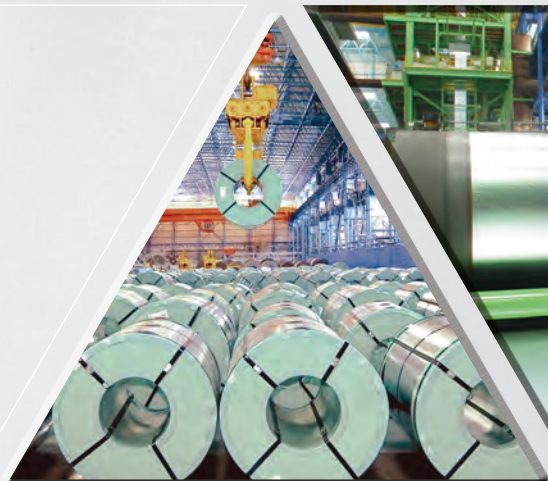




鞍 鋼 股 份 有 限 公 司
ANGANG STEEL COMPANY LIMITED*

Stock Code: 00347



2016 ANNUAL REPORT

* For identification purposes only

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Corporate Profile

The Board, the Supervisory Committee, the Directors, the Supervisors and the senior management of the Company guarantee the truthfulness, accuracy, and completeness of the contents of this report, and that there is no false representation or misleading statement contained in, or material omission from this report, and severally and jointly undertake the legal liability for it.

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

CORPORATE PROFILE

The Company is a joint stock limited company established on 8 May 1997 with Angang Holding as its sole promoter. Pursuant to the reorganization, subsidiaries of the promoter, namely the Cold Roll Plant, Wire Rod Plant and Heavy Plate Plant were transferred to the Company, with a net asset value of RMB2,028,817,600 as determined by the State-owned Assets Administration Bureau, and 1,319,000,000 domestic state-owned legal person shares with a par value of RMB1 each were issued to Angang Holding.

On 22 July 1997, the Company issued 890,000,000 H Shares at HK\$1.63 per share which were listed and traded on the Hong Kong Stock Exchange on 24 July 1997. The Company subsequently issued 300,000,000 domestic A Shares at RMB3.90 per share on 16 November 1997, of which 285,505,400 shares were offered to the public and 14,494,600 employees' shares were placed to the employees of the Company. Trading of the 285,505,400 shares offered and issued domestically, and the 14,494,600 employees' shares placed to the employees of the Company commenced trading on the Shenzhen Stock Exchange on 25 December 1997 and 26 June 1998, respectively.

On 15 March 2000, the Company issued A Share convertible debentures amounting to RMB1.5 billion in the People's Republic of China (the "PRC"). On 14 March 2005, the Company paid the principal and interest accrued for the A Share convertible debentures upon their maturity, and conversion of shares and delisting itself ended on the same day. As of the date of maturity, a total of 453,985,697 A Shares were converted from the convertible debentures of the Company.

On 26 January 2006, the Company newly issued 2,970,000,000 A Shares at RMB4.29 per share to Angang Holding as partial payment of the consideration for the acquisition of 100% equity interests of ANSI. The registration for custody of such shares at Shenzhen Branch of China Securities Depository and Clearing Corporation Limited was completed on 23 February 2006 and they were not traded or transferred within 36 months starting from 23 February 2006. The total number of shares of the Company was 5,932,985,697 after the issue of new shares.

CORPORATE PROFILE (Continued)

On 20 June 2006, it was approved by the annual general meeting of the Company for the year 2005 that the Chinese name of the Company was changed from “鞍鋼新軋鋼股份有限公司” to “鞍鋼股份有限公司”, while the Chinese short name was changed to “鞍鋼股份” from “鞍鋼新軋”, and the English name was changed from “Angang New Steel Company Limited” to “Angang Steel Company Limited”, while the English short name was changed to “Ansteel” from “Angang New Steel”. On 29 September 2006, the Company obtained its new “Business License for Enterprise Legal Person” reflecting such change.

In December 2005, the Company implemented the non-tradable shares reform, pursuant to which Angang Holding, the holder of the non-tradable shares of the Company, offered 2.5 A Shares and 1.5 “鞍鋼 JTC1” share warrants for every 10 shares held by the registered holders of tradable A Shares on the record date for the non-tradable shares reform, and Angang Holding offered a total of 188,496,424 A Shares and 113,097,855 “鞍鋼 JTC1” share warrants to other holders of A Shares. The “鞍鋼 JTC1” share warrants expired in December 2006. A total of 110,601,666 share warrants were successfully exercised, as a result of which Angang Holding transferred 110,601,666 shares to the other holders of A Shares at RMB3.386 per share. The “鞍鋼 JTC1” share warrants which were not exercised on the date of expiry were cancelled thereafter. After the exercise of such warrants, the total number of shares of the Company remained unchanged, comprising 3,989,901,910 A Shares held by Angang Holding, 1,053,083,787 A Shares held by other A shareholders and 890,000,000 H Shares held by H shareholders.

