assets:			
Available-for-sale financial assets	6(9)	834	849
Long-term equity investments	6(10)	2,504	2,673
Investment properties			
Fixed assets	6(11)	49,796	51,014
Construction in progress	6(12)	2,853	2,852
Construction material	6(13)	93	6
Intangible assets	6(14)	6,007	6,086
Long-term deferred expenses			
Deferred income tax assets	6(15)	1,506	1,521
Other non-current assets			
Total non-current assets		63,593	65,001
Total assets		87,208	88,596

Consolidated Balance Sheet (Continued)

As of 30 June 2016 (Prepared by: Angang Steel Company Limited Monetary unit: RMB million)

Liabilities and shareholders' equity	Notes	30 June 2016	31 December 2015
Current liabilities:			
Short-term loans	6(16)	22,262	16,319
Financial liabilities at fair value through profit or loss	6(17)	14	
Notes payable	6(18)	3,725	3,991
Accounts payable	6(19)	6,128	5,799
Advances from customers	6(20)	2,907	2,834
Employee benefits payable	6(21)	230	167
Tax and surcharges payable	6(22)	33	20
Interests payables	6(23)	84	181
Other payables	6(24)	2,369	2,106
Non-current liabilities due within 1 year	6(25)	147	4,587
Other current liabilities	6(26)	3,000	7,000
Total current liabilities		40,899	43,004
Non-current liabilities:			
Long-term loans	6(27)	1,424	962
Bonds payable	6(28)		
Long-term employee benefits payable	6(29)	1	1
Deferred income	6(30)	885	914
Deferred income tax liabilities	6(15)	15	34
Other non-current liabilities			
Total non-current liabilities		2,325	1,911
Total liabilities		43,224	44,915

Consolidated Balance Sheet (Continued)

As of 30 June 2016 (Prepared by: Angang Steel Company Limited Monetary unit: RMB million)

Liabilities and shareholders' equity	Notes	30 June 2016	31 December 2015
Shareholders' equity:			
Share capital	6(31)	7,235	7,235
Capital reserve	6(32)	31,519	31,519
Other comprehensive income	6(33)	7	18
Special reserve	6(34)	71	54
Surplus reserve	6(35)	3,580	3,580
Undistributed profit	6(36)	1,168	868
Differences from translation of foreign currency			
Subtotal of Shareholders' equity attributable to shareholders of parent company		43,580	43,274
Minority interests		404	407
Total shareholders' equity		43,984	43,681
Total liabilities and shareholders' equity		87,208	88,596

Legal representative:
Yao Lin

Chief Accountant:
Zhang Jingfan

Controller:
Che Chengwei

Consolidated Income Statement

For the six months ended 30 June (Prepared by: Angang Steel Company Limited Monetary unit: RMB million)

Items	Notes	For the six months ended 30 June	
		2016	2015
1. Operating income		25,430	28,992
Including: operating income	6(37)	25,430	28,992
2. Operating costs		25,365	29,134
Less: Operating costs	6(37)	22,217	25,402
Business tax and surcharges	6(38)	139	148
Marketing expenses	6(39)	961	1,191
Administrative expenses	6(40)	729	911
Financial expenses	6(41)	618	618
Impairment losses on assets	6(43)	701	864
Add: gains/losses from fair value variation	6(44)	(14)	
Investment income	6(42)	224	227
Including: Income from investment in jointly ventures and associates		210	170
3. Operating profit		275	85
Add: Non-operating income	6(45)	50	92
Less: Non-operating expenses	6(46)	17	12
Including: Losses on non-current assets disposal		13	6
4. Profit before income tax		308	165
Less: Income tax expenses	6(47)	11	14
5. Net profit for the period		297	151
The net profit belongs to the owners of the company		300	155
Minority interest income		(3)	(4)

Consolidated Income Statement (Continued)

For the six months ended 30 June (Prepared by: Angang Steel Company Limited Monetary unit: RMB million)

Items	Notes	For the six months ended 30 June	
		2016	2015
6. The net amount after tax of			
other comprehensive income	6(33)	(11)	8
(1) The other comprehensive income which can not be reclassified into profit or loss			
a. The changes of the net assets or liabilities of the remeasurement of benefits plan			
b. The shares of the other comprehensive income which can not be reclassified in profit or loss of the invested company in equity method			
(2) The other comprehensive income which can be classified into profit or loss	6(33)	(11)	8
a. The shares of the other comprehensive income which can be reclassified in profit or loss of the invested company in equity method	6(33)		(1)
b. The profit or loss from the change at fair value of available-for- sale financial assets	6(33)	(11)	9
c. The profit or loss of available-for- sale financial assets from the reclassification of held-for-sale investment			
d. The effective portion of profit or loss from cash flows hedges			
e. The differences converted in foreign currency of financial statements			
f. Others			

Consolidated Income Statement (Continued)

For the six months ended 30 June (Prepared by: Angang Steel Company Limited Monetary unit: RMB million)

Items	Notes	For the six months ended 30 June	
		2016	2015
7. Earnings per share			
(1) Basic earnings per share (<i>RMB/share</i>)		0.041	0.021
(2) Diluted earnings per share (<i>RMB/share</i>)		0.041	0.021
8. Total comprehensive income			
The other comprehensive income belongs to the owners of the company		286	159
The other comprehensive income belongs to the minority		289	163
		(3)	(4)

Legal representative:

Yao Lin

Chief Accountant:

Zhang Jingfan

Controller:

Che Chengwei

Consolidated Cash Flow Statement

For the six months ended 30 June (Prepared by: Angang Steel Company Limited Monetary unit: RMB million)

Items	Notes	For the six months ended 30 June	
		2016	2015
1. Cash flows from operating activities:			
Cash received from selling of goods or rendering of services		24,362	24,869
Refund of tax and fare		14	
Other cash received from operating activities	6(50)	172	159
Sub-total of cash inflows		24,548	25,028
Cash paid for goods and services		18,889	18,585
Cash paid to and for the employees		1,873	2,078
Cash paid for all types of taxes		1,187	1,185
Other cash paid for operating activities	6(50)	1,160	1,489
Sub-total of cash outflows		23,109	23,337
Net cash flow from operating activities	6(51)	1,439	1,691

Consolidated Cash Flow Statement (Continued)

For the six months ended 30 June (Prepared by: Angang Steel Company Limited Monetary unit: RMB million)

Items	Notes	For the six months ended 30 June	
		2016	2015
2. Cash flows from investing activities:			
Cash received from return of investments			88
Cash received from investment income		380	722
Net cash received from disposal of fixed assets, intangible assets and other non-current assets			2
Net cash received from disposal of subsidiaries and other operating units			
Other cash received from investment activities	6(50)	171	24
Sub-total of cash inflows		551	836
Cash paid for acquisition of fixed assets, intangible assets and other non-current assets		413	2,351
Cash paid for acquisition of investments			34
Net cash paid for acquisition of subsidiaries and other operating units			
Other cash paid for investment activities			
Sub-total of cash outflows		413	2,385
Net cash flow from investing activities		138	(1,549)

Consolidated Cash Flow Statement (Continued)

For the six months ended 30 June (Prepared by: Angang Steel Company Limited Monetary unit: RMB million)

Items	Notes	For the six months ended 30 June	
		2016	2015
3. Cash flows from financing activities:			
Cash received from absorbing investments			10
Including: received of subsidiary from minority shareholders			10
Cash received from borrowings		18,273	17,398
Other cash received from financing activities			
Sub-total of cash inflows		18,273	17,408
Cash paid for settling of debts		20,328	15,930
Cash paid for distribution of dividends or profit and repayment of interests		697	1,133
Including: dividends or profit paid to minority shareholders			
Other cash paid for financing activities	6(50)		6
Sub-total of cash outflows		21,025	17,069
Net cash inflow from financing activities		(2,752)	339
4. Effect of changes in foreign exchange rate on cash and cash equivalents		(19)	(3)
5. Net increase in cash and cash equivalents	6(51)	(1,194)	478
Add: Cash and cash equivalents brought forward	6(51)	3,601	1,712
6. Cash and cash equivalents carried forward	6(51)	2,407	2,190

Legal representative:

Yao Lin

Chief Accountant:

Zhang Jingfan

Controller:

Che Chengwei

Consolidated Statement of Changes in Shareholders' Equity

As at 30 June 2016 (Prepared by: Angang Steel Company Limited Monetary unit: RMB million)

Items	As at 30 June 2016										
	Shareholders' equity attributable to shareholders of the parent company									Total of shareholders' equity	
	Share capital	Capital reserve	Less: treasury stock	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Undistributed profit	Others		Minority interests
1. Balance as of 31 December 2015	7,235	31,519		18	54	3,580		868		407	43,681
Add: Changes of accounting policy											
Correction of prior year errors											
Others											
2. Balance as of 1 January 2016	7,235	31,519		18	54	3,580		868		407	43,681
3. Increase/decrease in 2015											
("+" represents loss)											
(1) total amount comprehensive income				(11)	17			300		(3)	303
(2) Capital introduced or withdrawn by owners				(11)				300		(3)	286
i. Capital introduced by owners											
ii. Amount of shares-based payment recorded in owner's equity											
iii. Others											
(3) Profit distribution											
i. Transfer to surplus reserve											
ii. Transfer to general risk reserve											
iii. Distribution to shareholders											
iv. Others											
(4) Transfer within shareholder's equity											
i. Transfer from capital reserve to share capital											
ii. Transfer from surplus reserve to share capital											
iii. Making up losses with surplus reserve											
iv. Others											
(5) Special reserve					17						17
i. Extracts of this period					30						30
ii. Usage of this period					(13)						(13)
(6) Others											
4. Balance as of 30 June 2016	7,235	31,519		7	71	3,580		1,168		404	43,984

Legal representative:
Yao Lin

Chief Accountant:
Zhang Jingfan

Controller:
Che Chengwei

Consolidated Statement of Changes in Shareholders' Equity (Continued)

As at 30 June 2016 (Prepared by: Angang Steel Company Limited Monetary unit: RMB million)

Items	As at 31 December 2015										Total of shareholders' equity
	Share capital	Capital reserve	Shareholders' equity attributable to shareholders of the parent company		Special reserve	Surplus reserve	General risk reserve	Undistributed profit	Others	Minority interests	
			Less: treasury stock	Other comprehensive income							
1. Balance as of 31 December 2014	7,235	31,154		7	30	3,580		5,787		403	48,196
Add: Changes of accounting policy											
Correction of prior year errors											
Others											
2. Balance as of 1 January 2015	7,235	31,154		7	30	3,580		5,787		403	48,196
3. Increase/decrease in 2014											
(*) represents loss		365		11	24			(4,919)		4	(4,515)
(1) total amount comprehensive income				11				(4,593)		(7)	(4,589)
(2) Capital introduced or withdrawn by owners		365								11	376
i. Capital introduced by owners										11	11
ii. Amount of shares-based payment recorded in owner's equity											
iii. Others		365									365
(3) Profit distribution								(326)			(326)
i. Transfer to surplus reserve											
ii. Transfer to general risk reserve											
iii. Distribution to shareholders								(326)			(326)
iv. Others											
(4) Transfer within shareholder's equity											
i. Transfer from capital reserve to share capital											
ii. Transfer from surplus reserve to share capital											
iii. Making up losses with surplus reserve											
iv. Others											
(5) Special reserve					24						24
i. Extracts of this period					65						65
ii. Usage of this period					(41)						(41)
(6) Others											
4. Balance as of 31 December 2015	7,235	31,519		18	54	3,580		868		407	43,681

Legal representative:
Yao Lin

Chief Accountant:
Zhang Jingfan

Controller:
Che Chengwei

Balance Sheet

As of 30 June 2016 (Prepared by: Angang Steel Company Limited Monetary unit: RMB million)

Assets	Notes	30 June 2016	31 December 2015
Current assets:			
Cash at banks and on hand			
Financial assets at fair value through profit or loss		1,571	2,774
Notes receivable			4
Accounts receivable		7,795	8,235
Prepayments	16(1)	2,719	1,635
Interests receivable		2,390	1,806
Dividends receivable		6	6
Other receivables	16(2)	46	47
Inventories		7,516	7,178
Non-current assets due within 1 year			
Other current assets			
Total current assets		22,043	21,685
Non-current assets:			
Available-for-sale financial assets		834	849
Long-term equity investments	16(3)	4,369	4,538
Investment property			
Fixed assets		48,997	50,399
Construction in progress		1,573	1,569
Construction materials		84	4
Intangible assets		5,640	5,714
Long-term deferred expenses			
Deferred income tax assets		1,404	1,486
Other non-current assets			
Total non-current assets		62,901	64,559
Total assets		84,944	86,244

Balance Sheet (Continued)

As of 30 June 2016 (Prepared by: Angang Steel Company Limited Monetary unit: RMB million)

Liabilities and shareholders' equity	Notes	30 June 2016	31 December 2015
Current liabilities:			
Short-term loans		21,742	15,917
Financial liabilities at fair value through profit or loss		14	
Notes payable		3,725	3,989
Accounts payable		5,941	5,627
Advances from customers		2,596	2,458
Employee benefits payable		225	167
Tax and surcharges payable		288	220
Interests payables		84	171
Other payables		1,863	1,708
Non-current liabilities due within 1 year		101	4,566
Other current liabilities		3,000	7,000
Total current liabilities		39,579	41,823
Non-current liabilities:			
Long-term loans		800	301
Bonds payable			
Long-term employee benefits payable		1	1
Deferred income		663	689
Deferred income tax liabilities		15	19
Other non-current liabilities			
Total non-current liabilities		1,479	1,010
Total liabilities		41,058	42,833
Shareholders' equity:			
Share capital		7,235	7,235
Capital reserve		31,565	31,565
Other comprehensive income		7	18
Special reserve		71	54
Surplus reserves		3,570	3,570
Undistributed profits		1,438	969
Total shareholders' equity		43,886	43,411
Total liabilities and shareholders' equity		84,944	86,244

Legal representative:
Yao Lin

Chief Accountant:
Zhang Jingfan

Controller:
Che Chengwei

Income Statement

For the six months ended 30 June (Prepared by: Angang Steel Company Limited Monetary unit: RMB million)

Items	Notes	For the six months ended 30 June	
		2016	2015
1. Operating income	16(4)	25,286	28,908
Less: Operating costs	16(4)	21,919	25,286
Business tax and surcharges		137	147
Marketing expenses		908	1,160
Administrative expenses		696	897
Financial expenses		614	617
Impairment losses on assets		702	859
Add: gains/losses from fair value variation		(14)	
Investment income	16(5)	224	227
Including: Income from investment in jointly ventures and associates		210	170
2. Operating profit		520	169
Add: Non-operating income		47	88
Less: Non-operating expenses		17	12
Including: Losses on non-current assets disposal		13	6
3. Profit before income tax		550	245
Less: Income tax expenses		81	13
4. Net profit for the period		469	232
5. The net amount after tax of Other comprehensive income		(11)	8

Income Statement (Continued)

For the six months ended 30 June (Prepared by: Angang Steel Company Limited Monetary unit: RMB million)

Items	Notes	For the six months ended 30 June	
		2016	2015
6. The net amount after tax of other comprehensive income			
(1) The other comprehensive income which can not be reclassified into profit or loss			
a. The changes of the net assets or liabilities of the remeasurement of benefits plan			
b. The shares of the other comprehensive income which can not be reclassified in profit or loss of the invested company in equity method			
(2) The other comprehensive income which can be classified into profit or loss		(11)	8
a. The shares of the other comprehensive income which can be reclassified in profit or loss of the invested company in equity method			(1)
b. The profit or loss from the change of the fair value of available-for-sale financial assets		(11)	9
c. The profit or loss of available-for-sale financial assets from the reclassification of held-for-sale investment			
d. The effective portion of profit or loss from cash flows hedges			
e. The differences converted n foreign currency of financial statements			
6. Total comprehensive income		458	240

Legal representative:
Yao Lin

Chief Accountant:
Zhang Jingfan

Controller:
Che Chengwei

Cash Flow Statement

For the six months ended 30 June (Prepared by: Angang Steel Company Limited Monetary unit: RMB million)

Items	Notes	For the six months ended 30 June	
		2016	2015
1. Cash flows from operating activities:			
Cash received from selling of goods or rendering of services		23,916	24,665
Refund of tax and fare		14	
Other cash received from operating activities		174	152
Sub-total of cash inflows		24,104	24,817
Cash paid for goods and services		18,495	18,421
Cash paid to and for employees		1,825	2,053
Cash paid for all types of taxes		1,147	1,173
Other cash paid for operating activities		1,133	1,444
Sub-total of cash outflows		22,600	23,091
Net cash flow from operating activities		1,504	1,726
2. Cash flows from investing activities:			
Cash received from return of investments			88
Cash received from investment income		380	722
Net cash received from disposal of fixed assets, intangible assets and other non-current assets			1
Net cash received from disposal of Subsidiaries and other business units		162	21
Other cash received from investment activities		542	832
Sub-total of cash inflows		317	1,680
Cash paid for acquisition of fixed assets, intangible assets and other non-current assets			64
Cash paid for acquisition of investments			30
Other cash paid for investment activities			
Sub-total of cash outflows		317	1,774
Net cash flow from investing activities		225	(942)

Cash Flow Statement (Continued)

For the six months ended 30 June (Prepared by: Angang Steel Company Limited Monetary unit: RMB million)

Items	Notes	For the six months ended 30 June	
		2016	2015
3. Cash flows from financing activities:			
Cash received from absorbing investments			
Cash received from borrowings		18,102	16,297
Other cash received from financing activities		15	
Sub-total of cash inflows		18,117	16,297
Cash paid for settling of debts		20,263	15,897
Cash paid for distribution of dividends or profit and repayment of interests		666	1,110
Other cash paid for financing activities		101	
Sub-total of cash outflows		21,030	17,007
Net cash inflow from financing activities		(2,913)	(710)
4. Effect of changes in foreign exchange rate on cash and cash equivalents		(19)	(3)
5. Net increase in cash and cash equivalents		(1,203)	71
Add: Cash and cash equivalents brought forward		2,774	548
6. Cash and cash equivalents carried forward		1,571	619

Legal representative:

Yao Lin

Chief Accountant:

Zhang Jingfan

Controller:

Che Chengwei

Statement of Changes in Shareholders' Equity

As at 30 June 2016 (Prepared by: Angang Steel Company Limited Monetary unit: RMB million)

Items	As at 30 June 2016							Total of shareholders' equity	
	Share capital	Capital reserve	Less: treasury stock	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve		Undistributed profit
1. Balance as of 31 December 2015	7,235	31,565		18	54	3,570		969	43,411
Add: Changes of accounting policy									
Correction of prior year errors									
Others									
2. Balance as of 1 January 2016	7,235	31,565		18	54	3,570		969	43,411
3. Increase/decrease in 2016 ("-" represents loss)				(11)	17			469	475
(1) Total amount comprehensive income				(11)				469	458
(2) Capital introduced or withdrawn by owners									
i. Capital introduced by owners									
ii. Amount of shares-based payment recorded in owner's equity									
iii. Others									
(3) Profit distribution									
i. Transfer to surplus reserve									
ii. Transfer to general risk reserve									
iii. Distribution to shareholders									
iv. Others									
(4) Transfer within shareholder's equity									
i. Transfer from capital reserve to share capital									
ii. Transfer from surplus reserve to share capital									
iii. Making up losses with surplus reserve									
iv. Others									
(5) Special reserve					17				17
i. Extracts of this period					30				30
ii. Usage of this period					(13)				(13)
(6) Others									
4. Balance as of 31 December 2016	7,235	31,565		7	71	3,570		1,438	43,886

Legal representative:
Yao Lin

Chief Accountant:
Zhang Jingfan

Controller:
Che Chengwei

Statement of Changes in Shareholders' Equity (Continued)

As at 30 June 2016 (Prepared by: Angang Steel Company Limited Monetary unit: RMB million)

Items	Share capital	Capital reserve	As at 31 December 2015					Undistributed profit	Total of shareholders' equity
			Less: treasury stock	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve		
1. Balance as of 31 December 2014	7,235	31,200		7	30	3,570	5,892	47,934	
Add: Changes of accounting policy									
Correction of prior year errors									
Others									
2. Balance as of 1 January 2015	7,235	31,200		7	30	3,570	5,892	47,934	
3. Increase/decrease in 2015 ("-" represents loss)		365		11	24		(4,923)	(4,523)	
(1) Total amount comprehensive income				11			(4,597)	(4,586)	
(2) Capital introduced or withdrawn by owners		365						365	
i. Capital introduced by owners									
ii. Amount of shares-based payment recorded in owner's equity									
iii. Others		365						365	
(3) Profit distribution							(326)	(326)	
i. Transfer to surplus reserve									
ii. Transfer to general risk reserve									
iii. Distribution to shareholders							(326)	(326)	
iv. Others									
(4) Transfer within shareholder's equity									
i. Transfer from capital reserve to share capital									
ii. Transfer from surplus reserve to share capital									
iii. Making up losses with surplus reserve									
iv. Others									
(5) Special reserve					24			24	
i. Extracts of this period					65			65	
ii. Usage of this period					(41)			(41)	
(6) Others									
4. Balance as of 31 December 2015	7,235	31,565		18	54	3,570	969	43,411	

Legal representative:
Yao Lin

Chief Accountant:
Zhang Jingfan

Controller:
Che Chengwei

Notes to the Financial Statements

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

1. PROFILE OF THE COMPANY

Angang Steel Company Limited (abbreviated as the Company) was formally established on 8th May 1997 as a joint-stock limited company, currently the headquarter locates in Angang factory, Tie Xi District, Anshan City, Liaoning Province, PRC.