In 2007, the Company issued rights shares on the basis of 2.2 rights shares for every 10 existing shares to all the shareholders of the Company. From 10 October to 16 October 2007, the Company issued 1,106,022,150 rights shares to A shareholders of the Company at the price of RMB15.4 per share, including issuance of 228,240,496 shares to holders of shares not subject to trading moratorium and issuance of 877,781,654 shares to holders of shares subject to trading moratorium. Such newly issued domestic rights shares were approved to be listed on the Shenzhen Stock Exchange on 25 October 2007. From 22 October to 5 November 2007, the Company issued 195,800,000 H rights shares to H shareholders of the Company at a price of HK\$15.91 per share (equivalent to RMB15.4 per share according to the then exchange rate). Such newly issued H rights shares were approved to be listed on the Hong Kong Stock Exchange on 14 November 2007. Upon completion of the rights share issue, the total number of shares of the Company amounted to 7,234,807,847 shares, of which 4,867,680,330 A shares were held by Angang Holding, 1,281,327,517 shares were held by other A shareholders and 1,085,800,000 shares were held by H shareholders.

The Company's principal activities include production and sale of steel products such as hot rolled sheets, cold rolled sheets, galvanized steel sheets, color coating plates, silicon steel, medium and thick plates, wire rods, heavy section and seamless steel pipes. These products are widely used in industries such as automobile, construction, ship-building, home electrical appliances, railway construction and manufacture of pipelines. The Company's products are strongly competitive in the domestic and foreign markets and its equipment is of an advanced standard in the PRC.

Corporate Profile (Continued)

1. Corporate profile

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
Registered Address	Production Area of Angang Steel, Tie Xi District, Anshan City, Liaoning Province, the PRC
Postal Code of the Registered Address	114021
Business Address	Production Area of Angang Steel, Tie Xi District, Anshan City, Liaoning Province, the PRC
Postal Code of Business Address	114021
Website of the Company	http://www.ansteel.com.cn
E-mail	ansteel@ansteel.com.cn

Corporate Profile (Continued)

2. 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	Room A, 36th Floor, Victoria Centre Block 2, 15 Watson Road, 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

3. Information disclosure and places for inspection

Company's Designated PRC Newspapers for Disclosure of Information	China Securities Journal
Website for Publication of Annual Report Designated by CSRC	http://www.cninfo.com.cn
Website for Disclosure of the Company's Information Overseas	http://www.hkex.com.hk and http://angang.wspr.com.hk
Company's Annual Report Available for Inspection at	Secretarial Office of the Board of the Company

Summary of Accounting Figures and Financial Indicators

1. PRINCIPAL ACCOUNTING FIGURES AND FINANCIAL INDICATORS

Unit: RMB million

Items	2016	2015	Changes over the preceding year (%)	2014
Operating income	57,882	52,759	9.71	74,046
Operating profit	1,591	-3,873	141.08	1,565
Total profit	1,620	-3,763	143.05	1,579
Net profit attributable to shareholders of the Company	1,616	-4,593	135.18	928
Net profit attributable to shareholders of the Company after extraordinary items	1,594	-4,675	134.10	917
Net cash flow from operating activities	4,349	5,137	-15.34	2,137
Basic earnings per share (RMB/share)	0.223	-0.635	135.12	0.128
Diluted earnings per share (RMB/share)	0.223	-0.635	135.12	0.128
Returns on net assets on weighted average basis (%)	3.67	-10.06	Increased by 13.73 percentage points	1.96

Items	At the end of 2016	At the end of 2015	Changes over the preceding year (%)	At the end of 2014
Total assets	88,069	88,596	-0.59	91,291
Total liabilities	42,781	44,915	-4.75	43,095
Owner's equity attributable to shareholders of the Company	44,882	43,274	3.72	47,793
Net assets per share attributable to shareholders of the Company (RMB/share)	6.20	5.98	3.68	6.61
Assets-liability ratio (%)	48.58	50.70	Decreased by 2.12 percentage points	47.21
Total share capital	7,235	7,235	-	7,235

Is there any corporate bond?

Yes

No

Summary of Accounting Figures and Financial Indicators (Continued)

2. MAJOR FINANCIAL INDICATORS BY QUARTER

Unit: RMB million

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Operating income	11,274	14,156	15,609	16,843
Net profit attributable to shareholders of the Company	-615	915	677	639
Net profit attributable to shareholders of the Company after extraordinary items	-616	891	662	657
Net cash flow from operating activities	-1,385	2,824	1,900	1,010

3. ITEMS OF NON-RECURRING GAINS AND LOSSES AND EFFECT ON PROFIT:

Unit: RMB million

Items of Non-Recurring Gains and Losses	2016	2015	2014
1. Gains/losses from disposal of non-current assets	-15	-17	-81
2. Government grant recorded into profit/loss for current period except that relevant to enterprise operation and in compliance with government policies and continuously entitled for standard amount or quantities	40	128	101
3. Other non-operating revenue and expenses except those mentioned above	4	-1	-6
4. Effect on taxation	-7	-28	-3
Total	22	82	11

Note: For the figures of non-recurring gains and losses items, “+” indicates gains or income, “-” indicates losses or expenses.

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

Chairman's Statement

On behalf of the Board of Angang Steel Company Limited, I am pleased to present the annual report of the Company for the year ended 31 December 2016 and hereby extend my regards to all shareholders.



OPERATING RESULTS FOR 2016:

Pursuant to the PRC ASBE, the Group recorded a net profit attributable to shareholders of the Company of RMB1,616 million and basic earnings per share of RMB0.223 for the year ended 31 December 2016 as compared to a net profit attributable to shareholders of the Company of RMB-4,593 million and basic losses per share of RMB0.635 for the year ended 31 December 2015.