The financial statements have been approved by the Board of Directors on 29 August 2016.

There are 19 subsidiaries within the scope of the consolidation, please refer to Note 8 interests in other entities.

The Company and its subsidiaries (abbreviated as the Group) are principally engaged in ferrous metal smelting and steel pressing and processing.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements of the Group are prepared on the assumption of going concern principle based on the actual transactions and events, and prepared in accordance with the Basic Standard and 41 specific standards of the Accounting Standards for Business Enterprises (abbreviated as ASBE)(Ministry of Finance issued No. 33, the Ministry of Finance to amend No. 76) issued by the Ministry of Finance on 15 February 2006, and the Application Guidance for Accounting Standards for Business Enterprises, Interpretations of Accounting Standards for Business Enterprises and other relevant regulations issued thereafter (hereafter collectively referred to as the Accounting Standards for Business Enterprises or CAS) and the disclosure requirements regulation in the Preparation Convention of Information Disclosure of information of public listed companies, No. 15 – General Requirements on Financial Reports revised by the China Securities Regulatory Commission 2015.

According to the relevant provisions of Accounting Standards, the Group adopted an accrual accounting basis. Except for certain financial instruments, the financial statements are reported at historical cost. If assets are impaired, relevant provisions are made in accordance with relevant standards.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

3. STATEMENT ON COMPLIANCE WITH THE ENTERPRISE ACCOUNTING STANDARDS

The Group declares that the Financial Report prepared by the Group is in compliance with requirements of Accounting Standards for Business Enterprise. These financial statements present truly, accurately and completely the financial position of the Group as of 30 June 2016, the financial performance and cash flow of the 6 months ended 30 June 2016. In addition, these financial statements also comply with, in all material respects, the disclosure requirements of “Regulation on disclosure of information of public listed companies, No. 15: General Requirements for Financial Reports, revised by the China Securities Regulatory Commission (CSRC) in 2015.

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

As for the statements of significant accounting judgments and estimates made by the management, please refer to Note 4(26), Significant accounting judgments and estimates.

(1) Accounting period

The Group’s accounting year is the calendar year that starts from January 1 and ends on December 31.

(2) Operating cycle

The normal operating cycle refers to the period from purchasing the assets for processing to realize the cash and cash equivalents. The operating cycle consists of 12 months which is the standard of the classification for the liquidity of the assets and liabilities.

(3) Recording currency

The recording currency is the prevailing currency of the primary economic environment in which business of the Group operated. RMB is chosen as its recording currency by the group and the financial statements of the Group are presented in RMB.

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(4) Accounting treatment of business combinations

Business combination refers to a transaction or event bringing together two or more separate entities into one. Business combinations are classified into the business combinations under common control and not under common control.

(a) The business combinations under common control

A business combination under common control is a business combination in which all of the combined entities are ultimately controlled by the same party or the same parties both before and after the business combination and on (in) which the control is not temporary. In a business combination under common control, the party which obtains control power over the other combined entity on the combining date is the acquirer and the other combined entity is the acquiree. The acquisition date refers to the date on which the combining party actually obtains control power over the combined party.

The assets and liabilities that the combining party obtained in a business combination are measured on the basis of their carrying value in the combined party on the combining date. The difference between the carrying value of the net assets obtained from the combination and the carrying amount of the consideration paid (or the total par value of the shares issued) for the combination is treated as an adjustment to capital reserve (share premium). If the capital reserve (share premium) is not sufficient to cover the difference, the rest shall be deducted from retained earnings.

The direct cost occurred in the business combination is recorded into the profit or loss in the current period when they actually occurred.

Notes to the Financial Statements (*Continued*)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (*Continued*)

(4) Accounting treatment of business combinations (*Continued*)

(b) The business combinations not under common control

A business combination not under common control is a business combination in which the combined entities are ultimately controlled by the same party or the same parties neither before nor after the business combination. In a business combination not under common control, the party which obtains the control power over the other combined entities at the purchase date is the acquirer, and other combined entity is the acquiree. The “acquisition date” refers to the date on which the acquirer actually obtains the control power over the acquiree.

For business combinations not under common control, the combination cost is the assets paid, liabilities incurred or assumed and the equity securities issued by the acquirer, at fair value at the acquisition date, in exchange for the control power over the acquiree. The direct cost of the business combination including the expenses for audit, legal service, valuation and other administrative expenses, is recorded into the profit or loss in the current period. Transaction expenses of the issued equity securities or liability securities for the consideration are recorded into the amount of initial measurement of the equity securities or liability securities. The relevant contingent consideration is recorded into the combination costs at its fair value at the acquisition date, and the goodwill is adjusted if the new or additional evidences of adjustment to contingent considerations emerged within 12 months from the acquisition date.

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(4) Accounting treatment of business combinations (Continued)

(b) The business combinations not under common control (Continued)

The cost of combination and identifiable net assets obtained by the acquirer in a business combination is measured at fair value at the acquisition date. If the cost of combination exceeds the fair value of the acquirer's share in the identifiable net assets, the difference is recognized as goodwill; if the cost of combination is lower than the fair value of the acquirer's share in the identifiable net assets, the acquirer shall firstly review the measurement of the fair value of the identifiable assets obtained, liabilities incurred and contingent liabilities incurred, as well as the combination costs. After that, if the combination costs are still lower than the fair value of the identifiable net assets obtained, the acquirer shall recognize the difference as the profit or loss in the current period.

(5) Methods for preparation of consolidated financial statements

(a) Recognition principle of consolidated scope

The scope of consolidation of consolidated financial statements is ascertained on the basis of effective control. Control refers to the right to obtain the variable returns by the involvement with the investees, and has the ability to affect those returns through its power to direct the activities of the investees. The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries. Subsidiaries refer to the entities over which the Company has control power.

The Company shall re-evaluate if there are changes of relevant elements of defined control due to the changes in the relevant facts and circumstances.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(5) Methods for preparation of consolidated financial statements (Continued)

(b) Preparation of consolidated financial statements

The financial statements of subsidiaries are included in consolidated financial statements from the date that control commences until the date that control ceases, which the control is over the net assets and the operating decision-makings. For the disposed subsidiary, financial performance and cash flows before the disposal date have been properly included in the consolidated income statement and consolidated cash flow statement; the opening balances of the consolidated balance sheet shall not be adjusted due to the disposal. For the subsidiary acquired from business combination not under common control, its financial performance and cash flows after the acquisition date have been properly included in the consolidated income statement and consolidated cash flow statement, and the opening balances of the consolidated financial statements and comparable data of prior year shall not be adjusted due to this combination. For the subsidiary acquired from business combinations under common control, its financial performance and cash flow from the beginning of the reporting period to combination date have been properly included in the consolidated income statement and consolidated cash flow statement, and the comparable data of the consolidated financial statement shall be adjusted simultaneously.

In preparing the consolidated financial statements, where the accounting policy or accounting period of the Company and subsidiaries is inconsistent, the financial statements of subsidiaries shall be adjusted in accordance with the accounting policies and accounting period of the Company. For the subsidiaries acquired from the business combination not under common control, financial statements of the subsidiaries shall be adjusted based on the fair value of identifiable net assets on acquisition date.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(5) Methods for preparation of consolidated financial statements (Continued)

(b) Preparation of consolidated financial statements (Continued)

All significant intra-group balances, transactions and unrealized profits shall be eliminated in the consolidated financial statements.

The portion of a subsidiary's equity and the net profit or loss that is not attributable to the Company, shall be recognized as "minority interest" and "profit and loss of minority", and presented on the consolidated financial statements under the owners' equity and the net profit or loss respectively. The portion of subsidiary's net profit or loss for the period attributable to minority interest is presented in the consolidated income statement below the "net profits" as "minority interests". Where the amount of the losses for the current period attributed to minority's shareholders of the subsidiary exceeds the minority shareholders' portion of the opening owners' equity of the subsidiary, the amount in excess shall be presented as minority interests.

(6) The classification of the joint venture arrangement and accounting treatment of joint operation

The joint venture arrangement refers to the arrangement jointly controlled by two or more parties. According to the differences in the rights and responsibilities, the joint venture arrangement is classified as a joint operation and joint venture. A joint operation refers to a joint arrangement whereby the parties have the rights to the assets, and obligations for the liabilities, and joint venture refers to the entity which is only entitled to the joint venture arrangement of the net assets.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(6) The classification of the joint venture arrangement and accounting treatment of joint operation (Continued)

The equity method is adopted for the investment of the joint venture, please refers to Note 12(b)(ii) Long-term equity investments accounted by equity method.

The Company as a joint operator recognizes in relation to its interest in a joint operation:

- (1) its assets, including its share of any assets held jointly;
- (2) its liabilities, including its share of any liabilities incurred jointly;
- (3) its revenue from the sale of its share of the output arising from the joint operation;
- (4) its expenses, including its share of any expenses incurred jointly.

When the Company transacts with a joint operation in which the Company is a joint operator, such as a sale or contribution assets, The assets do not constitute as business, similarly hereinafter. The profit or loss resulting from the transactions is recognized only to the extent of the other parties' interests in the joint operation.

When the Company transacts with a joint operation in which the Company is a joint operator, such as a purchase of assets, the Company does not recognize its share of the profit or loss until it resells those assets to a third party.

A loss shall be recognized in the full amount of the sale or contribution of assets, and of the purchase of the assets from the joint operation in accordance with "ASBE - No.8 - assets impairment" and other provisions.

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(7) Recognition standard for cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand, and highly liquid short-term (within 3 months from the purchase date) investments that are readily convertible to known amounts of cash, and which are subject to insignificant risk of changes in value.

(8) Foreign currency transactions and the translation of foreign currency financial statement

(a) Foreign currency transactions

At the time of initial recognition of a foreign currency transaction, the foreign currency is translated to RMB at the spot exchange rate at the transaction date. (Generally, a spot exchange rate is the middle rate quoted by the People's Bank of China on the day of transaction). Transaction in foreign currency exchange or transaction involving foreign currency exchange shall be translated into RMB at the actual exchange rate.

(b) Translation of foreign monetary items and foreign non-monetary items

On the balance sheet date, monetary items denominated in foreign currency are translated into RMB at the spot exchange rate on the balance sheet date and the arising difference shall be recorded into the profit and loss for the current period, except:

- (1) Difference arising from foreign currency borrowings for the purchase and construction or production of qualified assets shall be capitalized according to the Accounting Standards for Business Enterprises No. 17 – Borrowing Costs;
- (2) Exchange difference arising from the change in the carrying amount other than amortized cost of an available-for-sale foreign monetary item shall be recognized directly in other comprehensive income; otherwise it shall be recorded into the profit and loss.

Notes to the Financial Statements (*Continued*)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (*Continued*)

(8) Foreign currency transactions and the translation of foreign currency financial statement (*Continued*)

- (b) Translation of foreign monetary items and foreign non-monetary items (*Continued*)

Foreign currency non-monetary items measured at the historical cost shall still be translated at the spot exchange rate at the transaction date, of which the amount of functional currency shall not be changed. The foreign currency non-monetary items measured at the fair value shall be translated at the spot exchange rate at the date of fair value evaluation, and the translation difference, treated as the variation of fair value (including the variation of exchange rate), shall be recorded into the profit or loss at the current period and recognized as other comprehensive income.

(9) Financial instruments

Financial assets and liabilities are recognized when the Group becomes one party in the financial instrument contract. Financial assets shall be initially measured at fair value. For financial assets at fair value through profit or loss, the transaction expenses thereof shall be directly recorded in the profit or loss for the current period; for other financial assets, the transaction expenses thereof shall be included into the initially recognized amount.

- (a) Fair value measurement of the financial assets and financial liabilities

The fair value refers to the amount, at which assets could be sold or liabilities could be transferred between parties in a well-organized trade on the measured date. If there is a dynamic market for a financial asset or financial liability, the quoted price in the dynamic market shall be taken as the fair value of the financial asset or financial liability. The quoted prices in the dynamic market refer to the prices, which are easily obtained from the stock exchanges, brokers, industry associations, pricing service institutions and etc., and the prices represent the actual dealing prices under fair conditions.

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) Financial instruments (Continued)

- (a) Fair value measurement of the financial assets and financial liabilities (Continued)

If no dynamic market exists for a financial instrument, a valuation technique is adopted to establish the fair value. The Group chooses valuation technique to determine the fair value of its financial assets and financial liabilities, which include adopting the latest arm's length market transaction price between knowledgeable and willing parties, and the current fair value of other instruments that are substantially equivalent, and discounted cash flows method and option pricing model and etc.

- (b) Classification, recognition and measurement of financial assets

Conventionally traded financial assets shall be recognized and de-recognized on the trade date. Financial assets shall be classified into four categories at initial recognition: financial assets at fair value through profit or loss, held to maturity investment, loans, receivables, and available-for-sale financial assets.

- (i) Financial assets at fair value through profit or loss

Including financial assets held for trading and those designated financial assets at fair value through profit or loss.

Financial assets meeting any of the following requirements shall be classified as financial assets held for trading:

- (1) The purpose of acquiring the financial assets is principally for selling them in the near future;
- (2) Forming a part of the identifiable combination of financial instruments which are managed in a centralized way and for which there are objective evidences demonstrate that the enterprise may manage the combination to make a profit in the short term;

Notes to the Financial Statements (*Continued*)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (*Continued*)

(9) Financial instruments (*Continued*)

(b) Classification, recognition and measurement of financial assets (*Continued*)

(i) Financial assets at fair value through profit or loss (*Continued*)

(3) Derivatives, except for the derivative designated as effective hedging instrument, or financial guarantee contracts or derivatives connected to equity instrument and must be settled by issuing equity instrument for which there is no quoted price in the dynamic market, and its fair value cannot be reliably measured.

The financial assets meeting any of the following requirements shall be designedly measured at fair value through profit or loss.

(1) The designation shall eliminate or significantly reduce the mismatch in the recognition or measurement of relevant profit or loss arising from the different basis of measurement of the financial assets or financial liabilities;

(2) The official written documents on risk management or investment strategy of the Group show that the combination of said financial assets or said financial assets and financial liabilities will be managed and evaluated on the basis of fair value and be reported to the key management staff.

Financial assets at fair values through profit or loss shall be subsequently measured at their fair values, with the profit or loss from the movements of fair value and related dividends and interest income recorded into the current profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) Financial instruments (Continued)

(b) Classification, recognition and measurement of financial assets, (Continued)

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable recoverable amount, and the Group's intention of which is hold those investments to maturity.

Held-to-maturity investments shall be subsequently measured at amortized costs by adopting the effective interest rate method, the profit or loss arising from de-recognition, and impairment or amortization shall be incorporated into the current profit or loss.

The effective interest rate method refers to the method to calculate the amortized costs and the interest incomes or interest expenses at the end of each period with an effective interest rate of financial assets or financial liabilities (including a set of financial assets or financial liabilities).

The effective interest rate refers to the interest rate adopted in discounting the future cash flow generated by a financial asset or financial liability within the predicted term of existence or a shorter designed term into the current carrying value of the financial asset or financial liability.

To determine the effective interest rate, the future cash flows shall be predicted in consideration of all the contractual provisions regarding the financial asset or financial liability (other than future credit losses), and the various fee charged, trading expenses paid or received by the parties of a financial asset or financial liability contract, and premiums or discounts, which form a part of the effective interest rate.

Notes to the Financial Statements (*Continued*)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (*Continued*)

(9) Financial instruments (*Continued*)

(b) Classification, recognition and measurement of financial assets, (*Continued*)

(iii) Loans and receivables

Loans and receivables refer to the non-derivative financial assets with fixed or determinable payment that is not quoted in the dynamic market. The Group's financial assets are classified into loans and receivables including notes receivable, account receivables, interest receivable, dividends receivable and other receivables.

Loans and receivables shall be subsequently measured at amortized costs by effective interest rate method. The profit or loss arising from de-recognition, impairment or amortization shall be incorporated in the current profit or loss.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets which are designated at initial recognition, and those financial assets other than financial asset held for trading, loans, receivables and held to maturity investment.

The closing cost of the available-for-sale financial instrument is measured by amortized cost method, which is the amount deducted to the principle payment, added to or deducted to the accumulated amortization between the initially recognized date and the maturity date by effective interest method, and deducted to the impairment loss. Closing cost of the available-for-sale equity instrumental investment is the initial cost.

Notes to the Financial Statements (*Continued*)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (*Continued*)

(9) Financial instruments (*Continued*)

(b) Classification, recognition and measurement of financial assets, (*Continued*)

(iv) Available-for-sale financial assets (*Continued*)

Available-for-sale financial assets shall be subsequently measured at fair value. The profit or loss arising from the changes in the fair value is recognized in other comprehensive income, and transferred in profit or loss when those financial assets are derecognized. Except that the impairment losses and the foreign exchange gain or loss arising from amortized cost of foreign monetary financial assets, which shall be recognized in profit or loss. However, the cost shall be subsequently measured if there is no quoted price of the equity instrument investment in dynamic market, and its fair value cannot be reliably measured, or the derivative financial assets which have to be settled by delivery related to the equity instrument.

The interests and cash dividends declared by investees shall be recognized into the profit or loss as investment income.

Notes to the Financial Statements (*Continued*)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (*Continued*)

(9) Financial instruments (*Continued*)

(c) Impairment of financial assets

The Group shall assess the carrying value of financial assets on the balance sheet date other than those measured at fair value through profit or loss. Impairment should be made while there is any objective evidence demonstrates that a financial asset is impaired.

Impairment test shall be made to the financial assets with significant single amounts. For financial assets with insignificant single amounts, Impairment test could be made independently or collectively in a combination with those possessing analogous credit features. Financial assets (including significant single amount and insignificant single amount) with no impairment loss upon independent impairment test shall be combined with those possessing analogous credit features, and collectively made impairment test again. Financial assets with impairment loss made by independent impairment test shall not be incorporated in any combination of financial assets possessing analogous risk features for an impairment test.

(i) Impairment of held-to-maturity investments, loans and receivables

The impairment loss, of financial asset measured purchasing cost or amortized cost, is the excess of its carrying value over the present value of the estimated future cash flows, and shall be recorded into the profit or loss for the current period.

For impaired financial assets, if there is any objective evidence demonstrates that the value of the said financial asset has been restored, and it is objectively related to subsequent events, the impairment losses originally recognized shall be reversed and recorded into the profit and loss for the current period. However, reversed carrying value shall not exceed the amortized cost of the said financial asset on the assumption that the impairment was not made.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) Financial instruments (Continued)

(c) Impairment of financial assets (Continued)

(ii) Impairment of available-for-sale financial assets

There is an indication that impairment loss of available-for-sale financial asset occurs while fair value of the available-for-sale equity instrument fall significantly and non-temporarily. Significant fall means the aggregated shrinkage of fair value is over 20%–50% of its purchasing cost, and non-temporary fall means continuous fall over 12 months.

Where such financial asset impaired, the accumulated losses, arisen from the decrease of the fair value and previously recorded into the capital surplus, shall be transferred to the profit and loss for the current period. The amount transferred out are the balance of initial acquisition costs of the said financial asset after deducting the principals withdrawn and amortization, and the current fair value and the impairment loss previously recorded into the profit and loss.

Impairment loss previously recognized shall be reversed, if there is any objective evidence demonstrates that the shrinkage of fair value has been restored, and was objectively related to subsequent events. Reversed impairment loss of available-for-sale equity instrument shall be recognized as comprehensive income while debt instrument as profit or loss for the current year.

The impairment loss, of equity instrument without the quoted price in the dynamic market and cannot be reliably measured, or derivatives derived from the said equity instrument and settled by issuing the said equity instrument, shall not be reversed.

Notes to the Financial Statements (*Continued*)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (*Continued*)

(9) Financial instruments (*Continued*)

(d) Recognition and measurement for transfer of financial assets

A financial asset is derecognized when any of the below criteria is satisfied:

- (1) The contractual rights to receive the cash flows from the financial asset are terminated;
- (2) The financial asset has been transferred and the Group transfers substantially all the risks and rewards of ownership of the financial asset to the transferee;
- (3) The financial asset has been transferred and the Group has given up upon the control of the financial asset, although the Group neither transfers nor retains substantially all of the risks and rewards of ownership of a financial asset.

Where the Group does not transfer or retain nearly all of the risks and rewards related to the ownership of a financial asset, nor give up its control over it, it shall, to the extent of its continuous involvement in the transferred financial asset, recognize the related financial asset and the relevant liability accordingly. The extent of continuous involvement in the transferred financial asset refers to the risk level that the Group faces resulting from the changes in the value of the financial asset.

If the transfer of an entire financial asset meets the conditions for derecognition, the difference between the carrying value of the transferred financial asset and the sum of consideration received and the accumulated variation in fair value previously recorded into the other comprehensive income, shall be recorded into current profit or loss.

Notes to the Financial Statements (*Continued*)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (*Continued*)

(9) Financial instruments (*Continued*)

(d) Recognition and measurement for transfer of financial assets (*Continued*)

If the partial transfer of a financial asset satisfies the conditions for de-recognition, the entire carrying value of the transferred financial asset shall be apportioned to the derecognized part and the retained part by fair value, and the difference between the carrying value of the transferred financial asset and the sum of consideration received and the accumulated variation in fair value previously recorded into other comprehensive income, shall be recorded into current profit and loss.

The Group shall be ensured that almost all the risk and rewards related to ownership has been transferred when adopting recourse sales of the financial assets or to endorse the financial assets. The financial assets shall be derecognized when almost all the risk and rewards has been transferred to the transferee. It shall not be derecognized the financial assets if it retains almost all the risk and rewards. It should continue to determine whether the company retains the control of the assets and using the accounting method described in the preceding paragraph if it neither transfer nor retain almost all the risk and rewards.

(e) Classification and measurement of financial liabilities

Financial liability is classified into the financial liability measured at fair value through profit or loss and other financial liability for initial recognition:

The financial liability is initially measured at fair value. For financial liability measured at fair values through profit or loss, transaction expenses thereof are directly recorded into profit and loss for the current period. For other financial liabilities, the transaction expense thereof is integrated with the initially recognized amount.

Notes to the Financial Statements (*Continued*)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (*Continued*)

(9) Financial instruments (*Continued*)

(e) Classification and Measurement of financial liabilities (*Continued*)

- (i) Financial liability measured at their fair value through profit or loss

Classification condition of financial liability held for trading and designated a financial liability at their fair values through profit or loss is the same as that of financial asset held for trading and designated financial asset at fair values through profit or loss.

Financial liability at fair value through profit or loss is subsequently measured at fair value. The variation in the fair value and the interest or cash dividend received in the period is recorded into the profit and loss for the current period.

- (ii) Other financial liability

Financial liability, derived from equity instrument without the quoted price in a dynamic market, and its fair value could not be reliably measured, and settled by issuing equity instrument, is subsequently measured at cost. Other financial liabilities are subsequently measured at amortized cost with effective rate. The profit or losses resulting from de-recognition or amortization shall be recorded into the profit and loss for the current period.

Notes to the Financial Statements (*Continued*)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (*Continued*)

(9) Financial instruments (*Continued*)

(f) De-recognition of financial liabilities

While prevailing obligations of financial liability is relieved entirely or partially, the financial liability shall be derecognized accordingly. If a substantially different agreement was signed to replace the existing one from which the existing financial liability originated, the existing financial liability shall be derecognized and the financial liability arising from the newly signed agreement shall be recognized.

While a financial liability is entirely or partially derecognized, the difference between the carrying value derecognized and the considerations paid (including the non-monetary assets transferred out and the new financial liabilities engaged in) shall be recorded in the profit or loss for the current period.

(g) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value on contract signature date. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives designated as a hedging instrument which is highly efficient, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

Notes to the Financial Statements (*Continued*)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (*Continued*)

(10) Receivables

Receivables include accounts receivable and other receivables, etc.

(a) Recognition standards for bad debts

On the balance sheet date, the carrying value of receivables shall be reviewed and impairment provision shall be made where there is any objective evidence demonstrates that impairment actually occurs.

(i) serious financial difficulty occurs to the debtor; (ii).The debtor breaches any of the contractual terms (for example, failing to pay or delaying the payment of interests or the principal, etc.); (iii) The debtor will probably go bankruptcy or carry out other financial reorganizations; (iv) Other objective evidence indicating that such receivable has been impaired.

(b) Measurement bad debt provisions

Where there is any objective evidence indicates that it is difficult for the Group to recover account receivables under the contract terms, the account receivable is subject to impairment test independently and the difference between the carrying value and the present value of the expected future cash flow originated from the account receivable shall be recognized as bad debt allowance, and the impairment loss shall be recorded into profit or loss for the current year.

(c) The Company defines an account receivable equivalent to or above RMB30 million as individually significant account receivable, and other receivable RMB10 million.

(d) Reversal of bad debt provisions

If objective evidence demonstrates that the value of receivables is recovered owing to subsequent events, impairment loss previously recognized shall be reversed and recorded into current profit and loss. The carrying value after reversal shall not exceed the amortized cost on the assumption that no impairment loss was made previously.

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (*Continued*)

(11) Inventories

(a) Category

The inventories of the Group comprise raw material, work in progress, finished goods, turnover materials, spare parts, materials in transit, and outsourced materials etc.

(b) Pricing of inventories

Inventories are initially measured by actual cost, which consists of purchase price, processing cost and other costs. Inventories are measured by either the weighted average method, specific-unit-cost method or other method while requisitioned or delivered.

(c) Measurement of net realizable value of inventory and measurement of provision for impairment of inventories

The net realizable value refers to the selling price deducted by the estimated cost before completion, estimated selling expense and relevant taxes in the daily operations. Net realizable value of inventories is on the basis of reliable evidence obtained and in consideration of the purpose for holding inventories and the effects of subsequent events.

On the balance sheet date, the inventory is measured at the lower of cost and net realizable value and a provision for impairment shall be made while the cost of inventories is higher than the net realizable value. Provision for impairment of inventory shall be incurred independently except that impairment of spare parts according to the actual situation and the estimation of the management.

If factors once result in impairment disappeared and the net realizable value exceeds the carrying value, the write-down shall be reversed from the provision to the extent of provision previously made and recorded into profit and loss for the current year.

Notes to the Financial Statements (*Continued*)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (*Continued*)

(11) Inventories (*Continued*)

- (d) Physical inventory at fixed periods is taken under perpetual inventory system.
- (e) Amortization of reusable materials

Reusable materials such as low-value consumables, packaging materials and other consumables shall be amortized by lump-sum, workload or installment according to their nature. Amount of amortization shall be recorded into the cost of the relevant assets or profit or loss for the current period.

(12) Long-term equity investment

Long-term equity investment refers to that the Company has control, joint control or significant influence on the long-term equity investment over the invested company. Otherwise it shall be measured as available-for-sale financial assets, please refer to Note 4.9 “Financial instruments”.

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Significant influence refers to the right that the company can participate in the decision-making of the financial and operating policies over the invested company, but is not able to control or jointly control the policy formulation.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(12) Long-term equity investment (Continued)

(a) Determination of investment cost

For long-term equity investment formed by business combination under common control, the initial cost shall, on the date of acquisition of the final controller, be measured by the share of carrying value of the owner's equity of the acquired entity. The difference between the investment cost, and cash payment and transferred non-cash assets or liabilities on fair value shall be adjusted against the capital reserve; If the capital reserve is not sufficient to cover the difference, the rest shall be deducted from retained earnings. For the insurance of the equity securities which is seen as consideration cost, the share of the carrying value is recognized as initial investment cost in the consolidated financial statement of the ultimate controlling party's owner's equity. The capital stock is the aggregate nominal amount of the outstanding ordinary shares. The difference between the initial investment cost and the aggregate nominal amount of the long-term equity investment, shall be adjusted against the capital reserve; If the capital reserve is not sufficient to cover the difference, the rest shall be deducted from retained earnings.

Notes to the Financial Statements (*Continued*)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (*Continued*)

(12) Long-term equity investment (*Continued*)

(a) Determination of investment cost (*Continued*)

For the long-term equity investment obtained by business combination not under common control, on the date of combination, the initial cost shall be the sum of the fair value of assets transferred, the liabilities incurred or assumed and the equity securities issued by the acquirer in exchange for the control over the acquiree. The direct cost for the business combination incurred by the acquirer, including the expenses for audit, valuation, legal services and other administrative expenses, shall be recorded into the profit or loss for the current period.

For long-term equity investment other than those formed by business combination, the initial cost of other long-term equity investment shall be measured at the amount of actual cash paid, the fair value of the equity securities issued, the conventional value stipulated in the investment contract or agreement, the fair value or carrying value of the assets surrendered in the non-monetary assets exchange transaction, the fair value of the long-term equity investment itself, and etc. The initial cost consists of the expenses directly related to the acquisition of the long-term equity investment, taxes and other necessary expenses.

Notes to the Financial Statements (*Continued*)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (*Continued*)

(12) Long-term equity investment (*Continued*)

- (b) Subsequent measurement and recognition method of gains and losses

For the long-term equity investment obtained by business combination not under common control, on the date of combination, the initial cost shall be the sum of the fair value of assets transferred, the liabilities incurred or assumed and the equity securities issued by the acquirer in exchange for the Long-term equity investments with joint control or significant influence over invested entities shall be accounted by equity method(except the co-operator). Besides, a long-term equity investment is measured in cost method if the Group is able to control the invested entity.

- (i) Long-term equity investments accounted by cost method

Long-term equity investment stated by applying the cost method shall be measured at initial investment cost. Except those included in the consideration, dividends or profits declared enjoyed by the investor shall be recognized as the current investment income.

- (ii) Long-term equity investments accounted by equity method

In the equity method, if the initial cost of a long-term equity investment exceeds the proportion of the fair value of the invested entity's identifiable net assets attributable to the investor, initial cost of the long-term equity investment shall not be adjusted, and if the initial cost of a long-term equity investment lower than the proportion of the fair value of the invested entity's identifiable net assets attributable to the investor, the difference shall be recorded into profit or loss for the current year, and the cost of the long-term equity investment shall be adjusted simultaneously.

Notes to the Financial Statements (*Continued*)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (*Continued*)

(12) Long-term equity investment (*Continued*)

- (b) Subsequent measurement and recognition method of gains and losses (*Continued*)
 - (ii) Long-term equity investments accounted by equity method (*Continued*)

In the equity method, the investment income and other comprehensive income are recognized in accordance with the proportion of the net profit or loss and other comprehensive income of the invested entity attributable to the investor, and adjusting the carrying value of long-term equity investment; It shall be decreased of the carrying value of long-term equity investment according to the portion of the declaration of dividend or cash dividends; It shall adjust the carrying value of long-term equity investment and recognize in capital reserve if there is any other changes besides net profit or loss, other comprehensive income and profit distribution of the owner's equity. The invested entity's profit or loss shall be adjusted on the basis of the fair value of all identifiable assets of the invested entity at the acquisition date and adjusted to comply with the accounting policies and accounting periods adopted by the investor. All inter-Group unrealized profits from the jointly ventures and associates attributable to the Group shall be eliminated to recognize the investment income. If there are differences in the accounting policies and accounting period between the Company and the invested company, the financial statements shall be adjusted according to the Company, and the investment income and other comprehensive income shall be recognized. However, if the unrealized inter-Group loss constitutes impairment of the transferred assets, the losses shall not be adjusted.

The investor shall recognize the net losses of the invested entity to the extent that the carrying value of the long-term equity investment and other long-term rights and interests which substantially exist in the net investment to the invested entity is reduced to zero. Furthermore, if the investor has the obligation to reimburse extra losses, the extra obligation shall be recognized as provision and be recognized in investment loss. If the invested entity realizes any net profits in the subsequent periods, the investor shall not recognize its attributable share of profits unless the unrecognized attributable share of loss has been restored.

Notes to the Financial Statements (*Continued*)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (*Continued*)

(12) Long-term equity investment (*Continued*)

(b) Subsequent measurement and recognition method of gains and losses (*Continued*)

(iii) Acquisition of minority interests

While preparing consolidated financial statements, the difference between the increase in the cost of long-term equity investments as a result of acquisition of minority interests and the share of net assets of the subsidiary calculated continuously from the date of the acquisition or merger based on the new shareholding proportion shall be offset by capital surplus. If the capital surplus is not sufficient to compensate for the difference, the rest shall be offset by retained earnings.

(iv) Disposal of long-term equity investments

In consolidated financial statements, when the parent company disposes part of the investment in subsidiary without losing control power, the difference between the consideration received and the carrying value of net asset disposed shall be recognized in equity, while losing control power of subsidiary due to disposal, the relevant terms in Note. 4 (e) shall be applicable.

Under other means of disposal of long-term equity investment, the difference between the carrying value of disposed investment and the consideration received shall be recognized in the current profit or loss.

If the equity method is still adopted after the disposal of the rest equity, it shall adopt the same accounting policies to other comprehensive income of the equity by proportion, as the invested company disposing the related assets and liabilities.

Notes to the Financial Statements (*Continued*)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (*Continued*)

(12) Long-term equity investment (*Continued*)

(b) Subsequent measurement and recognition method of gains and losses (*Continued*)

(iv) Disposal of long-term equity investments (*Continued*)

For the other changes of the owner's equity except for the net income or losses, other comprehensive income and profit distribution, originally recognized in the equity shall be transferred into profit or loss by the percentage disposed.

If the cost method still be adopted of remain equity when using cost method of long-term equity investment, the other comprehensive income measured in equity method, or financial instrument recognition and measurement, and when invested company disposing directly the related assets or liabilities; The changes other than net profit or losses, other comprehensive income and profit distribution in net assets, shall be transferred in current profits and losses by percentage.

(13) Fixed assets

(a) Recognition

Fixed assets plant and equipment refer to the tangible assets held by the Group for producing goods, rendering service, renting or operation and administration purpose with useful lives over 1 year. The fixed assets are recognized only when the economic interests is likely to flow into the company and its cost can be measured reliably. The fixed assets are initially measured only when considering the influence of the cost and the expected impact of the disposal expenses.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(13) Fixed assets (Continued)

(b) Depreciation method of fixed assets

Fixed assets are initially recorded at cost and the estimated asset retirement obligation shall be taken into consideration. From the next month since fixed assets are in state of expected conditions for use, fixed assets are depreciated using the straight-line method over their estimated useful life. The useful life, scrap value rates for each category of fixed assets are as follows:

Category of fixed assets	Useful lives	Estimate residual rate (%)	Annual depreciation rate (%)
Plants and buildings	40 years	3-5	2.375-2.425
Machinery and equipment	17-24 years	3-5	3.958-5.706
Other fixed assets	5-12 years	3-5	7.917-19.40

Estimate residual value refers to the expected disposal proceeds after compensated estimated disposal expenses while the asset is worn out or retired.

(c) Method for impairment test and recognition of impairment provision

Method of impairment test and measurement of impairment provision of fixed assets, please refer to Note 4(17) "Impairment of non-current assets".

Notes to the Financial Statements (*Continued*)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (*Continued*)

(13) Fixed assets (*Continued*)

- (d) The recognition criteria and measurement of fixed asset by financial lease

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset which the ownership may or may not be eventually transferred, are classified as financial leases. Leased asset shall be recognized and depreciated in the same way according to comparative asset owned by the lessee. Leased asset shall be fully depreciated over its useful life if it is reasonably certain that the lessee will obtain ownership of the leased asset while the lease term expires, if not, depreciated over the shorter of the lease term and its useful life.

- (e) Other explanations

Subsequent expenditure relating to a fixed asset shall be capitalized if the economic benefits related to the fixed asset are likely to flow into the Group and the cost could be measured reliably and the carrying value of replaced parts shall be derecognized. Subsequent expenditures excluding fore-mentioned shall be recorded into current profit and loss.

The proceeds, from fixed asset disposed, transferred, discarded or destroyed, shall be recorded into current profit and loss after deducting carrying value and relevant taxes.

Significant changes of useful life or residual value or depreciation method of fixed asset shall be considered as changes in accounting estimation.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(14) Construction in progress

The cost of construction in progress shall be measured according to the actual expenditure for the construction in progress, including the expenditure for the construction project incurred during the construction period, and capitalized borrowing costs before the project is ready for its intended use and other related costs. Construction in progress is transferred to fixed asset while it is ready for its intended use.

Method of impairment test and measurement of the provision of construction in progress, refer to Note 4(17).

(15) Borrowing costs

Borrowing costs include interest on borrowings, amortization of discounts or premiums on borrowings, ancillary expenses, and exchange gain or loss on foreign currency borrowings. The borrowing costs, directly attributable to the acquisition, construction or production of assets eligible for capitalization, shall be capitalized while the capital expenditure and borrowing cost has already occurred and the acquisition, construction or production activities necessary to satisfy intended use or get ready for sale have already started.

Capitalization of borrowing costs shall be ceased while the qualified for capitalization asset under acquisition and construction or production is ready for its intended use or sale, and other borrowing costs shall be recognized into the current profit and loss while occurred.

The interests of special borrowings shall be capitalized after deducted the interests or investment income derived from the unused borrowings by depositing in the bank or making short term investment. The amount of interests on general borrowings to be capitalized shall be calculated by multiplying the weighted average of the accumulative capital expenditure exceeding the special borrowings by the capitalization rate of the general borrowings. The capitalization rate is the weighted average rate of interest of general borrowings.

Notes to the Financial Statements (*Continued*)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (*Continued*)

(15) Borrowing costs (*Continued*)

During the period of capitalization, the exchange gain or loss on foreign currency special borrowings shall be capitalized, while general borrowings into the current profit and loss.

Assets eligible for capitalization refers to the fixed assets, investment properties, inventories and other assets, of which the acquisition, construction or production may take quite a long time to get ready for intended use or be sale.