DIVIDEND DISTRIBUTION:

On the basis of the total share capital of 7,234,807,847 shares, the Board proposes to distribute cash dividend of RMB0.067 per share (tax inclusive) to shareholders for the year 2016, amounting to RMB485 million of the distributable profits. Upon implementing such proposal, the balance of distributable profits will be RMB1,999 million. This proposal shall be subject to consideration and approval by shareholders at the annual general meeting. It is expected that dividends will be distributed on or around 30 June 2017.

Chairman's Statement (Continued)

Pursuant to the Corporate Income Tax Law of the PRC and its implementing regulations, which came into force on 1 January 2008, the Company is required to withhold corporate income tax at the rate of 10% before distributing the dividend to non-resident enterprise (as defined in the Corporate Income Tax Law of the PRC) shareholders whose names appear on the H Share register of members of the Company. Any H Shares registered in the name of non-individual shareholders, including HKSCC Nominees Limited, other nominees, trustees or other groups and organizations, will be treated as being held by non-resident enterprise shareholders. Thus, the Company will distribute the dividend to such non-individual shareholders after withholding the 10% corporate income tax. The 10% corporate income tax will not be withheld from the dividend payable to any natural person shareholders whose names appear on the H Share register of members of the Company.

Any natural person investor whose H Shares are registered under the name of any such non-individual shareholders and who does not wish to have any corporate income tax to be withheld by the Company may consider transferring the legal title of the relevant H Shares into his or her name and duly lodge all transfer documents with the relevant H Share certificates with the Company's H Share registrar for registration. All investors should consider the above contents carefully. The Company will strictly comply with the relevant PRC tax laws and regulations to withhold for payment the 10% corporate income tax; and the dividend will only be payable to the shareholders whose names appear on the H Share register of members of the Company. The Company assumes no responsibility or liability whatsoever for confirming the identity of the shareholders of the Company and for any claims arising from any delay in or inaccurate determination of the identity of shareholders of the Company or any disputes over the withholding mechanism.

BUSINESS REVIEW:

In 2016, leveraging the opportunities arising from the recovery of the steel market and adhering to the principle of "efficiency as priority and focus on quality improvement", the Company increased the production and sales of high efficiency products, explored its internal potential, and continued to reduce costs and enhance efficiency. It also strengthened its technology innovation in order to create unique and leading-edge products, and put greater efforts into developing customized products. Thus, the Company recorded better operating results.

(1) Optimizing the management and control of production to stabilize scale efficiency

In 2016, in accordance with the principle of "steady and smooth operations, management of scale, growth in product portfolio, and focus on efficiency" (抓穩順、控規模、保品種、重效率), the Company focused on key areas, optimized production order, and refined production departments in all aspects and throughout the whole production process.

During the Reporting Period, the Group produced 21.8326 million tons of iron, representing an increase of 5.01% as compared with the previous year; 21.8184 million tons of steel, representing an increase of 6.40% as compared with the previous year; and 19.8572 million tons of rolled steel, representing an increase of 4.91% as compared with the previous year. Sale of rolled steel amounted to 19.9425 million tons, representing an increase of 4.40% as compared with the previous year. The Group achieved a sales-output ratio of 100.43%.

Chairman's Statement *(Continued)*

BUSINESS REVIEW: *(Continued)*

(2) Facilitating system cost reduction as to continue to exploit potential and increase efficiency

Adhering to the target of “discovering problems, focusing on projects and improving efficiency”, the Company identified system cost reduction objectives in 48 task areas based on nine work themes, and facilitated the whole-process optimization for iron element flow and energy flow. Technology and economic indicators continued to improve. Among 31 major technology and economic indicators of the Company, Anshan Headquarters recorded historical high in 7 indicators, while Bayuquan Branch Company recorded historical high in 6 indicators. Energy costs continued to decline. Centering on increasing recycled waste heat and surplus energy generation, improving recycle of converter gas and lowering of power procurement costs, the Company continued to facilitate cost reduction and efficiency enhancement, thus significantly reducing the expenses for external energy procurement.

The Company put greater efforts into raw materials procurement. Through establishing simulated cost estimation model for steel plants, the Company accurately identified market trends, with significant decline in market differentiation bulk procurement costs for raw materials.

The Company reduced costs and increased efficiency through implementation of various basic supportive measures. By strengthening logistic support, the capacity of logistics supply chain integration service was fully enhanced. The Company actively promoted logistics informatization, with delivery warehouse system in different logistic parks fully launched and operated. The Company also strengthened its protective measures for facilities, and facilitated the replacement of old spare parts with new ones. During the year, there was significant decline in equipment and materials procurement.



Chairman's Statement (*Continued*)

BUSINESS REVIEW: (*Continued*)

(3) Exploring new markets and enhancing marketing services

The Company facilitated the implementation of strategies in core sales area in Northeastern China, and optimized its regional marketing layout. It had established 100 direct stores and sale outlets in Northeastern China. The Company continued to classify the information and files of direct sale customers, and visited 1,852 direct sale enterprises.

The Company exploited the actual and potential demands of its clients, closely monitored demand and supply relationship, and enhanced its marketing services. On the basis of maintaining stable strategic direct sale channels, the Company strived to explore potential customers, and promptly responded to clients' demand. During the year, the Company had 150 new direct sale customers, accounting for 66.7% of domestic direct sales.

In respect of marketing system of regional sale companies, the Company implemented innovative reform. Fully leveraging edges of front-line services from regional sale network, processing, delivery and spot sale, the Company maintained close connection and communication with its customers, expanded scope of services, as well as enhanced tailor-made services, and thus, influence of regional sale companies as the bridgehead was increasing gradually.