If the acquisition, construction or production of a qualified asset is interrupted abnormally for more than 3 months, the capitalization of borrowing costs shall be suspended, till acquisition, construction or production of the asset restarts.

(16) Intangible assets

(a) Intangible assets

Intangible asset refers to the identifiable non-monetary asset with no physical form, possessed or controlled by the Group.

Intangible asset shall be initially measured at its cost. Subsequent expenditure relevant to an intangible asset shall be recorded into the cost of an intangible asset, if the economic benefits associated with the intangible assets are likely to flow into the Group and the cost can be reliably measured. Other expenditures except mentioned before for an intangible item shall be recorded into the profit or loss for the current period.

Notes to the Financial Statements (*Continued*)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (*Continued*)

(16) Intangible assets (*Continued*)

(a) Intangible assets (*Continued*)

Land use right is usually recognized as an intangible asset. For self-constructed plants and buildings, the expenditure on land use right and the cost of constructions shall be recognized as intangible assets and fixed assets respectively. For purchased plants and buildings, the relevant cost shall be allocated between the land use right and plants, and if it is impossible to be allocated, all the relevant cost shall be recognized as fixed assets.

The original value of an intangible asset with a definite useful life shall be amortized by the straight-line method over its useful life after deducting estimate residual value and impairment provision, while intangible assets with indefinite useful life shall not be amortized.

Significant change of useful life and amortization method shall be taken as a change in accounting estimation after reviewing the useful life and the amortization method of intangible assets with definite useful life. After reviewing useful life and economic benefits inflow term of an intangible asset with an indefinite useful life, if the latter is predictable, intangible asset with an indefinite useful life shall be amortized according to policies applying to an intangible asset with a definite useful life.

Notes to the Financial Statements (*Continued*)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (*Continued*)

(16) Intangible assets (*Continued*)

(b) Research and development expenditure

Expenditure on an internal research and development project is classified into expenditure on research phase and expenditure on development phase. Research expenditure shall be recorded into current profits and losses while development expenditure is capitalized as intangible assets if the following conditions were met.

- (i) It is technically feasible to get the intangible asset ready for intended use or for sale;
- (ii) It is intended to get the intangible asset ready for use or sale;
- (iii) The intangible asset could be sold out in prevailing market with profit or be applied to production for well selling products, and could be proven useful for internal use;
- (iv) It is technically and financially capable of completing the development of the intangible asset, and capable of using or selling such intangible asset;
- (v) Development expenditure attributed to the intangible asset could be reliably measured.

While it is difficult to distinguish research phase from the development phase, all expenditure shall be recorded into current profit or loss.

(c) Method of impairment test and measurement of impairment provision

Impairment test and measurement of intangible assets refer to Note 4(17) "Impairment of non-current assets".

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(17) Impairment of non-current assets

Non-financial and non-current assets, such as fixed assets, construction in progress, intangible assets with definite useful life, and long-term equity investments in subsidiaries and joint ventures and associations, judgment shall be made on the balance sheet date, to ensure whether there is any evidence of possible impairment of the assets. If there is, the recoverable amount of the assets shall be estimated and an impairment test shall be conducted. The intangible assets with indefinite useful life and those are not ready for intended use, shall be subject to impairment test every year.

If the recoverable amount of an asset is lower than its carrying value, the difference shall be recognized as impairment loss and a provision shall be made accordingly. The recoverable amount is the higher of fair value of an asset deducted disposal expense and the present value of expected future cash flow from the asset. The fair value of an asset is determined according to the price stipulated in a selling agreement, and If there is no selling agreement but a dynamic market exists, the fair value shall be determined according to a bid from a buyer. If there is neither a selling contract nor a dynamic market, the fair value of an asset shall be estimated based on maximum information available.

The disposal expenses shall include the relevant legal expenses, relevant taxes, transport expenses as well as the direct expenses to get the asset ready for sale. The present value of expected future cash flow of an asset shall be established by discounting cash flow generated by continuous use and final disposal of the asset with an appropriate discount rate. Provision for impairment shall be determined on the basis of a single asset. If it is difficult to estimate the recoverable amount of a single asset, the asset shall be integrated into an asset group and impairment shall be carried out by the asset group. Asset group refers to minimum group of asset which can generate cash flow independently.

Once impairment loss is recognized, it could not be reversed in subsequent accounting periods.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(18) Projected liabilities

Obligations arising from contingent events shall be recognized as projected liability provided that: (i) The Group has a practical obligation as a result of the past event; (ii) probable economic benefit will flow out to settle the obligation and; (iii) the obligation could be measured reliably.

On the balance sheet date, projected liability shall be initially measured at reasonably estimated necessary expenditure for settling the obligation, taking into account the risk and uncertainty and time value of money and other factors related to the contingent event.

If the expenditure necessary for the settlement of an obligation is expected to be reimbursed entirely or partially by a third party, the reimbursement shall be separately recognized as an asset only under the circumstance that it is virtually certain that reimbursement will be received, and shall not exceed the amount of the provision incurred previously.

(19) Revenue

(a) Revenue from sale of goods

The revenue from selling goods is recognized when the following conditions are satisfied simultaneously:

(i) The major risks and rewards of ownership of the goods have been transferred to the buyer; (ii) The Group retains neither continuing managerial involvement usually associated with the ownership nor effective control over the goods sold; (iii) Revenue could be measured reliably; (iv) It is probable that economic benefit will flow into the Group; (v) Cost occurred or will occur relevant to the transaction could be measured reliably.

Revenue from sale of goods shall be measured based on money received or receivable by contract or agreement.

Notes to the Financial Statements (*Continued*)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (*Continued*)

(19) Revenue (*Continued*)

(b) Revenue from services rendering

If the economic benefit inflow of service rendering could be estimated reliably, revenue from service rendering shall be recorded into the income statement by proportion of service rendering.

While the following criteria are satisfied simultaneously, the economic benefit inflow of service rendering could be estimated reliably. (i) revenue could be measured reliably; (ii) relevant economic benefit is likely to flow into the entity; (iii) progress rate could be measured reliably; (iv) cost occurred or will occur related to the transaction could be measured reliably.

If the economic benefit inflow of services rendering could not be estimated reliably, revenue shall be measured at recoverable cost and cost occurred shall be recorded into the current loss. If cost occurred could not be recovered, no revenue from service rendering shall be recognized.

While a contract or agreement involving goods selling and service rendering, if goods selling and service rendering could be separated, revenue shall be calculated respectively, and if not or could not be measured separately, all contract revenue shall be taken as goods selling revenue.

(c) Royalty revenue

Royalties shall be measured by accrual basis in accordance with the substance of the relevant contract or agreement.

(d) Interest revenue

Interest revenue shall be determined in light of the loan term by the effective interest rate.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(20) Government grants

Government grant is the gratuitous monetary asset or non-monetary asset received from the government, excluding the capital injected by the government as an investor. Government grant is classified into government grant pertinent to assets and government grants pertinent to income.

Government grant, designed to purchase or construct or form long-term assets, shall be recognized as a government grant pertinent to assets while others classified into government grants pertinent to income. Government grant received without clear objective shall be categorized according to following rules: (i) government grant subject to a certain project shall be separated according to the proportion of expenditure budget and capitalization budget, and the proportion shall be reviewed and modified if necessary on the balance sheet date; (ii) government grant shall be categorized as pertinent to income if its usage is just subject to general statement but specific project in relevant document.

A government grant of monetary asset shall be measured at the amount received or receivable while government grant of non-monetary asset at fair value. If fair value cannot be obtained in a reliable way, government grant of a non-monetary asset shall be measured at its nominal amount and recorded into profit and loss for the current year accordingly.

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(20) Government grants (Continued)

Government grant shall be recognized while received and be measured at the amount received. If there concrete evidence demonstrates that relevant monetary or non-monetary assets are likely to be received in terms of fiscal supporting policy, government grant shall be measured at the receivable amount. Generally, government grant shall be measured at receivable amount while all the following conditions are satisfied simultaneously:

- (i) Receivable amount shall be confirmed by the documents issued by relevant government departments, or be reasonably calculated according to relevant document without significant uncertainty;
- (ii) The fiscal Funds Management Regulations, which will be of benefit to any enterprise but designed enterprise, are formally published according to the Regulations on Government Information Disclosure, and fiscal support projects are initiatively disclosed.
- (iii) It is reasonable assure that government grant, scheduled in the relevant government documents and guaranteed by the fiscal budget, could be received on schedule.

Government grant pertinent to assets shall be initially recognized as deferred income and amortized into profit and loss on a straight-line basis over the useful life of the relevant asset. Government grant pertinent to income, designed to compensate future expenses or loss in subsequent periods, shall be initially recognized as deferred income and recorded to profit and loss in subsequent periods while relevant expenses occur or loss incurs.

If recognized government grant need be returned, the balance of relevant government grant shall be returned first and the shortage shall be recorded into current profit and loss.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(21) Deferred income tax asset and liability

(a) Current income tax

On the balance sheet date, the current income tax liability (or asset) incurred in the current period or prior periods shall be measured at expected payable (refundable) amount of income tax in terms of the tax law. Current income tax shall be calculated based on the taxable income resulted from accounting profit before tax adjusted in terms of the relevant tax law and regulations.

(b) Deferred income tax asset and liability

Deferred income tax asset and liability are calculated on the base of temporary difference between the carrying amount of the relevant asset and liability, and the amount by the relevant tax law and regulations by liability method.

If deductible temporary difference relate to initial recognition of good will, and not result from business combination and relate to initial recognition of asset and liability arising from transaction, by which accounting profit and taxable income (or deductible loss) will not be affected, relevant deferred income tax asset shall not be recognized. Moreover, for taxable temporary difference related to investment to subsidiaries, associates and joint ventures, if the group is able to schedule the reversal of temporary difference which is unlikely to be reversed in the excepted future. Except above-mentioned, deferred income tax liability resulted from any other taxable temporary difference shall be recognized.

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (*Continued*)

(21) Deferred income tax asset and liability (*Continued*)

(b) Deferred income tax asset and liability (*Continued*)

If deductible temporary difference relate to initial recognition of asset and liability arising from transaction, by which accounting profit and taxable income (or deductible loss) will not be affected, or not result from business combination, relevant deferred income tax asset shall not be recognized. Moreover, for deductible temporary difference related to investment to subsidiaries, associates and joint ventures, if the temporary difference is unlikely to be reversed in the foreseeable future or to be compensated by future taxable income, deferred income tax asset shall not be recognized. Except the above-mentioned, deferred income tax asset resulted from any other deductible temporary difference shall be recognized and calculated to the extent of future taxable income, which is likely to be gained and be used to compensate a deductible temporary difference.

As for deductible loss or tax deduction that can be carried forward to next year, the corresponding deferred tax assets shall be recognized and calculated to the extent of future taxable income, which is likely to be gained and be used to compensate deductible loss and tax payable.

On the balance sheet date, the deferred tax asset and liability shall be calculated by the tax rate applicable to the period during which the asset is expected to be recovered or the obligation is expected to be settled. After reviewed the carrying value of deferred tax asset, the carrying value of the deferred tax assets shall be written-down if future taxable income is not sufficient to compensate benefit from deferred income tax asset, and if sufficient, the written-down shall be reversed.

Notes to the Financial Statements (*Continued*)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (*Continued*)

(21) Deferred income tax asset and liability (*Continued*)

(c) Income tax expenses

Income tax expenses comprise current income tax expense and deferred income tax expense.

The current income tax and deferred income tax, associated with the transaction recorded into other comprehensive income or shareholder's equity, shall be recorded into other comprehensive income or shareholder's equity, while resulted from a business combination shall be taken as an adjustment to goodwill. Income taxes and deferred taxes except mentioned before shall be recorded into current profit or loss.

(22) Leases

Financial lease refers to a lease where in substance all the risks and rewards related to the ownership of an asset have been transferred, the ownership of which may or may not eventually be transferred. Operational lease refers to a lease other than a financial lease.

(a) Operational lease to a lessee

Rental for operational lease shall be recorded into the relevant asset cost or the profit or loss for the current period by a straight-line approach over the lease term. Initial direct cost occurred shall be recorded into the profit and loss for the current period while contingent rental shall be recorded into profit or loss when actually occur.

(b) Operational lease to a lessor

Rental received from operational lease shall be recorded in the profit and loss for the current period by a straight-line approach over the lease term. Initial direct significant cost occurred shall be capitalized when actually occur, and subsequently recorded into the profit and loss according to the way, by which the rental recorded into profit or loss. Contingent rental shall be recorded into profit and loss in when actually occur.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(22) Leases (Continued)

(c) Finance lease to a lessee

At the commencement of lease term, leased asset shall be measured at the lower of the fair value and the present value of the minimum lease payment, and the minimum lease payment shall be recognized as a long-term liability, and the difference shall be recognized as unrecognized finance charge. Moreover, initial direct cost attribute to lease the project and relate to negotiation and agreement signing shall be recorded into the leased asset cost. Minimum lease payment deducted by unrecognized finance charge shall be separately listed as long-term liability or long-term obligation due within one year according to its scheduled term.

Unrecognized finance charge shall be amortized with the effective interest rate, and contingent rental shall be recorded into profit and loss while occur.

(d) Finance lease as a lessor

At the commencement of lease term, finance lease receivable shall be measured at the sum of minimum lease receipts and initial direct cost, risk exposure shall be recorded simultaneously, and unrealized finance income shall be measured at the difference between the sum of minimum finance lease receipt and initial direct expenditure and risk exposure, and its present value. Finance lease receivable deducted by unrealized finance income shall be separately listed as long-term receivable and long-term receivable due within one year according to its due term.

Unrecognized finance income shall be amortized with the effective interest rate, and contingent rental shall be recorded into profit and loss while occur.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(23) Employee benefits

The employee benefits, including short-term employee benefits, post-employment benefits, terminal benefits and other long-term employee benefits.

Short-term employee benefits, including wages, bonuses, allowances and subsidies, welfare, health insurance, maternity insurance, work injury insurance, housing fund, labor union funds, employee education fund and non-monetary benefits. The short-term employee benefits are recognized as liabilities when actually incurred of rendering services from the employees during the accounting period, and eventually recognized in current profit or loss or related assets cost. The non-monetary benefits are measured at fair value.

Post-employment benefits include making contribution plans, which include basic old-age insurance, unemployment insurance and annuities and etc. The amount shall be accrued to the relevant assets cost or profit or loss.

The Group shall recognize the termination benefits as a provision and report in profit or loss accordingly, when the Company is not able to withdraw the termination benefits unilaterally due to the relief of labor relationship or lay-off proposal, the terminal benefits are recognized as employee liabilities and recognized in profit or loss at the date which is earlier between recognizing and paying off the terminal benefits related to the recombination. However, terminal benefits shall be recognized as long-term employee benefits if the benefits cannot be settled within 12 months after the reporting date.

The group applied a internal retirement plan which shall be accounted in terms of above-mentioned principal to the termination benefits. Salary and social insurance expected to be paid shall be recorded into current profit or loss from the date stopping rendering service to the normal retirement date, if the relevant expenditure satisfies the recognition criteria of contingent liability.

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (*Continued*)

(24) Changes of significant accounting policies and estimates

- (a) There is no changes in accounting policies for the current year.
- (b) There is no changes in estimates for the current year.

(25) Corrections of prior year errors

There is no correction of prior year errors for the current year.

(26) Critical accounting judgments and estimates

Judgments, estimates and assumptions shall be made to financial statements items, which could not be measured accurately, due to the inherent uncertainties of operating activities, while applying accounting policy. Management bases its judgments, estimates and assumptions on historical experience and other various factors, these judgments will influence the amount of revenues, expenses, assets and liabilities presented in financial reports and the disclosure of contingent liabilities on the balance sheet date. However, these uncertainties have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities.

The judgments, estimates and assumptions mentioned above shall be reviewed on a going concern basis. If the revisions to accounting estimates only influence the current period, relevant adjustment due to the effect shall be recognized in the current period; otherwise, in the current and future period.

On the balance sheet date, the significant fields involving judgments, estimates and assumptions about financial report items are listed as follows:

- (a) Provision for bad debts

The allowance method is adopted for bad debts according to accounting policies of trade receivables. Impairment losses for receivables are assessed on the basis of recoverability, as a result of judgments and estimates of the management. The difference between actual outcome and the previously estimated outcome will influence the carrying value of receivables and accrual or reversal of provision for bad debts during the period accounting estimates are changed.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(26) Critical accounting judgments and estimates (Continued)

(b) Write-down of inventories

Inventories are measured by lower of historical cost or net realizable value method according to the accounting policies of inventories; for obsolete and unsalable inventories or whose historical costs are higher than the net realizable, provision for write-down of inventories shall be incurred.

The carrying value of inventory shall be written down to the net realizable value on the basis of the salability of inventories and the net realizable value. Inventory write-down shall be incurred in consideration of solid evidence and the purpose of holding inventories and the effect of subsequent events and etc.

The difference between the actual outcome and the previously estimated outcome will influence the carrying value of inventories and accrual or reversal of provision for write-down of inventories during the period accounting estimates are changed.

(c) Impairment of available-for-sale financial assets

To available-for-sale financial asset, whether impairment loss shall be recognized in income statement significantly depends on the judgments and assumptions of the management.

While making judgments and assumptions, it shall be take into consideration that how much the fair value of the investment is lower than the cost, the financial position and short-term business projection, including industry conditions, technological innovation, the credit ratings, probability of violation, and counterparts' risks.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(26) Critical accounting judgments and estimates (Continued)

(d) Impairment of non-current assets

On the balance sheet date, the Group shall judge whether there is any possible indication of impairment against non-financial non-current assets. The intangible assets with indefinite useful life must be tested for impairment on an annual basis as well as when there is any indication of impairment. Other non-financial non-current assets shall be tested for impairment when there is an indication showing that the carrying value is not recoverable.

Impairment occurs while the carrying value of an asset or asset group is higher than the recoverable value, which is the higher of its fair value deducted disposal expenses and the present value of expected future cash flow.

The fair value deducted by disposal expenditure is determined in consideration that sale agreement regarding analogous asset, and approachable market price and relevant dispose expenditures.

Significant judgments regarding the production amount, sales price, relevant operating costs of the assets (or assets group) and the discount rate used to calculate the present value shall be made, while determining the present value of future cash flows. Recoverable amount shall be estimated by using all accessible relevant information, including production amount, sales price, and relevant operating costs predictions made based on reasonable and supportive assumptions.

Notes to the Financial Statements (*Continued*)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (*Continued*)

(26) Critical accounting judgments and estimates (*Continued*)

(e) Depreciation and amortization

Fixed and intangible assets are depreciated and amortized by a straight-line approach over their estimated useful life by taking the residual value into consideration. Useful life shall be periodically reviewed to determine the depreciation and amortization expenses for each reporting period and be determined on the basis of historical experience regarding analogous assets and the expected technological innovation. Significant changes to previous accounting estimates will result in adjustments against depreciation and amortization expenses in the future periods.

(f) Deferred tax assets

Deferred tax asset is recognized for all the uncompensated tax losses to the extent of the amount of deductible taxable income. In order to determine the amount of deferred tax assets, the management needs to predict the timing and the amount of taxable profits in the future by taking into account the influence of tax planning.

(g) Income tax

There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the carrying amount, such differences will impact the current and deferred tax.

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(26) Critical accounting judgments and estimates (Continued)

(h) Early retirement pension and supplementary social pension

Expense and liability resulted from early retirement pension and supplementary social pension are determined based on a variety of assumptions, including the discount rate, the growth rate of average medical cost, the growth rate of retired employees' subsidies and other factors. Differences between actual and estimated results will be recognized accordingly as current expenses. Although the management believes that the assumptions are reasonable, the changes in actual empirical value and assumptions will affect the amount of expenses and the balance of liabilities resulted from early retirement pension and supplementary social pension.

(i) Projected liabilities

Provision for product quality guarantee, estimated onerous contracts, and delay delivery penalties shall be recognized in terms of contract, current knowledge and historical experience. If the contingent event has formed a practical obligation which probably results in outflow of economic benefits from the Group, a projected liability shall be recognized on the basis of the best estimate of the expenditures to settle relevant practical obligation. Recognition and measurement of the projected liability significantly rely on the management's judgments in consideration of the assessment of relevant risks, uncertainties, time value of money and other factors related to the contingent events.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

5. TAXATION

Main taxes and tax rates

Type of tax	Tax rates and base
Value added tax (“VAT”)	Output VAT is calculated based on taxable income, according to the applicable tax rate, and deducting the VAT from the difference after deduction of input tax in current period
Business tax	Taxable income: 3%, 5%
City construction and maintenance tax, educational surcharge and local educational surcharge	Paid circulating tax: 7%, 3%, 2%
Enterprise income tax	Taxable income: 25%
Custom duty	FOB: 5%–15%

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note the following items unless specifically noted that at the beginning of the period to 1 January 2016, final refers to 30 June 2016, the index as of 30 June 2016 stop during a period of 6 months, the period that during the six months ended as of 30 June 2015.

(1) CASH AT BANK OR ON HAND

Items	Closing balance	Opening balance
Cash	1	1
Bank deposits	2,286	3,564
Other cash balance	120	36
Total	2,407	3,601

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) Financial assets at fair value through profit or loss

Items	Closing balance	Opening balance
Derivative financial assets		4
Total		4

(3) NOTES RECEIVABLE

(a) Classification of notes receivable

Items	Closing balance	Opening balance
Bank Acceptance Notes	7,237	8,272
Commercial Acceptance Notes	663	39
Total	7,900	8,311

(b) Bills undue that have been pledged by the end of the year.(Top five by amount)

Issuer	Issuing date	Maturity date	Closing balance
Zhuohai GREE electric Limited by Share Ltd	2016.1.6–2016.5.19	2016.7.15–2016.11.15	221
Tianjin Anshan Tiantie cold-rolled sheet Co. Ltd.	2016.3.23–2016.4.25	2016.9.22–2016.10.25	177
China Railway Materials Shenyang Co., Ltd.	2015.12.25–2016.3.15	2016.6.25–2016.9.15	149
Zhejiang Limited by Share Ltd	2016.1.29–2016.5.25	2016.7.29–2016.11.25	111
Zhejiang Donlim Limited by Share Ltd	2016.2.17–2016.4.13	2016.8.17–2016.10.13	103
Total			761

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) NOTES RECEIVABLE (Continued)

- (b) Bills undue that have been pledged by the end of the year. (Top five by amount) (Continued)

Note: the group this period to the book value of the 1,999 million yuan notes receivable to CITIC Bank pledge, apply for the issuance of the 1999 million yuan notes payable, pledge period June 2016 to October 2016; to book value of 1,731 million yuan notes receivable to the Bohai Sea bank pledge for 1,629 million yuan of short-term loans, loan period for June 2016 and 2017; to book value of 745 million yuan notes receivable to the Shanghai Pudong Development Bank pledged for the 700 million yuan of short-term loans, loan period as May 2016 and May 2017.

- (c) Bills undue that have been discounted or endorsed by the end of the year.

Items	Amount of termination confirmation	Amount of non-termination confirmation
Bank Acceptance Notes	840	
Total	840	

- (d) No notes receivable were transferred to accounts receivable due to insolvency of the issuer as of 30 June 2016.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) ACCOUNTS RECEIVABLE

(a) Classification of Accounts Receivable

Items	Closing balance			
	Book value		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)
Accounts receivable with amounts that are individually significant and subject to separate assessment for bad debts provision	1,132	78		
Accounts receivable with amounts that are individually insignificant and subject to separate assessment for bad debts provision	448	22	1	100
Total	1,580	100	1	100

Type	Opening balance			
	Book value		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)
Accounts receivable with amounts that are individually significant and subject to separate assessment for bad debts provision	741	65		
Accounts receivable with amounts that are individually insignificant and subject to separate assessment for bad debts provision	383	35	1	100
Total	1,124	100	1	100

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) ACCOUNTS RECEIVABLE (Continued)

(b) Accounts Receivable classified by aging

Aging	Closing balance			
	Book Value		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	1,479	94		
1 to 2 years	72	5		
2 to 3 years	28	1		
Over 3 years	1		1	100
Total	1,580	100	1	100

Aging	Opening balance			
	Book Value		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	1,042	93		
1 to 2 years	78	7		
2 to 3 years	3			
Over 3 years	1		1	100
Total	1,124	100	1	100

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) ACCOUNTS RECEIVABLE (Continued)

- (c) Bad debt provision at the end of the year

By judgment of the management, solvency of the debtors is reliable, so, majority of accounts receivable will be recovered and bad debt provision rate is relatively low.

- (d) The condition of accounts receivable of the top five debtors by the balances at the end of the year

The group for the period according to the ending balance of debt collection five should be accounts receivable aggregate amount of 548 million yuan, the total should be accounts receivable balance at the end of the period for the proportion of total number of 35%, the corresponding provision for bad debts ending balance summary amount of 0.

(5) OTHER RECEIVABLES

- (a) Classification of other receivables

Type	Closing balance			
	Book value		Bad debt provision	
	Balance	Percentage (%)	Balance	Percentage (%)
Other receivables with amounts that are individually significant and subject to separate assessment for bad debts provision				
Other receivables with amounts that are individually insignificant and subject to separate assessment for bad debts provision	47	100		
Total	47	100		

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) OTHER RECEIVABLES (Continued)

(a) Classification of other receivables (Continued)

Type	Opening balance			
	Book value		Bad debt provision	
	Balance	Percentage (%)	Balance	Percentage (%)
Other receivables with amounts that are individually significant and subject to separate assessment for bad debts provision	14	29		
Other receivables with amounts that are individually insignificant and subject to separate assessment for bad debts provision	35	71		
Total	49	100		

(b) Classification of other receivable according to the nature

Other accounts receivable	Closing book value	Opening book value
Petty cash	27	22
Cash deposit		14
Other	20	13
Total	47	49

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) OTHER RECEIVABLES (Continued)

- (c) Bad debt provision at the end of the year

By judgment of the management, solvency of the debtors is reliable, so, majority of accounts receivable will be recovered and bad debt provision rate is relatively low.

(6) PREPAYMENTS

- (a) Prepayment classified by aging

Aging	Closing balance		Opening balance	
	Balance	Percentage (%)	Balance	Percentage (%)
Within 1 year	2,513	82	1,968	79
1 to 2 years	281	9	227	9
2 to 3 years	230	8	252	10
Over 3 years	39	1	46	2
Total	3,063	100	2,493	100

Note: The aging of the prepayments over one year was mainly prepayment for importing engineering equipment.

- (b) The condition of prepayment of the top five debtors by the balances at the end of the year

The group according to the ending balance of prepaid object collection five prepayments aggregate amount of 2822 million yuan, accounted for prepayments ending balance of total amount of the proportion of 92%.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(7) Dividends receivable

The investee company	Closing balance	Opening balance
WISDRI Engineering and Research Incorporation Limited WISDRI	6	6
Total	6	6

(8) INVENTORY

(a) Classification of Inventory

Items	Closing balance		Carrying value
	Book value	Inventory falling price reserves	
Raw materials	1,427	9	1,418
Work in progress	2,019	164	1,855
Finished goods	3,127	307	2,820
Revolving materials	833		833
Spare parts	1,459		1,459
Materials in transit	223		223
Work in progress– outsourced	5		5
Total	9,093	480	8,613

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(8) INVENTORY (Continued)

(a) Classification of Inventory (Continued)

Types	Opening balance		Carrying value
	Book value	Inventory falling price reserves	
Raw materials	868	94	774
Work in progress	2,262	119	2,143
Finished goods	2,985	395	2,590
Revolving materials	901		901
Spare parts	1,516		1,516
Materials in transit	79		79
Work in progress—outsourced	5		5
Total	8,616	608	8,008

(b) Changes in Inventory falling price reserves

Items	Opening balance	Increment of the year	Decrement of the year		Closing balance
			Written back	Written off	
Raw materials	94	15		100	9
Work in progress	119	332		287	164
Finished goods	395	354		442	307
Total	608	701		829	480

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(8) INVENTORY (Continued)

- (c) Analysis of Inventory falling price reserves
- (i) the net realizable value for finished goods and the relevant raw materials is lower than the cost, therefore, provision for inventory was accrued at the end of the year.
 - (ii) Provision for inventory transferred to current year profit and losses for the reason that the inventory was sold, of which provision has been accrued last year.

(9) AVAILABLE-FOR-SALE FINANCIAL ASSETS

- (1) The classification of available-for-sale financial assets

Item	Closing value	Opening value
Listed investment	47	62
including: Hong Kong		
Mainland	47	62
Non-listed investment	787	787
Total	834	849

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(9) AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

(2) The condition of available-for-sale financial assets

Item	Closing value		Opening value			
	Book balance	impairment	Book value	Book balance	Impairment	Book value
Available-for-sale financial assets:						
Measured at fair value	834		834	849		849
Measured at cost	47		47	62		62
	787		787	787		787
Total	834		834	849		849

(3) Available-for-sale financial assets measured at fair value

The classification of available-for-sale financial assets	Sellable equity instrument
The cost of equity instruments/The amortized cost of debt instruments	38
Fair value	47
Changes in fair value amounts accumulated through other comprehensive income	7
Provision for impairment	

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(9) AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

(4) Available-for-sale financial assets measured at cost

The invested entity	Book balance			Closing value
	Opening value	increase	decrease	
WISDRI	114			114
Tianjin Tiantie	185			185
Heilongjiang Longmay Mining Group Co., Ltd. (Longmay Group)	220			220
Anshan Falan Packing Material Co. Ltd. ("Falan Packing")	21			21
Dalian Shipbuilding Industry Co.,Ltd Shipyard Company ("Dalian Shipyard")	151			151
China Shipbuilding Industry Equipment and Materials Bayuquan Co., Ltd ("China Shipbuilding")	10			10
Dalian Shipbuilding Industry Group Steel Co., Ltd ("Dalian Steel")	69			69
Guoqi Automobile Lightweight (Beijing) Technology Research Institute Co., Ltd. ("Guoqi Lightweight")	3			3
Changsha Baosteel steel processing & Distribution Co., Ltd. (hereinafter referred to as "Changsha steel")	14			14
Total	787			787

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(9) AVAILABLE-FOR-SALE FINANCIAL ASSETS (Continued)

(4) Available-for-sale financial assets measured at cost (Continued)

The invested entity	Impairment Provision			Closing value	proportion of shareholding (%)	Cash bonuses in this year
	Opening value	increase	decrease			
WISDRI					6	
Tianjin Tiantie					5	
Longmay Group					1	
Falan Packing					15	
Dalian Shipyard					15	
China Shipbuilding					10	
Dalian Steel					15	
Guoqi Lightweight					7	
Changsha steel					14	
Total						

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(10) LONG-TERM EQUITY INVESTMENT

Details of long-term equity investments

The invested entity	Opening value	Increase/Decrease		Investment income under The equity method	Other comprehensive Income adjustment
		Increase	Decrease		
a. Joint venture					
Angang Steel Company Limited, Thyssen Krupp (hereinafter referred to as the "saddle pedicle Dalian")	891			145	
The iron and Steel shares – Dalian ship heavy industry steel processing Distribution Co. Ltd. (ANSC – Dachuan)	227			1	
Changchun FAM Steel Processing and Distribution Group Limited ("Changchun FAM")	93			4	
Sub-total	1,211			150	
b. Associated venture					
Angang Group Finance Co., Ltd ("Angang Finance")	1,245			60	
Guangzhou Nansha Steel Logistical Co., Ltd. ("Nansha Logistical")	60			(1)	
Anshan Iron and steel solid gold (Hangzhou) metal materials Co., Ltd. ("AISSG")	97			(1)	
Shanghai Chemical Po Agel Ecommerce Ltd ("Shanghai chemical")	1				
Guangzhou Bao Steel Processing Co. ("Guangzhou steel")	59			2	
Sub-total	1,462			60	
Total	2,673			210	

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(10) LONG-TERM EQUITY INVESTMENT (Continued)

(3) Available-for-sale financial assets measured at fair value (Continued)

The invested entity	Increase/Decrease				Closing value of the provision For impairment
	Other equity changes	Declaration of cash dividends or profits	Provision for impairment loss	Other	
1. cooperative enterprise					
ANSC – TKS		(379)		2	659
ANSC – Dachuan					228
Changchun FAM				(1)	96
Sub-total		(379)		1	983
2. associated enterprise					
Angang Finance					1,305
Nansha Logistical					59
AISSG					96
Shanghai chemical					1
Guangzhou steel		(1)			60
Sub-total		(1)			1,521
Total		(380)		1	2,504

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(11) FIXED ASSETS

(a) Analysis of fixed assets

Item	Houses and buildings	Machineries and equipment	Others	Total
1. Cost				
The balance at the beginning of the year	27,931	70,295	5,157	103,383
Increase:				
Purchase	302	159	18	479
Enterprise merger	(1)	(4)	1	(4)
Decrease:				
Dispose or scrap	303	163	17	483
Dispose or scrap	12	81	56	149
The balance at the end of the year	28,221	70,373	5,119	103,713
2. Accumulated depreciation				
The balance at the beginning of the year	8,874	39,349	4,113	52,336
Increase:				
Count for depreciation	333	1,225	126	1,684
Decrease:				
Dispose or scrap	333	1,225	126	1,684
Dispose or scrap	3	80	53	136
The balance at the end of the year	9,204	40,494	4,186	53,884
3. Provision for impairment				
The balance at the beginning of the year	6	26	1	33
Increase:				
Decrease:				
Dispose or scrap	6	26	1	33
The balance at the end of the year	6	26	1	33
4. Book value				
The closing book value	19,011	29,853	932	49,796
The opening book value	19,051	30,920	1,043	51,014

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(11) FIXED ASSETS (Continued)

(b) Temporarily idle fixed assets

Items	Cost	Accumulated depreciation	Provision for impairment	Carrying value	Notes
Houses and buildings	2	1		1	
Machineries and Equipment	109	59	5	45	
Others	3	2		1	
Total	114	62	5	47	

(c) The Group had no financial leased-in fixed asset as of 30 June 2016.

(d) Fixed assets held under financial leases

Items	Closing carrying value	Opening carrying value
Buildings and Plants	49	30
Machineries and Equipment	81	49
Others	1	
Total	131	79

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(12) CONSTRUCTIONS IN PROGRES

(a) Details of constructions in progress

Items	Closing balance		Opening balance			
	Book value	Provision for impairment	Carrying value	Book value	Provision for impairment	Carrying value
Bayuquan Project	323		323	237		237
Guangzhou automobile project	568		568	478		478
Guangzhou Project	8		8	79		79
Dalian Project	15		15	144		144
Zhengzhou project	108		108	69		69
Cool rolling project	581		581	511		511
The three area of the converter workshop environmental renovation project	181		181	162		162
five coking overhaul project	57		57	1		1
Steelmaking plant area three steelmaking workshop renovation project	47		47	41		41
60 thousand m ³ /h oxygen generating unit project	118		118	99		99
Iron and steel company, cold rolled, high strength and even steel auxiliary (including main plant) renovation project	255		255	227		227
Others	592		592	804		804
Total	2,853		2,853	2,852		2,852

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(12) CONSTRUCTIONS IN PROGRESS (Continued)

(b) Changes in major constructions in progress

Items	Budget	Transferred			Closing balance
		Opening balance	Increase of the period	into fixed assets	
Bayuquan Project	432	237	106	20	323
Guangzhou automobile project	1,145	478	90		568
Guangzhou Project	129	79	6	77	8
Dalian Project	246	144	(7)	122	15
Zhengzhou project	153	69	39		108
Cool rolling project	1,470	511	70		581
The three area of the converter workshop environmental renovation project	1,000	162	19		181
Five coking overhaul project	1,523	1	56		57
Steelmaking plant area three steelmaking workshop renovation project	60	41	6		47
60 thousand m3/h oxygen generating unit project	387	99	19		118
Iron and steel company, cold rolled, high strength and even steel auxiliary (including main plant) renovation project	301	227	28		255
Others	10,445	804	52	264	592
Total		2,852	484	483	2,853

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(12) CONSTRUCTIONS IN PROGRES (Continued)

(b) Changes in major constructions in progress (Continued)

Items	Accumulated capitalized borrowing cost	Of which: capitalized this period	Capitalization	Expenditure	Project	Resource of fund
			rate (%)	over budget (%)	progress (%)	
Bayuquan Project	690			89	89	
Guangzhou automobile project	39	15	4.73	72	72	Self-financing
Guangzhou Project	3					Self-financing, Borrowings
Dalian Project				56	56	Self-financing
Zhengzhou project	1		4.35	85	85	Self-financing, Borrowings
Cool rolling project	45	7	4.41	37	37	Self-financing, Borrowings
The three area of the converter workshop environmental renovation project	32	4	4.50	94	94	Self-financing
Five coking overhaul project	67			85	85	Self-financing
Steelmaking plant area three steelmaking workshop renovation project				78	78	Self-financing
60 thousand m ³ /h oxygen generating unit project	11	4	4.50	28	28	Self-financing
Iron and steel company, cold rolled, high strength and even steel auxiliary (including main plant) renovation project	12	5	4.50	81	81	Self-financing
Others	529	1	4.50	79	79	Self-financing
Total	1,429	36				

Note: Self-financing includes non-special borrowings and reserves from operations.

(c) As of 30 June 2016, there was no construction in progress whose carrying value was higher than its realizable value.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(13) CONSTRUCTION MATERIALS

Items	Closing value	Opening value
special material	9	
special equipment	84	6
Total	93	6

(14) INTANGIBLE ASSETS

Item	Land use right	Non-patented technology	software	trademark right	Total
1. Cost					
The balance at the beginning of the year	7,560	43	51	4	7,658
Increase:					
(a) purchase					
(b) internal R&D					
Decrease:					
(a) disposition					
The balance at the end of the year	7,560	43	51	4	7,658
2. Accumulative amortization					
The balance at the beginning of the year	1,478	43	47	4	1,572
Increase:					
(a) Counting and Drawing	77		2		79
Decrease:					
(a) disposition	77		2		79
The balance at the end of the year	1,555	43	49	4	1,651
3. Provision for impairment					
The balance at the beginning of the year					
Increase:					
(a) Counting and Drawing					
Decrease:					
(a) disposition					
The balance at the end of the year					
4. Book value					
The closing book value	6,005		2		6,007
The opening book value	6,082		4		6,086

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(15) DEFERRED INCOME TAX ASSETS/DEFERRED INCOME TAX LIABILITY

(a) Recognized deferred income tax assets

Items	Closing balance		Opening balance	
	Deferred income tax assets	Temporary difference or deductible loss	Deferred income tax assets	Temporary difference or deductible loss
Provision for impairment of fixed assets	160	642	160	642
Deductible loss	1,028	4,111	1,130	4,519
Salaries payable	24	96	24	96
Accumulated depreciation of fixed assets	9	35	9	35
Unrealized inter-group profit	100	399	13	50
Deferred income termination benefits	172	689	172	689
Employee training expenses	12	48	12	48
Others	1	4	1	4
Total	1,506	6,026	1,521	6,085

(b) Recognized deferred income tax liabilities

Items	Closing balance		Opening balance	
	Deferred income tax liabilities	Taxable temporary difference	Deferred income tax liabilities	Taxable temporary difference
Fair value variation on Available-for-sale financial assets	2	9	6	24
Capitalized borrowing costs	13	51	13	51
Unrealized inter-group loss			15	62
Total	15	60	34	137

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(16) SHORT-TERM LOANS

Items	Closing balance	Opening balance
Guaranteed loans	1,000	3,423
Pledge loan	2,329	
Credit loans	18,933	12,896
Total	22,262	16,319

Note: ① Short-term loan guarantee loan is mainly used to supplement working capital, guarantee by Angang Group Corporation

② Short-term borrowings of pledge loan of the pledge to notes receivable, see note6, (3)(b)

(17) FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Items	Closing balance	Opening balance
Derivative financial liabilities	14	
Total	14	

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(18) NOTES PAYABLE

Note: All the expired notes payable have been paid at the end of the year.