Marketing informatization made a huge progress. The ERP production and sale system, marketing platform of branch companies and e-commerce spot sale platform continued to optimize. Orders from spot platform amounted to 1.3176 million tons, with accumulated sale of RMB3.714 billion. Futures online order has basically implemented.

The Company coordinated domestic and overseas markets, timely adjusted its export strategy, and stabilized export channels. Annual amount of export and settled rolled steel amounted to 2.1136 million tons, representing a decrease of 26.26% as compared with the corresponding period of the previous year.



Chairman's Statement *(Continued)*

BUSINESS REVIEW: *(Continued)*

(4) Improving product quality and facilitating R&D for new products

The Company staunchly followed the path of pursuing high quality with differentiation, specialty and professionalization, established the portfolio of “steel type + market connection + user service + innovative R&D”, and continued to meet the demands for customized production. The Company promoted new product development towards steel type with high efficiency and high technology, optimized project approval channels, and facilitated implementation of research results. In respect of product approval, 66 new products were approved, 339 new product development agreements were entered into and 58 new products were examined.

In 2016, the Company succeeded in using large steel ingots to produce 16MND5 voltage stabilizer steel plates for nuclear-grade 1 equipment, which had obtained the accreditation certificate from China General Nuclear Power Corporation and were successful in producing and supplying the regulator steel plates for Yangjiang No. 6 unit voltage stabilizer. The Company was also successful in developing the steel plates 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 replaced imports. The Company succeeded for the first time in the mass production of ultra-thin wide-format low-alloy steel plates 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 helping promote the Company's product restructuring and upgrading. The Company won the tender of 800MPa grade hydropower steel for the Three Gorges Baihetan hydropower station, thus offering technical and performance support for further development and promotion of such product. The Company won the exclusive tender of 9Ni steel sheets supply contract for Putian LNG storage tank of CNOOC, thus realizing replacement of imported goods with domestic produced 9Ni steel for CNOOC system.

(5) Focusing on R&D for key projects and deepening research efficiency improvement

The Company organized and completed the registration for 20 projects under national “13th Five-Year Plan” special technology guideline, including the “high-strength steel for pipelines under low temperature and high pressure”. The Company also undertook and completed 19 national and Angang Group key R&D projects, including the “3G steel plates used for the safety vessel of nuclear reactor”. 13 R&D results, including the “development of core technology for cool silicon steel edges thinning management and its industrial application”, won scientific technology awards from provincial and industry organizations.

Chairman's Statement (*Continued*)

BUSINESS REVIEW: (*Continued*)

(5) Focusing on R&D for key projects and deepening research efficiency improvement (*Continued*)

Through implementing various measures, new breakthrough had been made with the implementation of technologies. In respect of the “research on key technology of high-strength thick pipelines for undersea high pressure oil and gas pipeline delivery” under the National 863 Program, the Company completed the trial production of thick steel pipelines with maximum diameter of $\Phi 1016\text{mm}$. Such technology results had been certified by the Ministry of Science and Technology and CNPC. In respect of the “research on application of vessel-use corrosion-resistant steel technology based on IMO standards” under the National Program, the Company completed the 2.5-year evaluation on the first domestic demonstrative oil tanker. The corrosion resistance rate for corrosion-resistant steel was 3 folds higher than that of ordinary steel. In respect of the “research and production technology development for high-manganese high-toughness moderate thickness plates for marine platform and titanium/steel composite plates” under the National Program, the first round of industrial trial production had completed, achieving a breakthrough in key production technology in whole-procedure smelting, continuous rolling and heat treatment of high-manganese high-toughness moderate thickness plates for marine platform. For titanium and steel composite plates, 2 rounds of trial production for composite steel plates had completed, and produced rolling titanium and steel composite plates. In respect of the “3G steel plates used for the safety vessel of nuclear reactor” under the National Program, the Company completed the production and delivery of 130mm SA-738Gr.B standardized steel plates, showing a milestone of extending the thickness of the product to 6–130mm. It also completed the supply of SA-738Gr.B steel plates used for the safety vessel of phase II nuclear project in Haiyang. In respect of the key research theme of “abrasion-resistant series and its application”, the Company adopted special heat treatment and control technology in the trial production of 5–9 mm NM400-NM600 steel plate module, which was close to the imported HARDOX steel plate standard. In respect of the key research theme of “research on production technology for high quality industrial-use pure iron”, the Company developed industrial-use pure iron with purity of over 99.90% under various brand, meeting the industry leading standard with annual production capacity of over 60,000 tons.

The Company facilitated the reform of R&D institutions and established Angang Technology Development Co., Ltd. (鞍鋼科技發展有限公司). It also explored the operation of technology innovation contract system and discovered efficiency-enhancement mechanisms, thereby improving technology innovation and efficiency enhancement capability, facilitating implementation of technology results, maximizing R&D edges and firing up the creativity and vitality of technical staff.

Chairman's Statement *(Continued)*

BUSINESS REVIEW: *(Continued)*

(6) Strengthening financial support as to lower capital risk

The Company strengthened its existing financing channels and stabilized fund foundation. Meanwhile, the Company explored innovative financing methods and expanded its fund sources. Through expanding its scope of cooperation with financial institutions, the Company successfully completed the issuance of the first tranche medium-term notes of RMB4.0 billion in China, which provided support for the capital requirement of the Company and lowered capital costs effectively. The successful issuance of medium-term notes enriched the debt financing instrument system in China. At the same time, the Company could obtain long-term capital support at low costs through the innovative medium-term note proposal.

The Company strengthened its management over foreign capitals as to avoid foreign exchange risk. To avoid risks arising from US dollar exchange rate fluctuation, the Company made repayment of borrowings due in the amount of USD130 million, and locked in the exchange rate for USD150 million stock loans held, such that exchange rate fluctuation risk was in a controllable range.

(7) Adhering to green development and creating harmony environment

The Company fully facilitated the construction of the Xidagou wastewater treatment project. Environmental projects, including sintering machine electrostatic precipitator transformation project, coke oven gas desulphurization and decyanation facilities and closure of eight sub-stock grounds, had completed, which contributed to the improvement of air quality in urban area. The Company fully facilitated the environmental evaluation and completion check for construction projects. All new construction projects had obtained environmental approvals in accordance with the laws. Moreover, the Company had fully completed the total emission reduction mission under the "12th Five-Year Plan".

The Company achieved excellent results in pollutant reduction. As compared with the prior year, emissions of sulfur dioxide, nitric oxide, particulate matter and water discharged (per ton steel) were reduced by 26.7%, 26.8%, 12.5% and 1.7%, respectively.

Our environment management system continued to improve and successfully passed the third party approval. The Company further optimized different functions under the comprehensive environment information management platform, which greatly enhanced the management standard for environment protection informatization. The exterior appearances of plants continued to improve, with increasing environment management standards.

NEW ANNUAL DEVELOPMENT PLAN OF THE COMPANY:

1. Landscape and development trend in the industry

In 2017, the global economy is still under in-depth adjustment and reform. Basically, the Chinese economy will maintain a moderate to high growth rate. 2017 is an important year for the Company in facilitating reform and innovation, as well as speeding up transformation and upgrade. There will be numerous operating risk exposures and uncertainties.

Favorable factors: firstly, the central government will reconstruct the steel industry. As proposed at the Central Economic Work Conference, centering on facilitating the supply-side reform, the central government will strive to further facilitate the “three cuts, one reduction and one improvement (三去一降一補)” policy, and continue to cut excessive production capacity in the steel and coal industries. This will certainly facilitate the structural adjustment in the steel industry and the market will become fairer and more orderly. Secondly, the revitalizing strategy for Northeastern China will help facilitate transformation and upgrade. The central government is promulgating policies for Northeastern China's revitalization, covering in-depth reform, innovative transformation and open cooperation, which provide clear directions for the economic development of Northeastern China. Hence, the Northeastern China's economy will be stable and promising, which provide golden strategic opportunities for transformation and upgrade of the Company.

Unfavorable factors: firstly, the problem of overcapacity still exists. Currently, the significant overcapacity in China's steel industry remains unchanged, with material imbalance between supply and demand. Secondly, uncertainties in upper and lower streams in the industry are increasing. In respect of the upper stream in the industry, coal and coke prices will be at a high level for a prolonged period, resulting in high costs for steel enterprises. It is expected that the fluctuation of the iron ore price will increase in 2017, making it more difficult to predict the trend. In respect of the lower stream of the industry, the overall market demand remains weak. Thirdly, the pressure in relation to environmental protection will continue to increase. The environmental supervision of the central government is stricter, and steel enterprises are facing huge pressure in relation to environmental protection.

2. Development strategy of the Company

The Company will strengthen the production of high quality steel, focus on innovation, implement green manufacturing, provide excellent services, facilitate layout adjustment and promote upgrade and transformation.

Chairman's Statement *(Continued)*

NEW ANNUAL DEVELOPMENT PLAN OF THE COMPANY: *(Continued)*

3. Operation plan for the year of 2017

In 2017, the Company will conduct its works with due diligence and keep breaking the norms so as to realize innovative development. The Company will also fully utilize the opportunities arising from the “six strengthening”:

- (1) Strengthening corporate governance, thus making a breakthrough in management and control.
- (2) Strengthening corporate operation, thus making a breakthrough in adapting itself to the market condition.
- (3) Strengthening internal potential exploit, thus making a breakthrough in continuous cost reduction.
- (4) Strengthening technology innovation, thus making a breakthrough in enhancing core competitiveness.
- (5) Strengthening corporate management, thus making a breakthrough in enhancing operation efficiency.
- (6) Strengthening mass line, thus making a breakthrough in building a harmonious enterprise.

4. Plans for funding requirements

In 2017, the proposed investments for major construction projects including major overhaul and revamp on five coking, the 60,000 m³/h oxygen generating unit construction in energy control center and the No. 1 slab caster renovation project in the third branch of the Main Steel Making Plant, as well as external investments, will amount to RMB1,495 million.

The sources of funding for the Group in 2017 mainly include cash inflows from operating activities and bank loans.

Chairman of the Board: Yao Lin

Anshan City, the PRC
28 March 2017

Report of the Directors

The Board is pleased to present the annual report and the audited financial statements for the year ended 31 December 2016.

1. PRINCIPAL BUSINESSES

The Company's principal businesses include production and sale of products including hot-rolled products, cold-rolled products, medium and thick plates and other steel products.