Types of notes	Closing balance	Opening balance
Bank acceptances	3,389	3,451
trade acceptances	336	540
Total	3,725	3,991

(19) ACCOUNT PAYABLES

(a) Classification of account payables by nature

Items	Closing balance	Opening balance
Account payables for purchasing	5,608	5,208
Construction payables	246	379
Operation expenses on supporting production	86	104
Freight	37	37
Others	151	71
Total	6,128	5,799

(b) Significant account payables aging over 1 year

Creditor	Balance owed	Aging
Tangyuan Tianyu Coal & Coke Energy Co., Ltd.	43	3-4years
Total	43	

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(19) ACCOUNT PAYABLES (Continued)

(c) Aging of account payables

Aging	Closing balance		Opening balance	
	Balance	Percentage (%)	Balance	Percentage (%)
Within 1 year	6,064	99	5,733	99
1 to 2 years	4		7	
2 to 3 years	2		1	
Over 3 years	58	1	58	1
Total	6,128	100	5,799	100

(20) ADVANCES FROM CUSTOMERS

(a) Classification of advances from customers by nature

Items	Closing balance	Opening balance
Selling of products	2,903	2,830
Others	4	4
Total	2,907	2,834

(b) There were no significant advances from customers aging over 1 year at the end of the period.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(21) EMPLOYEE BENEFITS PAYABLE

(a) the situation about employee benefits payable

Item	Opening value	Increase	Decrease	Closing value
A. Short-term remuneration	166	1,583	1,519	230
B. After-service benefits- Defined Contribution Plans		303	303	
C. Termination benefits	1	96	97	
D. Other benefits due within one year				
E. Others				
Total	167	1,982	1,919	230

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(21) EMPLOYEE BENEFITS PAYABLE (Continued)

(b) the situation about short-term remuneration

Items	Opening balance	Accrued during this period	Paid during this period	Closing balance
1. Salaries, bonus and allowance	115	1,092	1,066	141
2. Staff welfare		146	108	38
3. Social insurance		123	123	
Including: Medical insurance		100	100	
Staff and workers' injury insurance		23	23	
Maternity insurance				
Others				
4. Housing fund		169	169	
5. Labor union fee and staff training fee	51	22	22	51
6. Short paid absences				
7. The short-term profit sharing plan				
6. Others		31	31	
Total	166	1,583	1,519	230

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(21) EMPLOYEE BENEFITS PAYABLE (Continued)

(C) Defined Contribution Plans

Items	Opening balance	Accrued during this period	Paid during this period	Closing balance
1. Basic pension insurance		221	221	
2. Unemployment insurance		11	11	
3. Occupational pension contribution		71	71	
Total		303	303	

(22) TAXES AND SURCHARGES PAYABLE

Items	Opening balance	Accrued during this period	Paid during this period	Closing balance
VAT	(85)	827	803	(61)
Business tax	3		3	
Resource tax	1	1	2	
Corporate income tax	7	11	11	7
City maintenance and construction tax	6	80	73	13
Property tax	10	64	64	10
Land use tax	26	155	154	27
Individual income tax	6	13	18	1
Educational surcharges	4	58	52	10
Others	42		16	26
Total	20	1,209	1,196	33

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(23) INTERESTS PAYABLE

Items	Closing balance	Opening balance
Staging interest maturity of long-term borrowings		10
Interest for corporate bonds	84	171
Total	84	181

(24) OTHER PAYABLES

(a) Classification of other payables by nature

Items	Closing balance	Opening balance
Construction payables	853	767
Quality assurance -project/spare parts	886	724
Freight charges	110	72
Deposit for steel shelves	40	62
Performance assurance	108	110
Others	372	371
Total	2,369	2,106

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(24) OTHER PAYABLES (Continued)

(b) Significant balances of other payables aging over 1 year

Creditor	Closing balance	Reason	Whether paid after balance sheet date
Angang Group Engineering Technology Co., LTD	161	Project quality assurance	No
Acre Coking & Refractory(Dalian) Engineering Technology Corporation	43	Project quality assurance	No
Acre Coking & Refractory Engineering Technology Corporation	20	Project quality assurance	No
Angang construction consortium Co. Ltd.	36	Project quality assurance	No
China Sanye Group Co., LTD	14	Project quality assurance	No
Anshan Iron and Steel Group Automation Company	23	Project quality assurance	No
Anshan Mining Construction Co. Ltd.	15	Project quality assurance	No
China metallurgical Beijing sincere engineering technology co., LTD	12	Project quality assurance	No
Others	375		No
Total	699		

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(25) NON-CURRENT LIABILITIES DUE WITHIN 1 YEAR

Long-term liabilities due within 1 year

Items	Closing balance	Opening balance
Long-term loans due within 1 year (Note. (27))	147	592
Bond payable due within 1 year (Note. (28))		3,995
Total	147	4,587

(26) OTHER CURRENT LIABILITIES

Items	Nature	Closing balance	Opening balance
Short-term financing bonds		3,000	7,000
Total		3,000	7,000

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(27) LONG-TERM LOANS

(a) Classification of Long-term loans

Items	Closing balance	Opening balance
Guaranteed loans	566	575
Credit loans	1,005	979
Sub-total	1,571	1,554
Less: long-term loans due within 1 year (Note: 6(24))	147	592
Total	1,424	962

Note: Guarantee loans of long-term loans, guaranteed by Angang group and Japan Kobe Steel Company, were mainly used to replenish working capital and for project construction. The interest rate of Long-term loan range of 4.289%–6.0%

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(28) BONDS PAYABLE

(a) Bonds payable

Items	Closing date	Opening date
Medium term note		3,995
Less: ending balance due within one year (Note: 6(25))		3,995
Total		

(b) Increase or decrease in bonds payable

Type of bonds	Par value	Issuance date	bond duration	Issuance amount	opening balance
Medium term note	4,000	22 May 2013	3 years	4,000	3,995
Subtotal	4,000			4,000	3,995
Less: ending balance due within one year (Note: 6(25))					3,995
Total					

Type of bonds	Accrued interest at face value	Amortization with the Premium or Discount of Bonds	closing balance
Medium term note		5	4,000
Subtotal		5	4,000
Less: ending balance due within one year (Note: 6(25))		5	4,000
Total			

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(29) LONG-TERM EMPLOYEE BENEFITS PAYABLE

Items	Closing value	Opening value
Termination benefits	1	1
Total	1	1

(30) DEFERRED INCOME

Item	Opening date	Increase	Decrease	Closing date	Cause of formation
Government grants	914	11	40	885	
Total	914	11	40	885	—

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(30) DEFERRED INCOME (Continued)

Among them, the projects involved the government grants are as follows:

Liabilities	Opening date	New grants	Belong to nonbusiness- income	Other Changes	Closing date	Associated with the asset/ income
Bayuquan 1450 cold-rolled project	200				200	asset
265m ² sintering machine flue gas desulfurization	83		5		78	asset
Shenyang Steel plus the overall relocation project	138		2		136	asset
5500MM defense heavy plate steel project	57		8		49	asset
The support funds for Guangzhou automotive steel project	87				87	asset
Environmental funds	99		8		91	asset
ESR	30		3		27	asset
Two sintering flue gas desulfurization	42		3		39	asset
Industrial comprehensive demonstration project of low carbon production technology in metallurgical plant	27		1		26	asset
Others	151	11	10		152	asset or income
Total	914	11	40		885	

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(31) SHARE CAPITAL

This period	Opening balance		Changes of the period(+,-)					Closing balance		
	Balance	Proportion (%)	New shares issued	Bonus issue	Shares transferred from		Others	Subtotal	Balance	Proportion
					reserves					
Shares unrestricted on sale										
a. Ordinary A shares	6,149	85						6,149	85	
b. Foreign shares listed overseas ("H shares")	1,086	15						1,086	15	
Total	7,235	100						7,235	100	

2015	Opening balance		Changes of the period(+,-)					Closing balance		
	Balance	Proportion (%)	New shares issued	Bonus issue	Shares transferred from		Others	Subtotal	Balance	Proportion
					reserves					
Shares unrestricted on sale										
a. Ordinary A shares	6,149	85						6,149	85	
b. Foreign shares listed overseas ("H shares")	1,086	15						1,086	15	
Total	7,235	100						7,235	100	

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(32) CAPITAL RESERVE

This period	Opening balance	Increase of the period	Decease of the period	Closing balance
Share premium	31,144			31,144
Other capital reserve	375			375
Total	31,519			31,519

2015	Opening balance	Increase of the period	Decease of the period	Closing balance
Share premium	31,144			31,144
Other capital reserve (Note)	10	365		375
Total	31,154	365		31,519

Note: Capital appropriation transfers in captain reserve of 365 million yuan.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(33) OTHER COMPREHENSIVE INCOME

Other comprehensive income will reclassified into the gains and losses.

Item	Profit or loss arising from fair value changes of available-for-sale financial assets		The share enjoyed by the invested unit reclassified into profit or loss in other comprehensive income under the equity method		Total	
	The date of this period	The date of Last period	The date of this period	The date of Last period	The date of this period	The date of Last period
	The balance at the beginning of the period	18	11		(4)	18
Amount for the period before tax	(15)	12		(1)	(15)	11
Minus: transform into profit or loss from other comprehensive income						
Minus: income tax expenses	(4)	3			(4)	3
The after-tax amount attributed to the parent company	(11)	9		(1)	(11)	8
The after-tax amount attributed to minority shareholders						
The balance at the end of the period	7	20		(5)	7	15

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(34) SPECIAL RESERVE

This period	Opening balance	Increase of the period	Decease of the period	Closing balance
Safety production expenses	54	30	13	71
Total	54	30	13	71

2015	Opening balance	Increase of the year	Decease of the year	Closing balance
Safety production expenses	30	65	41	54
Total	30	65	41	54

(35) SURPLUS RESERVE

This period	Opening balance	Increase of the period	Decease of the period	Closing balance
Statutory surplus reserve	3,580			3,580
Total	3,580			3,580

2015	Opening balance	Increase of the year	Decease of the year	Closing balance
Statutory surplus reserve	3,580			3,580
Total	3,580			3,580

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(36) UNDISTRIBUTED PROFITS

Items	This period
Opening balance	868
Increase of the period	300
Including: Net profit transferred this period	300
Other adjustment factors	
Decrease of the period	
Including: Extraction of surplus reserve this period	
Extraction of general risk provisions this period	
Distribution of cash dividend this period	
Conversed capital	
Other decreases	
Closing balance	1,168

(37) OPERATING REVRNUE AND OPERATING COST

Items	This period	Last period
Prime operating revenue	25,374	28,960
Other operating revenue	56	32
Total	25,430	28,992
Operating cost for main business	22,164	25,374
Other operating cost	53	28
Total	22,217	25,402

Note: The Group has one segment according to business category which production and sale of iron and steel products.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(38) BUSINESS TAXES AND SURCHARGES

Items	This period	Last period
Resources tax and business tax	1	2
City maintenance and construction tax	80	85
Educational surcharge and local educational surcharge	58	61
Total	139	148

Note: For information about standard of business taxes and surcharges, please refer to Note 5.

(39) MARKETING EXPENSES

Items	This period	Last period
Packing expense	28	204
Delivery expense	728	721
Sales and service expense	52	102
Agency fee for commissioned sales	18	16
Employee benefits	55	66
Insurance expense	2	2
Warehouse storage expense	21	10
Others	57	70
Total	961	1,191

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(40) ADMINISTRATIVE EXPENSES

Items	This period	Last period
Employee benefits	306	331
Taxes	237	226
Amortization of intangible assets	78	79
Depreciation	28	38
Research and development costs	19	25
Repair and maintenance	6	15
Computer maintenance expense	3	20
Assistance for production expense	2	48
Afforestation fees	2	9
Others	48	120
Total	729	911

(41) FINANCIAL EXPENSES

	This period	Last period
Interest expense	640	770
Including: It has to pay off all the interests from the bank loans and other loans	605	741
The financial charges during the financial lease period		
Other interest expenditures	35	29
Less: Interest income	22	7
Less: Capitalized interest expense	36	115
Exchange gain or loss	33	(38)
Less: Capitalized exchange gain or loss		
Others	3	8
Total	618	618

Note

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(42) INVESTMENT INCOME

Items	This period	Last period
Long-term equity investment income under the equity method	210	170
Investment income from disposal of long-term equity investments	14	
The investment income during the holding of available-for-sale financial assets		6
Investment income from disposal of available for sale financial assets		51
Total	224	227

(43) IMPAIRMENT LOSSES

Items	This period	Last period
Provision for bad debts		
Provision for written-down of inventories	701	864
Total	701	864

(44) CHANGES IN FAIR VALUE GAINS AND LOSSES

Sources	This period	Last period
Financial liabilities at fair value through profit or loss	(14)	
Total	(14)	

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(45) NON-OPERATING REVENUE

Items	This period	Last period	Recorded into extraordinary gains and losses
Total gains from disposal of non-current assets	3	5	3
Including: Gains on fixed assets scrapped	3	5	3
Other gains on disposal of fixed assets			
Government grant (Disclosed in the below: Details of government grants)	39	50	39
Others	8	37	8
Total	50	92	50

Details of government grants:

Items	This period	Last period
R & D subsidy	3	3
Environmental rewards	22	21
Military project grants	12	22
Others	2	4
Total	39	50

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(46) NON-OPERATING EXPENSES

Items	This period	Last period	Recorded into extraordinary gains and losses
Total loss on disposal of non-current assets	13	6	13
Including: Loss on fixed assets scrapped	13	6	13
Other loss on disposal of fixed assets			
Others	4	6	4
Total	17	12	17

(47) INCOME TAX EXPENSES

(a) The tabulation for income tax expenses

Items	This period	Last period
Income tax calculated according to the Tax Law and the relevant regulations	11	1
Changes on deferred income tax expenses		13
Total	11	14

(48) OTHER COMPREHENSIVE INCOME

Note: 6(33)

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(49) RESTRICTED ASSETS OF OWNERSHIP OR USE RIGHTS

Items	Closing date	Reason
Notes receivable	4,475	Note: 6(3(2))
Total	4,475	

(50) NOTES TO THE CASH FLOW STATEMENT

(a) Cash received from other operating activities

Items	This period	Last period
Government grants	106	139
Others	66	20
Total	172	159

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(50) NOTES TO THE CASH FLOW STATEMENT (Continued)

(b) Cash paid for other operating activities

Items	This period	Last period
Freight fee payments for others	676	1,059
Retired wages payment	54	117
Purchases and sales business fee	45	32
Energy-saving test fee	44	30
Sewage fee	33	12
Insurance fee	18	14
Storage charge	17	15
Commission processing fee	16	13
Computer maintenance fees	10	9
Security and firefighting expense	8	8
Green fees	7	10
Other operating expenses	232	170
Total	1,160	1,489

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(50) NOTES TO THE CASH FLOW STATEMENT (Continued)

(c) Cash received from other investing activities

Items	This period	Last period
Income from test run	139	17
Interest income	32	7
Total	171	24

(d) Cash paid for other investment activities.

Items	This period	Last period
Intermediary fees for loans		6
Total		6

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(51) SUPPLEMENT TO CASH FLOW STATEMENT

(a) Reconciliation of net profit to cash flows from operating activities

Items	This period	Last period
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	297	151
Add: Provision for impairment	(128)	(175)
Depreciation of fixed assets	1,684	1,936
Amortization of intangible assets	79	79
Amortization of long-term deferred expense		
Loss on disposal of fixed assets, Intangible assets and other non-current assets ("-" for gains)		
Loss on scrap of fixed assets	10	1
Loss on the change of fair value	14	
Financial expenses	615	621
Investment loss	(224)	(227)
Decrease in deferred tax assets ("-" for increase)	15	13
Increase in deferred tax liabilities ("-" for decrease)	(15)	
Decrease in inventories ("-" for increase)	(568)	257
Decrease in operating receivables ("-" for increase)	(638)	355
Increase in operating payables ("-" for decrease)	283	(1,356)
Others	15	36
Net cash flow from operating activities	1,439	1,691
2. Change in cash and cash equivalents		
Cash at the end of the period	2,407	2,190
Less: cash at the beginning of the period	3,601	1,712
Add: cash equivalents at the end of the period		
Less: cash equivalents at the beginning of the period		
Net increase in cash and cash equivalents	(1,194)	478

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(51) SUPPLEMENT TO CASH FLOW STATEMENT (Continued)

(b) Composition of cash and cash equivalents

Items	Closing balance	Opening balance
1. Cash at bank and on hand	2,407	3,601
Of which: Cash	1	1
Bank deposits available	2,286	3,564
Other deposits available	120	36
2. Cash equivalents		
Of which: Bond due within 3 months		
3. Closing balance of cash and cash equivalents	2,407	3,601

Notes to the Financial Statements

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

7. CHANGES IN CONSOLIDATION SCOPE

There is no change in consolidation scope.