Composition of the principal businesses in 2016

Composition of operating income

Unit: RMB million

	2016		2015		Year-on-year increase/ decrease (%)
	Amount	As a percentage of the operating income (%)	Amount	As a percentage of the operating income (%)	
Total operating income	57,882	100	52,759	100	9.71
By industry					
Steel rolling and processing industry	57,742	99.76	52,686	99.86	9.60
Others	140	0.24	73	0.14	91.78
By product					
Steel products	53,396	92.25	48,513	91.95	10.07
Others	4,486	7.75	4,246	8.05	5.65
By geographical location					
China	52,435	90.59	45,334	85.93	15.66
Export sales	5,447	9.41	7,425	14.07	-26.64

Report of the Directors (Continued)

1. PRINCIPAL BUSINESSES (Continued)

Composition of the principal businesses in 2016 (Continued)

Industries, products and geographical locations accounting for more than 10% of the operating income or operating profit of the Company

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 cost 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 rolling and processing industry	57,742	50,055	13.31	9.60	1.33	7.07
By product						
Hot-rolled sheets products	17,938	15,186	15.34	10.33	-6.84	15.60
Cold-rolled sheets products	20,828	17,404	16.44	15.72	8.54	5.53
Medium and thick plates	7,824	7,221	7.71	-0.25	-0.35	0.09
By geographical location						
China	52,295	44,979	13.99	15.54	6.78	7.05
Export sales	5,447	5,076	6.81	-26.64	-30.22	4.78

Report of the Directors (Continued)

1. PRINCIPAL BUSINESSES (Continued)

Composition of operating costs

Unit: RMB million

Industry classification	Item	2016		Amount	2015		Year-on-year increase/ decrease in operating cost (percentage point)
		Amount	As a percentage of operating costs (%)		As a percentage of operating costs (%)		
Steel rolling and processing industry	Raw materials and fuel	36,575	73.07	35,150	71.16	1.91	
	Others	13,480	26.93	14,246	28.84	-1.91	
	Total	50,055	100	49,396	100	-	

2. EXPLANATION ON CHANGES IN ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND AUDIT METHOD IN COMPARISON WITH THE FINANCIAL REPORT OF THE PREVIOUS YEAR

Applicable Not applicable

Report of the Directors (Continued)

3. EXPLANATION ON CHANGES IN THE SCOPE OF CONSOLIDATED STATEMENTS IN COMPARISON WITH THE FINANCIAL REPORT OF THE PREVIOUS YEAR

Applicable Not applicable

In 2016, the Company established a subsidiary, namely Angang Technology Development Co., Ltd.* (鞍鋼科技發展有限公司), which was included in the scope of consolidation. In December 2016, Angang Guangzhou Automobile Steel Co., Ltd.* (鞍鋼廣州汽車鋼有限公司), a subsidiary of the Company, received capital of RMB350 million injected by other shareholders. The equity interest of Angang Guangzhou Automobile Steel Co., Ltd. held by the Company changed from 100% to 50% upon the capital injection. Therefore, Angang Guangzhou Automobile Steel Co., Ltd. became a joint venture of the Company, and was excluded from the scope of consolidation.

As at 31 December 2016, 19 subsidiaries of the Company in total were included in the scope of consolidation.

4. PLANS OF PROFIT DISTRIBUTION DURING THE REPORTING PERIOD

As audited and confirmed by Ruihua Certified Public Accountants (Special General Partnership), based on the PRC ASBE, the net profit attributable to shareholders of the Company for the year 2016 amounted to RMB1,616 million, and the distributable profit of the Company as at the end of 2016 amounted to RMB2,484 million. On the basis of the total share capital of 7,234,807,847 shares, the Board proposes to distribute cash dividend of RMB0.067 per share (tax inclusive) to shareholders for the year 2016, amounting to RMB485 million of the distributable profits. Upon implementing such proposal, the balance of the distributable profit will be RMB1,999 million. This proposal shall be subject to consideration and approval by shareholders at the 2016 annual general meeting.

Report of the Directors (Continued)

5. ANALYSIS OF MAJOR SUBSIDIARIES AND INVESTEEES

Major subsidiaries and investees accounting for over 10% of the net profit of the Company

Unit: RMB million

Name of companies	Type of companies	Principal activities	Registered capital	Total assets	Net assets	Operating income	Operating profit	Net profit
ANSC-TKS	Company with limited liability (sino-foreign cooperative venture)	Production and sale of hot dip galvanized steel products and alloyed steel plate products	USD132 million	2,246	1,543	4,386	553	453
Angang Financial Company	Company with limited liability	Deposit, lending and financing	4,000	20,744	6,804	1,026	749	563

Acquisition and disposal of subsidiaries during the Reporting Period

Applicable Not applicable

Name of subsidiaries	Purpose of acquisition and disposal of subsidiaries during the Reporting Period	Method of acquisition and disposal of subsidiaries during the Reporting Period	Impact on the overall production and results
Angang Technology Development Co., Ltd.* (鞍鋼科技發展有限公司)	Improving technology innovation and efficiency enhancement capability in a better way, facilitating implementation of technology results, maximizing R&D edges, firing up the creativity and vitality of technical staff, and enhancing competitiveness of the Company through technology enhancement	Investment	Facilitating implementation of technology results, thus enhancing competitiveness of the Company
Angang Guangzhou Automobile Steel Co., Ltd.* (鞍鋼廣州汽車鋼有限公司)	Facilitating the consolidation with lower-stream industry chain	Introduction of investors	Beneficial to the consolidation with lower-stream industry chain, thus improving the profitability of the Company

Report of the Directors (Continued)

6. MAJOR CUSTOMERS AND SUPPLIERS

Sales to major customers of the Company

Total sales amount of the top five customers (<i>RMB million</i>)	9,807
Proportion of total sales amount of the top five customers over total sales amount for the year (%)	17.08
Proportion of sales to related parties of total sales amount of the top five customers over total sales amount for the year (%)	6.86

Top five customers of the Company

No.	Customer name	Sales amount (<i>RMB million</i>)	Proportion (%)
1	Customer A	2,429	4.23
2	Customer B	2,210	3.85
3	Customer C	2,141	3.73
4	Customer D	1,729	3.01
5	Customer E	1,298	2.26
Total		9,807	17.08

Other explanations on major customers: the top five customers include companies under the control of the same parent company.

Major suppliers of the Company

Total purchase amount from the top five suppliers (<i>RMB million</i>)	19,542
Proportion of total purchase amount of the top five suppliers over total purchase amount for the year (%)	45.78
Proportion of procurement from related parties of total purchase amount of the top five suppliers over total purchase amount for the year (%)	34.29

Report of the Directors (Continued)

6. MAJOR CUSTOMERS AND SUPPLIERS (Continued)

Top five suppliers of the Company

No.	Supplier name	Purchase amount (excluding tax) (RMB million)	Proportion (%)
1	Supplier A	6,774	15.87
2	Supplier B	5,619	13.16
3	Supplier C	2,509	5.88
4	Supplier D	2,396	5.61
5	Supplier E	2,244	5.26
Total		19,542	45.78

Other explanations on major suppliers: the top five suppliers include companies under the control of the same parent company.

Save as disclosed in this annual report, none of the Directors, Supervisors and their close associates nor any shareholder (which to the knowledge of the Directors holds 5% or more of the shares of the Company) had any interest in any of the top five suppliers or top five customers of the Company during 2016.

7. SERVICE CONTRACTS OF DIRECTORS AND SUPERVISORS

Each of the Directors of the Seventh Session of the Board and Supervisors of the Seventh Session of the Supervisory Committee entered into a service contract with the Company for a term from 8 June 2016 until the election of Directors or Supervisors for the next session of the Board or Supervisory Committee at the 2019 annual general meeting, and the term of the Seventh Session of the Board and the Seventh Session of the Supervisory Committee were three years. None of the Directors or Supervisors entered into a service contract with the Company other than contracts expiring or determinable by the Company within one year without payment of compensation (except statutory compensation).

Report of the Directors (*Continued*)

8. PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

During the Reporting Period, there was no purchase, sale or redemption by the Company or any of its subsidiaries of its listed securities.

9. PRE-EMPTIVE RIGHTS

In accordance with the Articles of Association of the Company or the laws of the PRC, no pre-emptive rights exist to require the Company to offer new shares to the existing shareholders in proportion to their shareholdings.

10. DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

None of the Directors and Supervisors had any material interest in any contract to which the Company, the holding companies or subsidiaries of the holding companies was a party in 2016.

11. DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors and their respective associates (as defined in the Hong Kong Listing Rules) has an interest in any business which competes or may compete with the business in which the Company or the holding companies or any of its subsidiaries are engaged.

12. CHAPTER 13 DISCLOSURE

The Directors confirmed that there was no matter occurring in 2016 which would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Hong Kong Listing Rules. The Company's controlling shareholder did not pledge any of its shares in the Company to secure any debts, guarantees or other support of obligations of the Company, nor did the Company sign loan agreements imposing specific performance obligations on the controlling shareholders.

13. SUFFICIENT PUBLIC FLOAT

According to the information that is publicly available to the Company, and so far as the Directors are aware of as at the latest practicable date before the issue of this annual report, the Company had been maintaining sufficient public float as required by the Hong Kong Listing Rules during the year.

Report of the Directors (*Continued*)

14. FIXED ASSETS

Changes in the fixed assets during the year are set out in note 6 (11) to financial statements on pages 218 and 219 of this annual report.

15. OPERATING RESULTS

The results of the Company for the year ended 31 December 2016 and its financial position as at that date are set out in the financial statements included in this annual report.

16. SHARE CAPITAL

Changes in share capital during the year are set out in note 6 (30) to the financial statements on page 236 of this annual report.

17. RESERVES

Changes in the reserves during the year are set out in note 6 (33) to the financial statements on page 238 of this annual report.

18. EMPLOYEE RETIREMENT SCHEME

Details of the employee retirement scheme of the Company are set out in note 6 (20) to the financial statements on pages 228 and 229 of this annual report.

19. CONTINUING CONNECTED TRANSACTIONS

Details of Continuing Connected Transactions of the Company for the year are set out on pages 72 to 87 of this annual report.

20. FIVE YEARS SUMMARY

A summary of the results and balance sheet of the Company for five years are set out on page 289 of this annual report.

Report of the Directors (*Continued*)

21. AUDITOR

Ruihua Certified Public Accountants (Special General Partnership) (瑞華會計師事務所(特殊普通合夥)) was appointed as the Company's auditor in 2016.

By order of the Board

Yao Lin

Chairman

28 March 2017

Report of the Supervisory Committee

During the year, the Supervisory Committee of the Company duly fulfilled its duties in accordance with the Company Law and the Articles of Association of the Company in order to protect the lawful interests of the Company and its shareholders.

- (l) Members of the Supervisory Committee attended one general meeting and five Board meetings of the Company as non-voting participants and convened five Supervisory Committee meetings. The Supervisory Committee has given independent opinions and recommendations on the basis of their sufficient knowledge of the Company's major production and operation decisions as well as implementation process.