8. INTERESTS IN OTHER ENTITIES (Continued)

1. Interest in the subsidiary

The constitution of the enterprise group

Full Name of Subsidiaries	Principal place of business	Registry	nature of the business	Direct stake (%)	acquisition
Angang Steel Distribution(Wuhan) Co., Ltd. ("Angang Wuhan")	Wuhan	Wuhan	Steel Processing and Distribution	100	Establish
Angang Steel Distribution (Hefei) Co., Ltd. ("Angang Hefei")	Hefei	Hefei	Steel Processing and Distribution	100	Establish
Shenyang Anshan Iron and Steel International Trade Co., Ltd. ("Shenyang Trade")	Shenyang	Shenyang	Sales of metal materials and products, building materials, etc.	100	Combination under common control
Shanghai Anshan Iron and Steel International Trade Co., Ltd. ("Shanghai Trade")	Shanghai	Shanghai	Wholesale and retail purchasing services	100	Combination under common control
Tianjin Anshan Iron and Steel International Trade Co., Ltd. ("Tianjin Trade")	Tianjin	Tianjin	Purchase and sale of metal and other materials	100	Combination under common control
Guangzhou Anshan Iron and Steel International Trade Co., Ltd. ("Guangzhou Trade")	Guangzhou	Guangzhou	Technology import and export of goods, Wholesale and retail trade	100	Combination under common control
Shenyang Anshan Iron and Steel Processing and Distribution Co., Ltd. ("Shenyang Steel")	Shenyang	Shenyang	Steel Processing and Distribution	100	Combination under common control
Anshan Iron and Steel Processing and Distribution(Dalian)Co., Ltd. ("Angang Dalian")	Dalian	Dalian	Steel Processing and Distribution	100	Establish
Ningbo Anshan Iron and Steel International Trade Co., Ltd. ("Ningbo Trade")	Ningbo	Ningbo	Steel trade	100	Establish

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

8. INTERESTS IN OTHER ENTITIES (Continued)

1. Interest in the subsidiary (Continued)

The constitution of the enterprise group (Continued)

Full Name of Subsidiaries	Principal place of business	Registry	nature of the business	Direct stake (%)	acquisition
Yantai Anshan Iron and Steel International Trade Co., Ltd. ("Yantai Trade")	Yantai	Yantai	Steeltrade	100	Establish
Zhengzhou Steel	Zhengzhou	Zhengzhou	Steel Processing and Distribution	100	Establish
Guangzhou automobile Steel	Guangzhou	Guangzhou	Fabricated Metal	100	Establish
Anshan Iron and Steel Processing and Distribution Guangzhou Co., Ltd. ("Angang Guangzhou")	Guangzhou	Guangzhou	Steel Processing and Distribution	75	Establish
Anshan Iron and Steel Processing and Distribution (Weifang) Co., Ltd. ("AngangWeifang")	Weifang	Weifang	Steel Processing and Distribution	51	Combination under common control
Anshan Iron and Steel Processing and Distribution (Shanghai) Co., Ltd. ("Angang Shanghai")	Shanghai	Shanghai	Steel Processing and Distribution	51	Combination under common control
Anshan Iron and Steel Processing and Distribution (Tianjin) Co., Ltd. ("Angang Tianjimi")	Tianjin	Tianjin	Steel Processing and Distribution	51	Combination under common control
Anshan Iron and Steel Kobelco	Anshan	Anshan	Processing and sale of steel rolling	51	Establish
ANSC-TKS	Changchun	Changchun	Development, production, laser tailor-welded plate And service	100	Combination under common control
TKAS-SSC	Changchun	Changchun	Production, processing and steel products Sell products sales and distribution Technology research and development	100	Combination under different control

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

8. INTERESTS IN OTHER ENTITIES (Continued)

2. Interests in joint ventures or associates

(a) The important joint ventures or associates

Name	Principal place of business	Registry	Nature of the business	Direct stake (%)	Accounting treatment
ANSC-TKS	Dalian	Dalian	Galvanized and alloyed steel Board production and sales	50	Equity method
ANSC – Dachuan	Dalian	Dalian	Steel processing and sales	50	Equity method
Changchun FAM	Changchun	Changchun	Steel production and processing services	50	Equity method
Angang Finance	Anshan	Anshan	Deposits and loans and financing	20	Equity method
Iron Oxide Powder	Anshan	Anshan	Iron powder processing	30	Equity method
Nansha Logistical	Guangzhou	Guangzhou	Freight Forwarding, steel packaging,	45	Equity method
AISSG	Hangzhou	Hangzhou	Trade, warehousing services	49	Equity method
Shanghai chemical	Shanghai	Shanghai	Build steel processing projects	23	Equity method
Shanghai Chemical	Guangzhou	Guangzhou	Steel Processing and Distribution	30	Equity method

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

8. INTERESTS IN OTHER ENTITIES (Continued)

2. Interests in joint ventures or associates (Continued)

(b) The accounting treatment of the important joint ventures

Items	ANSC-TKS	
	Closing date/ the date occurred in this period	Opening date/ the date occurred in last period
Current assets	1,183	1,339
Cash and cash equivalents	114	225
Non- Current assets	757	715
Total Assets	1,940	2,054
Current liabilities	553	425
Non- Current liabilities	8	10
Total Liabilities	561	435
Minority interests		
Subtotal of Shareholders' equity attributable to shareholders of parent company	1,379	1,619
The share of the net assets calculated by the share of atake	690	810
Adjusting events		
– goodwill		
– unrealized profit resulting from intra-group trade	(31)	(83)
– others		
The book value of equity investments in joint ventures	659	727
The fair value of the equity investments in joint ventures which exist the public offer		
Operating revenue	2,146	2,558
Finance costs		(2)
Income tax expenses	56	35
Net profit	290	196
Net profit from discontinued operations		
Other comprehensive income		
The total of comprehensive income	290	196
Dividends received from joint ventures this year	379	650

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

8. INTERESTS IN OTHER ENTITIES (Continued)

2. Interests in joint ventures or associates (Continued)

(c) The accounting treatment of the important association

Item	Angang Finance	
	Closing date/ the date occurred in this period	Opening date/ the date occurred in last period
Current assets	5,584	5,868
Cash and cash equivalents	4,455	5,375
Non-Current assets	14,447	14,975
Total Assets	20,031	20,843
Current liabilities	13,482	14,870
Non-Current liabilities		
Total Liabilities	13,482	14,870
Minority interests	25	27
Subtotal of Shareholders' equity attributable to shareholders of parent company	6,524	5,946
The share of the net assets calculated by the share of atake	1,305	1,189
Adjusting events		
– goodwill		
– unrealized profit resulting from intra-group trade		
– others		
The book value of equity investments in associations	1,305	1,189
The fair value of the equity investments in associations which exist the public offer		
Operating revenue	546	614
Finance costs		
Income tax expenses	100	101
Net profit	302	308
Net profit from discontinued operations		
Other comprehensive income		(5)
The total of comprehensive income	302	303
Dividends received from associations this year		

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

8. INTERESTS IN OTHER ENTITIES (Continued)

2. Interests in joint ventures or associates (Continued)

- (d) The accounting treatment of the unimportant joint ventures and associations

Items	Angang Finance	
	Closing date/ the date occurred in this period	Opening date/ the date occurred in last period
Associations:		
The book value of equity investments	324	376
The followings are calculated by shares		
– net profit	5	9
– Other comprehensive income		
– The total of comprehensive income	5	9
Joint ventures:		
The book value of equity investments	216	246
The followings are calculated by shares		
– net profit		4
– Other comprehensive income		
– The total of comprehensive income		4

9. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS

The Group's principal financial instruments comprise equity investment, debt investments, loans, accounts receivable, accounts payable, bonds payable and cash and cash equivalents and etc. the details of the financial instruments described in Note 6. Risks associated with these financial instruments, as well as the Group's risk management policies to mitigate these risks are described as below. The group's management controlled these exposures within certain limits by management and monetary.

Sensitivity analysis techniques are adopted by the Group to analyze the rationality of risk variables, and the effects of the changes on profit or loss or shareholders' equity. The risk variables seldom changes individually, and the changes of one risk variables may have a significant effect on the amount of the other with a correlation, therefore, the following content is based on the assumption that changes of each variable are independent.

(a) The objectives and policies of risk management

The Group's objective in risk management is to achieve balance between the risks and benefits, to reduce the risk's negative impact to the lowest level and maximize the interests of shareholders and other equity investors. Based on the risk management objectives, the basic strategy of the Group's risk management is to identify and analyze the risks faced by the Group, to establish an appropriate baseline for risk tolerance and risk management, to monitor a variety of risk timely and reliably, and to control the risk within a limited range.

1. Market risk

(i) Exchange risk

Foreign currency risk refers to the risk of loss due to the fluctuation of exchange rate. The foreign currency risk of the Group exposed is mainly related to the US dollar and the EUR. Besides the following assets or liabilities in US dollars and euros at 30 June 2016, other assets and liabilities of the Group are denominated in RMB balances.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

9. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued)

(a) The objectives and policies of risk management

1. Market risk

(i) Exchange risk

Items	30 June 2016	30 June 2015
Bank deposits (<i>dollar</i>)	222.23	
Short-term loans (<i>dollar</i>)	270,000,000.00	400,000,000.00
Account payables (<i>euro</i>)	209,926.43	
Non-current liabilities due within one year (<i>euro</i>)	123,946.76	123,946.76
Long-term borrowings (<i>euro</i>)	61,973.43	185,920.19

The Group settled its account receivables and payables, arising from product exported and raw materials and engineering equipment imported, with the import and export agents by a fixed contract exchange rate, therefore, there is no significant foreign currency risk in transactions of the Group..

A. On 30 June 2016, the exchange risk's exposure of assets and liabilities listed in the original currency is in Note 6 (1, 16, 26 and 27)

B. the Group's main foreign exchange rates apply as follows:

Item	Average exchange rate		Middle exchange rate on the reporting date	
	This period	Last period	This period	Last period
dollar	6.5379	6.1289	6.6312	6.1136
euro	7.2842	6.8259	7.375	6.8699

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

9. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued)

(a) The objectives and policies of risk management (Continued)

1. Market risk (Continued)

(i) Exchange risk (Continued)

C. Sensitivity analysis

On 30 June 2016, 1% increase in the foreign exchange rate would result in an increase (decrease) in net equity and profit or loss of the group's shareholders listed as follows:

Date	Item	Impact on profits	Impact on shareholders' equity
30 June 2016	dollar euro	(13)	(13)
30 June 2015	dollar euro	(18)	(18)

As of 30 June 2016, under the assumption that all other variables remain the same premise, if the RMB against the USD and euro exchange rate reduced by 1% would result in the same amount of change in shareholders' equity and net profit on the table above, whereas in the opposite direction.

The sensitivity analysis above is based on the assumption that changes in the exchange rate on the balance sheet date, and this change applies to the Group's entire derivative and non-derivative financial instruments. 1% change is based on the reasonable projection for exchange rate from the Group's balance sheet date to the next balance sheet date. Last period analysis based on the same assumptions.

Notes to the Financial Statements (*Continued*)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

9. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (*Continued*)

(a) The objectives and policies of risk management (*Continued*)

1. Market risk (*Continued*)

(ii) Interest rate risk

The Group's interest-bearing financial instruments on 30 June 2016 please refer to notes 6 (1, 16, 25, 26 and 27)

Sensitivity analysis:

The principles of the Group's interest rate risk management aim to reduce the impact of short-term fluctuations on the Group's profits. However, in the long term, permanent changes in interest rates will affect profits.

As of 30 June 2016, with all other variables held constant, assuming that the interest rate of bank deposits, available for sale financial assets, short-term borrowings, non-current liabilities due within one year, short-term bonds, long-term loans and bonds payable increase 1 percentage point, would result in RMB171 million decrease (last period: RMB170 million) of the Group's net income and shareholders' equity.

The sensitivity analysis above is based on the assumption that changes in the exchange rate on the balance sheet date, and this change applies to all of the Group's derivative and non-derivative financial instruments. 1 percentage point change is based on the reasonable expectations for the exchange rate among the Group's balance sheet date to the next balance sheet date. Analysis of last period is based on the same assumptions.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

9. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued)

(a) The objectives and policies of risk management (Continued)

2. Credit risk

Credit risk refers to the risk that counter party will default on its contractual obligation resulting in financial loss to the other party. The Group's credit risk is primarily attributable to receivables. Management will continue to review the credit risk exposure.

For receivables, the Group has established a credit policy under the actual situation, the amount of credit is determined by the customer's credit assessments. The Group requires most customers to pay the full amount in cash or notes of the products before delivery. The accounts receivable associated with the clients is mature within 1-4 months since the bills issued. The debtor overdue more than one month will be required to settle all the outstanding balances before any further credit. Under normal circumstances, the Group does not prescribe collateral from customers.

The majority of the Group's customers have business transactions with the Group for many years; therefore, losses are infrequently occurred. The Group analyzed the aging, maturity and other customer information in order to monitor the Group's credit risk,

There is no significant impairment and overdue receivables as of 30 June 2016.

Due to the accounts receivables of the top five customers, which are accounted for 34% of the receivables and other receivables on the balance sheet date (last period: 47%), the Group may face a certain degree of credit risk concentration.

The maximum credit risk exposure faced by the Group, which is not guaranteed, is the book value of the financial assets in the balance sheet.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

9. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued)

(a) The objectives and policies of risk management (Continued)

3. Liquidity risk

The Group is responsible for its own cash management to cover projected cash arrangements including the short-term investments by using the cash surpluses and loans. The Group monitor short-term and long-term liquidity requirements regularly aimed to find out whether is in compliance with the loan agreements, to ensure that the group maintains sufficient cash reserves and readily realizable securities, and to maintain sufficient funds of major committed financial institutions to meet short-term and longer-term liquidity needs.

10. DISCLOSURE OF THE FAIR VALUE

The book value of financial assets and financial liabilities of the Group presented in the consolidated financial statements is similar to its fair value, except for the Notes 6 (2, 9 and 17).

The fair value measurement is classified into three hierarchies, listed as follows:

Level 1: The quoted price (unadjusted) in dynamic market for identical asset or liability.

Level 2: Inputs other than quoted price included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: The unobservable inputs for asset or liability (unobservable inputs).

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

10. DISCLOSURE OF THE FAIR VALUE (Continued)

Item	the fair value at the end of the period			total
	The fair value measured at first level	The fair value measured at second level	The fair value measured at third level	
Available-for-sale financial assets	47			47

Item	the fair value at the end of the period			total
	The fair value measured at first level	The fair value measured at second level	The fair value measured at third level	
Available-for-sale financial assets		62		62

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(1) INFORMATION ON THE PARENT OF THE COMPANY

Group name	Related relationship	Group Type	Registration place	Legal representatives	The nature of business
Ansteel Group	Parent Company	State owned Company	Tie Xi District Anshan Liaoning Province	Yao Lin	Production and sale of steel and metal products, steel filament Tubes, and metal structures

Group name	Registered Capital	The Group's shareholding (%)	Proportion of voting-right (%)	Ultimate controlling party	Organization Code
Ansteel Group	10,794	67.29	67.29	Angang Group Corporation	24142001-4

(2) INFORMATION ON THE SUBSIDIARIES OF THE COMPANY

Disclosed in Note 8(1) Subsidiaries

(3) INFORMATION ON THE JOINT VENTURES AND ASSOCIATES OF THE GROUP

Disclosed in Note 8(2) Investment in joint ventures and associates

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

11. RELATED PARTIES AND RALATED PARTY TRANSACTIONS (Continued)

(4) RELATED PARTIES WITHOUT CONTROL RELATIONSHIP

Name of enterprise	Relation with the Company	Organization code
ANSC-TKS	Joint venture	71093688-2
ANSC-Dachuan	Joint venture	75990387-0
Changchun FAM	Joint venture	76717649-0
Angang Finance	Associate	1188857-2
Nansha Logistical	Associate	57995211-4
Anshan Jingu	Associate	31138104-X
Shanghai Chemical	Associate	57078986-7
Falan Packing	Fellow subsidiary	57090841-6
Angang Trade	Fellow subsidiary	24142372-5
Angang construction consortium Co. Ltd.	Fellow subsidiary	94129158-3
Angang Heavy Machine Co., Ltd	Fellow subsidiary	24150326-6
Angang Fire-resistant Material Co	Fellow subsidiary	94126547-3
Angang Steel Rope Co., Ltd.	Fellow subsidiary	94126496-4
Angang Mining Co	Fellow subsidiary	24150404-X
Angang Entity Group	Fellow subsidiary	24142765-4
Angang House Property Co.	Fellow subsidiary	94126840-4
Angang Railway Transport Facilities Construction Co.	Fellow subsidiary	94121854-6
Angang Real Estate Development Co., Ltd	Fellow subsidiary	11886337-0
Angang mechanization loading Co.	Fellow subsidiary	94126489-2
Angang Mining Construction Co.	Fellow subsidiary	66455726-6
Angang Engineering Technology Co., Ltd	Fellow subsidiary	79159132-8
Angang Electric Co., Ltd	Fellow subsidiary	94126485-X
Angang Automatism Co	Fellow subsidiary	94126643-3
Angang Auto Transport Co., Ltd	Fellow subsidiary	94126444-6
Angang Reception Service Co.	Fellow subsidiary	94121967-X
Anshan Iron and Steel Group Co., Ltd. Chaoyang	Fellow subsidiary	664560991

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(4) RELATED PARTIES WITHOUT CONTROL RELATIONSHIP (Continued)

Name of enterprise	Relation with the Company	Organization code
Tianjing Tiantie	Fellow subsidiary	7522423-2
Anshan Yingkou harbor co., LTD	Fellow subsidiary	66729431-8
Pangang group panzhihua steel vanadium co., LTD	Fellow subsidiary	68993035-4
Anshan iron and steel community (Guangzhou) stainless steel co., LTD	Fellow subsidiary	91440116734930290U
Pangang Steel Vanadium and Titanium Co., Ltd	Fellow subsidiary	204360956
Pangang Steel Metallurgical Engineering Technology Co., Ltd	Fellow subsidiary	204363911
Pangang Steel Chengdu Steel Vanadium co., Ltd	Fellow subsidiary	690908074
Anshan Angang Vesuvius Refractory Co., Ltd	Joint venture of the parent company	686619528
Anshan Jidong Cement Co., Ltd	Joint venture of the parent company	77077858X
Angang BK Jilini Water Treatment Co., Ltd	Joint venture of the parent company	68661847X

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) RELATED-PARTY TRANSACTIONS

(a) Related-party transactions within Ansteel Group

(i) Related-party transactions on Procurement of Goods and Services

Contents	Pricing Policy	This period		Last period	
		Amount	Percent of similar trade (%)	Amount	Percent of similar trade (%)
Raw materials	Note. i	3,901	61	5,218	63
Steel products	Note. ii			11	100
Supplementary materials	Note. ii	667	29	1,206	40
Energy and power supplies	Note. iii	875	39	941	40
Support services	Note. iv	1,416	70	2,170	45
Total		6,859		9,546	

(ii) Related-party transactions on Sales of Goods and Services

Contents	Pricing Policy	This period		Last period	
		Amount	Percent of similar trade (%)	Amount	Percent of similar trade (%)
Products	Note.v	392	2	1,059	4
Scrap steel and materials	Note.v	93	74	117	83
General services	Note.vi	486	57	369	48
Total		971		1,545	

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) RELATED-PARTY TRANSACTIONS (Continued)

- (b) Related-party transactions with Pangang steel Vanadium and Titanium Co., Ltd

Related-party Transactions on Procurement of Goods and Services

Contents	Pricing Policy	This period		Last period	
		Amount	Percent of related transactions (%)	Amount	Percent of related transactions (%)
Raw materials	Note. i	498	11	767	15
Total		498		767	

Notes:

- i. The iron ore concentrate purchase price is not higher than Not higher than the monthly average value of the medium price of Platts Fe 65% (CFR) for Northern China (Qingdao port) as published daily by the SBB Steel Markets Daily Briefing for the preceding month (T-1) plus the freight cost from Bayuquan port to the Company. Price adjustments for mineral grades shall be made to the price in accordance with iron content calculated based on the average value of Platts Fe 65% index for the preceding month (T-1). Using this as the basis, a further discount equal to 3% of the average value of Platts Fe 65% index for the preceding month (T-1) shall be applied. The pellets ore is measured at market price.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) RELATED-PARTY TRANSACTIONS (Continued)

- (b) Related-party Transactions with Pangang steel Vanadium and Titanium Co., Ltd (Continued)

Notes: (Continued)

The price of iron concentrate plus the processing costs for the preceding month (T-1) (in particular such processing costs shall not be higher than the processing costs of the products of the same category produced by the Company). The price of Premium products of Mineral ore from Karara Mining Limited (iron grade $\geq 67.2\%$) is not higher than the average monthly price of such product sold to independent third parties in Mainland China for the corresponding period (i.e. the month in which freight was loaded at the port of origin). The sales volume of premium products of Mineral ore made by Karara Mining Limited to independent third parties in Mainland China shall not be less than 30% of the total sales volume of premium products of Karara Mining Limited for a given period. The price of Standard grade products of (iron grade $\geq 65\%$) made by Karara Mining Limited is calculated based on the monthly average value of the medium price of Platts Fe 65% (CFR) for Northern China (Qingdao port) as published daily by the SBB Steel Markets Daily Briefing for the month in which the freight was loaded at the port of origin plus the freight cost differential for each dry metric tonne from Qingdao port to Bayuquan port, Liaoning, divided by 65 and multiplied by the actual product grade. The price of Low grade products (iron grade $\geq 59\%$) made by Karara Mining Limited is calculated based on the monthly average value of the medium price of Platts Fe 62% (CFR) for Northern China (Qingdao port) as published daily by the SBB Steel Markets Daily Briefing for the month in which the freight was loaded at the port of origin plus the freight cost differential for each dry metric tonne from Qingdao port to Bayuquan port, Liaoning, divided by 62 and multiplied by the actual product grade. Scrap, billets, alloys and non-ferrous metal are purchased at market prices;

Notes to the Financial Statements (*Continued*)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (*Continued*)

(5) RELATED-PARTY TRANSACTIONS (*Continued*)

- (b) Related-party Transactions with Pangang steel Vanadium and Titanium Co., Ltd (*Continued*)

Notes: (Continued)

- ii. The price of steel products is determined based on the selling price of the Company to third parties after deducting a consignment fee of RMB20–35 per tonne. The purchasing prices of ancillary materials are not higher than the average prices charged to independent customers;
- iii. Mainly at state prices, or operating costs plus 5% of gross profit margin;
- iv. At state-fixed prices, or market prices, or not higher than 1.5% of the commissions, or depreciation fees and maintenance costs, or labour, materials and management fees, or processing costs plus no more than 5% of the gross margin;
- v. Steel products and scrap materials are mainly measured at selling prices based on the average prices charged to independent customers for the preceding month or market prices. The basis of the price of steel products offered to Angang Holding for development of new products is measured, if there is a market price, at the market price, and if not, at the cost plus a reasonable profit. The sieve powder is measured at sintered iron ore price deducted the cost of sintering procedures performed by Angang Holding. Retired and idle assets are mainly measured at market prices or assessing prices;
- vi. At the state prices, or operating costs plus 5% of gross profit margin, or market prices.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) RELATED-PARTY TRANSACTIONS (Continued)

(c) Guarantee of loans

Warrantor	Warranty	Amount Guaranteed	Starting date	Expiring date	Whether fulfilled
Ansteel Holding	Angang Hefei	11	Mar. 5 2013	Sep.6 2016	No
Ansteel Group	The audited company	1,000	May. 27 2016	26 May 2017	No
Ansteel Holding	Anshan Iron and Steel Processing and Distribution Guangzhou) Co., Ltd.	40	Feb. 10 2015	Feb. 9 2018	No

(d) Other related-party transactions

(i) Service from sales agent

This period, the amount of domestic and export sales agent service provided Angang Trade were 93 million tons respectively (137 million tons respectively for the last period).

(ii) Related-party transactions with the joint ventures and the associates:

A. Sales of products

Name of enterprise	Sales in this period	Sales in Last period
ANSC-TKS	1,100	1,766
Nansha logistical	32	27
Anshan Jingu	15	
Changchun FAM	22	42
TKAS-SSC		131

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) RELATED-PARTY TRANSACTIONS (Continued)

(d) Other related-party transactions (Continued)

(ii) Related-party transactions with the joint ventures and the associates: (Continued)

B. Service of sales agent

The amount paid to TKAS-SSC for their sales agent service was RMB0 million for this period (RMB1 million for the last period).

(iii) Loan, deposit and interest payment to Angang Finance

Items	Annual interest rate (%)	Opening balance	Increment	Decrement	Closing balance	Terms of credit
Loans	4.35-6.4	178		62	116	Guarantee Loans
Deposit		834			633	

This period, the Group's interest income of deposit in Angang Finance was RMB7 million (last period: RMB5 million) and the interest expenditure for loans from Angang finance was RMB7 million (last period: RMB10 million). The highest daily deposit in Angang Finance in 2015 was RMB1,988 million (last period: 1,488 million).

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) RELATED-PARTY TRANSACTIONS (Continued)

(d) Other related-party transactions (Continued)

(iv) Loan and interest paid to Ansteel Group

Items	Annual interest rate (%)	Opening balance	Increment	Decrement	Closing balance	Terms of credit
Loan	5.4	350	170		520	Credit Loan

The Ansteel Group entrusted the Angang Finance to grant and manage the loans, and the loan interest expenditure in this period was RMB13 million (last period:RMB22 million).

(e) Remuneration of the directors, supervisors and senior management

Items	This period	Last period
Directors' fees	0.36	
Other remuneration:		
Salaries, allowances and non-cash amount of interest	0.37	0.68
Performance-related bonus		
Equity-settled share option expenses	0.10	0.16
Pension plan contributions	0.07	0.17
other remuneration		
Total	0.90	1.01

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) RELATED-PARTY TRANSACTIONS (Continued)

(e) Remuneration of the directors, supervisors and senior management (Continued)

Fees paid to executive directors, non-executive directors, supervisors and senior management personnel

Name	Accounts in this period					Total
	Directors' fees	Salaries, allowances and non-cash amount of interest	Performance-related bonus	Equity-settled share option expenses	Pension plan contributions	
Executive directors:						
Lin Yao						
Yidong Wang		0.08		0.02	0.02	0.12
Lifen Zhang (departure in Mar.30, 2016)		0.02		0.01		0.03
Zhang Jingfan		0.09		0.02	0.02	0.13
Subtotal for executive directors		0.19		0.05	0.04	0.28
Non-executive directors:						
Fangzheng Chen (departure in Jun.8, 2016)	0.09					0.09
Xuanhui Qu (departure in Jun.8, 2016)	0.09					0.09
Zhengdong Liu (departure in Jun.8, 2016)	0.09					0.09
Zhiwei Zhou (departure in Jun.8, 2016)	0.09					0.09
Subtotal for non-executive directors	0.36					0.36
Supervisors:						
Daqing Lin						
Jun Song						
Hai Bai (departure in Jun.8, 2016)		0.05		0.01	0.01	0.07
Subtotal for supervisors		0.05		0.01	0.01	0.07
Senior management						
Jun Liu (departure in Mar.30, 2016)		0.02		0.01		0.03
Shishuai Xu (appoint in Mar.30, 2016)		0.06		0.02	0.01	0.09
Jinsong Meng (appoint in Mar.30, 2016)		0.05		0.01	0.01	0.07
Subtotal for Senior management		0.13		0.04	0.02	0.19
Total	0.36	0.37		0.10	0.07	0.90

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) RELATED-PARTY TRANSACTIONS (Continued)

(e) Remuneration of the directors, supervisors and senior management (Continued)

Name	Accounts in this period					Total
	Directors' fees	Salaries, allowances and non-cash amount of interest	Performance-related bonus	Equity-settled share option expenses	Pension plan contributions	
Executive directors:						
Xiaogang zhang						
Fuping Tang						
Hua Yang						
Yidong Wang		0.09		0.03	0.02	0.14
Lianyong Ma		0.08		0.02	0.02	0.12
Subtotal for executive directors		0.17		0.05	0.04	0.26
Supervisors:						
Zhiwu Xu						
Jun Song		0.09		0.02	0.02	0.13
Hai Bai		0.05		0.01	0.01	0.07
Subtotal for supervisors		0.14		0.03	0.03	0.2
Senior management						
Ziping Ren		0.09		0.02	0.03	0.14
Lifen zhang		0.09		0.02	0.02	0.13
Jun liu		0.09		0.02	0.02	0.13
Jie liu		0.09		0.02	0.02	0.13
Jingfan Zhang		0.01			0.01	0.02
Subtotal for Senior management		0.37		0.08	0.10	0.55
Total		0.68		0.16	0.17	1.01

Note: None of the directors, supervisors or senior managers agreed to waive the payment agreement in this year.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) RELATED-PARTY TRANSACTIONS (Continued)

- (e) Remuneration of the directors, supervisors and senior management (Continued)

Top five employees by remuneration involved two executive directors and three non-executive directors (last term: two directors and three senior managements), and whose payment are set out in detail above.

(6) BALANCES OF RELATED-PARTY TRANSACTIONS

- (a) Account receivables and prepayments

Items	Closing balance	Opening balance
Account receivables		
Angang Trade	86	172
Angang Chaoyang	19	19
Angang Mining Co	28	
Anshan Jidong Cement Co., Ltd	36	37
Pangang Steel Chengdu Steel Vanadium Co., Ltd	5	5
Ansteel Group	88	8
Anshan Iron and Steel Co., Ltd.	30	26
Angang Heavy Machinery Co., Ltd.	127	44
Ansteel construction Co., LTD	9	16
Ansteel electric Co., LTD	1	2
ANSC-TKS	22	1
Ansteel cold-rolled steel sheet (putian) Co., LTD		21
Ansteel casting Co., LTD	6	
Other Related Parties		4
Total	457	355
Prepayment		
Angang Trade	1,817	1,367
Angang Engineering Technology Co., Ltd	9	13
Angang construction consortium Co. Ltd.		3
Angang motor transport Co., LTD	6	2
Total	1,832	1,385

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(6) BALANCES OF RELATED-PARTY TRANSACTIONS (Continued)

(b) Accounts payable and receivables in advance

Items	Closing balance	Opening balance
Account payables		
Angang Trade	90	1,170
Angang Construction Group	13	23
Angang Entity Group	29	35
Angang Heavy machine Co., Ltd	3	6
Ansteel casting Co., LTD	8	
Angang Mining Construction Co.	3	7
Angang Chaoyang	5	5
Angang Automatism Co	3	9
Angang Electric Co., Ltd	2	4
Falan Packing	8	5
Angang Auto Transport Co., Ltd	10	16
Ansteel Group	575	5
Angang Railway Transport Facilities Construction Co.	2	6
Angang Steel Rope Co., Ltd.	3	2
Angang Engineering Technology Co., Ltd	1	16
Angang Mining Co	411	
ANSC-TKS	125	102
Anshan angang Vesuvius refractories co., LTD	1	104
Other Related Parties	4	2
Total	1,296	1,517

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(6) BALANCES OF RELATED-PARTY TRANSACTIONS (Continued)

(b) Accounts payable and receivables in advance (Continued)

Items	Closing balance	Opening balance
Receivables in advance		
ANSC-TKS		216
Pangang group trade co., LTD		13
Angang Mining Co	2	9
Angang Construction Group	6	7
Angang Entity Group	28	22
Falan Packing	10	8
Ansteel casting Co., LTD		3
Angang Real Estate Development Co., Ltd	1	
Ansteel motor transport Co., LTD	1	1
Angang Trade		66
Angang Heavy machine Co., Ltd	2	3
Angang Mining Construction Co.		2
Total	50	350

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(6) BALANCES OF RELATED-PARTY TRANSACTIONS (Continued)

(b) Accounts payable and receivables in advance (Continued)

Items	Closing balance	Opening balance
Other payables		
Ansteel Group	331	1
Angang Engineering Technology Co., Ltd	231	231
Angang Construction Group	67	75
Angang Trade	52	69
Angang Automatism Co., Ltd	34	33
Angang Mine Construction Co., Ltd	25	23
Angang Entity Group	28	17
Angang Heavy Machine Co., Ltd	12	12
Angang Auto Transport Co., Ltd	10	11
Angang Railway Transport Facilities Construction Co., Ltd	11	5
Anshan Yingkou harbor international co., LTD	18	19
Anshan information industrial co., Ltd	14	14
Pangang group panzhihua steel vanadium co., Ltd	5	5
Other Related Parties	3	2
Total	841	517

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

12. SHARE-BASED PAYMENT

As of 30 June 2016, there is no share based payment transaction need to be disclosed.

13. COMMITMENTS

(1) SIGNIFICANT COMMITMENTS

Items	At 30 June 2016	At 30 June 2015
Investment contracts entered but not yet performed or performed partially	18	439
Construction and renovation contracts entered but not yet performed or performed partially	1,648	7,319
Total	1,666	7,758

(2) CONTINGENCIES

As of 30 June 2016, there were no contingencies need to be disclosed.

14. SUBSEQUENT EVENTS

There were no matters need to be disclosed after the balance sheet date.

15. OTHER SIGNIFICANT INSTRUCTIONS

In 4 July 2016, the seventh session of the second meeting of the board of directors approved “the company’s 2016 annual development of commodity futures hedging business of the bill”. In order to control the business risks, improve the company’s ability to withstand market and hedge the risk from the company procurement of raw material and fuel and sales of steel products of stock. According to the relevant provisions of the Guidelines for the operation on the main board listed company of the Shenzhen Stock Exchange, combined with the actual needs of the company’s business development, the company to carry out commodity futures hedging business in 2016. The company will control the business scale within 50% of the procurement and sales targets. The amount of hedging plan for each species in 2016: steel will be 1 million tons, raw fuels will be 5 million 300 thousand tons, non-ferrous metals about 25 thousand tons and iron alloy will be 40 thousand tons. The highest margin for hedge is 350 million yuan in 2016.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

16. NOTES TO PARENT'S FINANCIAL STATEMENTS

(1) ACCOUNTS RECEIVABLE

(a) Accounts receivable by category

Items	Closing balance			
	Book value		Bad debt provision	
	Balance	Percentage (%)	Balance	Percentage (%)
Accounts receivable with amounts that are individually significant and subject to separate assessment for bad debts provision	2,361	89		
Accounts receivable with amounts that are individually insignificant and subject to separate assessment for bad debts provision	359	11	1	100
Total	2,720	100	1	100

Type	Opening balance			
	Book value		Bad debt provision	
	Balance	Percentage (%)	Balance	Percentage (%)
Accounts receivable with amounts that are individually significant and subject to separate assessment for bad debts provision	1,315	80		
Accounts receivable with amounts that are individually insignificant and subject to separate assessment for bad debts provision	321	20	1	100
Total	1,636	100	1	100

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

16. NOTES TO PARENT'S FINANCIAL STATEMENTS (Continued)

(1) ACCOUNTS RECEIVABLE (Continued)

(b) Aging analysis of accounts receivable

Aging	Closing balance			
	Book value		Bad debt provision	
	Balance	Percentage (%)	Balance	Percentage (%)
Within 1 year	2,619	96		
1 to 2 years	72	3		
2 to 3 years	28	1		
Over 3 years	1		1	100
Total	2,720	100	1	100

Aging	Opening balance			
	Book value		Bad debt provision	
	Balance	Percentage (%)	Balance	Percentage (%)
Within 1 year	1,554	95		
1 to 2 years	78	5		
2 to 3 years	3			
Over 3 years	1		1	100
Total	1,636	100	1	100

(c) Bad debt provision accrued at the end of the year:

By judgment of the management, majority of accounts receivables could be recovered and debtor's solvency is reliable, so bad debt provision is relatively low.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

16. NOTES TO PARENT'S FINANCIAL STATEMENTS (Continued)

(1) ACCOUNTS RECEIVABLE (Continued)

- (d) The condition of accounts receivable of the top five debtors by the balances at the end of the year

The accounts receivable balance of top five debtors was RMB988 million, accounting for 36% of the balance at the end of the year, and bad debt provision of which was 0 in total.

(2) OTHER RECEIVABLES

- (a) Nature of other receivables

Type	Closing balance			
	Book value		Bad debt provision	
	Balance	Percentage (%)	Balance	Percentage (%)
Other receivables with amounts that are individually significant and subject to separate assessment for bad debts provision				
Other receivables with amounts that are individually insignificant and subject to separate assessment for bad debts provision	46	100		
Total	46	100		

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

16. NOTES TO PARENT'S FINANCIAL STATEMENTS (Continued)

(2) OTHER RECEIVABLES (Continued)

(a) Nature of other receivables (Continued)

Type	Opening balance			
	Book value		Bad debt provision	
	Balance	Percentage (%)	Balance	Percentage (%)
Other receivables with significant single amount subject to individual impairment	14	30		
Other receivables with insignificant single amount subject to individual impairment	33	70		
Total	47	100		

(b) Classification of other receivable according to the nature

Other accounts receivable	Closing book value	Opening book value
Petty cash	27	22
Export rebates		14
Other	19	11
Total	46	47

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

16. NOTES TO PARENT'S FINANCIAL STATEMENTS (Continued)

(2) OTHER RECEIVABLES (Continued)

(c) Bad debt provision at the end of the period:

By judgment of the management, majority of accounts receivables could be recovered and debtor's solvency is reliable, so bad debt provision is relatively low.

(3) LONG-TERM EQUITY INVESTMENTS

(a) Types of long-term equity investments

Items	Closing date			Opening date		
	Provision			Provision		
	Book balance	for impairment	Book value	Book balance	for impairment	Book value
Investments in subsidiaries	1,865		1,865	1,865		1,865
Investments in joint ventures and associates	2,504		2,504	2,673		2,673
Total	4,369		4,369	4,538		4,538

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

16. NOTES TO PARENT'S FINANCIAL STATEMENTS (Continued)

(3) LONG-TERM EQUITY INVESTMENTS (Continued)

(b) Investments in subsidiaries

The invested company	Opening date	increase	decrease	Closing date	Provision for impairment	The closing date of provision for impairment
Angang Wuhan	177			177		
Angang Hefei	102			102		
Angang Guangzhou	90			90		
Shenyang Trading	27			27		
Shanghai Trading	9			9		
Tianjin Trading	9			9		
Guangzhou Trading	21			21		
Angang Shenyang	98			98		
Angang Weifang						
Angang Shanghai	19			19		
Angang Tianjin	27			27		
Angang Dalian	200			200		
Ningbo Trading	6			6		
Yantai Trading	6			6		
Anshan Iron and Steel						
Kobelco	357			357		
Guangzhou Automobile						
Steel	350			350		
ANSC-TKS	175			175		
TKAS-SSC	69			69		
Zhengzhou Steel	123			123		
Total	1,865			1,865		

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

16. NOTES TO PARENT'S FINANCIAL STATEMENTS (Continued)

(3) LONG-TERM EQUITY INVESTMENTS (Continued)

(c) Investments for the joint ventures and associates

Note: the same to 6(10)

(4) OPERATING INCOME AND OPERATING COST

Items	This period	Last period
Prime operating income	25,250	28,873
Other operating income	36	35
Total	25,286	28,908
Prime operating income	21,884	25,259
Other operating income	35	27
Total	21,919	25,286

(5) INVESTMENT INCOME

Items	This period	Last period
Long-term equity investment income measured at equity method	210	70
Investment income from disposal of long-term equity investments measured at fair value and the changes are recorded into the profits and losses of the current financial assets during the period of holding the investment returns	14	
The investment income during the period when held the available-for-sale financial assets		6
Disposal of available for sale financial assets investment returns		51
Total	224	227

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

17. NET CURRENT ASSETS

Items	Closing balance	Opening balance
Current assets	23,615	23,595
Less: current liabilities	40,899	43,004
Net current assets/(liabilities)	(17,284)	(19,409)

18. TOTAL ASSETS LESS CURRENT LIABILITIES

Items	Closing balance	Opening balance
Total assets	87,208	88,596
Less: current liabilities	40,899	43,004
Total assets less current liabilities	46,309	45,592

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2016 (Expressed in million RMB unless otherwise indicated)

19. SUPPLEMENTARY DOCUMENTS

(1) NON-RECURRING GAINS AND LOSSES

Items	This period	Last period
Gains/losses from disposal of non-current assets	(10)	(1)
Government grant recorded into profit/loss for current period except that relevant to enterprise operation and in compliance with government policies	39	50
Other operating income/loss	4	31
Other Non-recurring gains/losses		
Subtotal	33	80
Effect on taxation	(8)	(20)
Effect on minority interest (after tax)		
Total	25	60

Extraordinary items were recognized in complies with the requirements of NO. 1 Interpretative announcement of Information disclosures of Companies Publicly issued securities, extraordinary items (CSRC's announcement [2008] No. 43)

(2) ROE AND EPS

Profit in this period	Weighted average ROE (%)	EPS (Yuan per share)	
		Basic EPS	Diluted EPS
Net profit attributable to ordinary shares	0.69	0.041	0.041
Net profit (exclusive of non-operating profit) attributable to ordinary shares	0.63	0.038	0.038

Documents Available for Inspection

1. 2016 interim report signed by the Chairman;
2. Financial report signed and affixed with the seal by the legal representative, person in charge of accounting and head of the accounting department of the Company;
3. All documents publicly disclosed by the Company in the China Securities Journal during the Reporting Period;
4. The Articles of Association of the Company;
5. Interim report of the Company disclosed in the Hong Kong stock market.

The above documents are available for inspection at the secretarial office of the Board of Angang Steel Company Limited*, at Production Area of Angang Steel, Tiexi District, Anshan City, Liaoning Province, the PRC.

Board of Directors of
Angang Steel Company Limited*

29 August 2016

* *For identification purpose only*



鞍 鋼 股 份 有 限 公 司
ANGANG STEEL COMPANY LIMITED*