No.	Meetings	Date of the meeting	Matters considered
1	The 18th meeting of the 6th Session of the Supervisory Committee	30 March 2016	<ol style="list-style-type: none"> 1. The 2015 Annual Report and its summary were approved. 2. The Report of the Supervisory Committee for 2015 was approved. 3. The Proposal in relation to the Remunerations of the Supervisors for 2015 was approved. 4. The 2015 Self-assessment Report on Internal Control was approved. 5. The Proposal in relation to the Nomination of Candidates for the Seventh Session of the Supervisory Committee was approved.
2	The 19th meeting of the 6th Session of the Supervisory Committee	29 April 2016	<ol style="list-style-type: none"> 1. 2016 First Quarterly Report of the Company and its text were approved.
3	The 1st meeting of the 7th Session of the Supervisory Committee	8 June 2016	<ol style="list-style-type: none"> 1. The Proposal in relation to the Election of the Chairman of the Seventh Session of the Supervisory Committee was approved.

Report of the Supervisory Committee (Continued)

No.	Meetings	Date of the meeting	Matters considered
4	The 2nd meeting of the 7th Session of the Supervisory Committee	29 August 2016	1. 2016 Interim Report of the Company was approved.
5	The 3rd meeting of the 7th Session of the Supervisory Committee	26 October 2016	1. 2016 Third Quarterly Report of the Company and its text were approved.

(II) In 2016, the Supervisory Committee of the Company monitored the Company's operations to ensure compliance with the relevant laws and regulations, such as the Company Law, and the Articles of Association of the Company. It also exercised supervision on the connected transactions entered into by the Company. The Supervisory Committee raised no objection to monitoring issues during the Reporting Period.

The Supervisory Committee had given independent opinions on the following issues:

1. The Supervisory Committee was, based on its examination, of the opinion that the procedures by which the Board prepared and considered the 2016 annual report complied with laws, administrative regulations and the requirements of CSRC and the contents of the annual report were true, accurate and complete and there was no false representation or misleading statement contained in, or material omission from the annual report.
2. During the year, the Company's operations complied with the laws, the Company had comprehensive internal control system and the decision-making procedures of the Company complied with applicable laws, and the Supervisory Committee was not aware of any violation of regulations.
3. None of the Directors and senior management of the Company were found to be in violation of any laws or regulations or the Articles of Association of the Company when performing their duties or otherwise act in a manner which infringed upon the interests of the Company.

Report of the Supervisory Committee (*Continued*)

4. The Company's financial report truly reflected the Company's financial position and operating results.
5. The acquisitions of assets were carried out by the Company at fair prices and it was not aware of any insider dealing or any damage to part of the shareholders' interests or any loss to the Company's assets.
6. During the year, routine continuing connected transactions and other connected transactions were conducted on a fair basis in the Company's production and operation and it was not aware of any insider dealing or any impairment of interests of the Company.

On behalf of the Supervisory Committee

Lin Daqing

Chairman of the Supervisory Committee

28 March 2017

Discussion and Analysis of Operations

I. ANALYSIS OF PRINCIPAL BUSINESSES

1. Overview

Unit: RMB million

Item	Reporting Period	Corresponding period of the previous year	Increase/decrease of the Reporting Period as compared with the corresponding period of the previous year (%)	Explanation and reasons for significant change
Operating income	57,882	52,759	9.71	–
Operating costs	50,186	49,469	1.45	–
Marketing expenses	1,928	2,311	-16.57	–
Administrative expenses	1,626	1,808	-10.07	–
Financial expenses	1,286	1,346	-4.46	–
Total profit	1,620	-3,763	143.05	<i>Note 1</i>
Net profit attributable to shareholders of the Company	1,616	-4,593	135.18	
Net cash flow	-1,633	1,889	-186.45	<i>Note 2</i>

Note 1: In 2016, by leveraging the favorable opportunities brought about by the turnaround of the steel market, the Company implemented a series of measures for lowering cost and enhancing efficiency to improve the Company's profitability: (i) enhancing the comprehensive sales price of steel products by exerting increased efforts for product restructuring; (ii) reducing processing costs by further promoting cost reduction in a systematic way; (iii) reducing various expenditures by strengthening budget control; and (iv) reducing comprehensive procurement costs by means of timely purchases and the combination of futures and spot commodities. As the above-mentioned measures were effectively implemented, the Company turned around with a substantial increase in profit.

Discussion and Analysis of Operations (*Continued*)

I. ANALYSIS OF PRINCIPAL BUSINESSES (*Continued*)

1. Overview (*Continued*)

Note 2: The decrease of RMB3,522 million in net cash flow for the year as compared with the previous year was mainly due to:

- (1) The net cash inflow from operating activities of the Company amounted to RMB4,349 million, representing a decrease of RMB788 million as compared with the corresponding period of the previous year, mainly due to:
 - ① Net profit for the year amounted to RMB1,615 million, representing an increase of RMB6,215 million as compared with the corresponding period of the previous year.
 - ② Inventories increased by RMB2,716 million as compared with the beginning of the year, as compared to a decrease of RMB1,965 million for the corresponding period of the previous year. The cash flow decreased by RMB4,681 million year on year.
 - ③ Operating receivables and payables increased the cash flow for the year by RMB1,126 million, as compared to an increase of RMB2,009 million in cash flow for the corresponding period of the previous year. The cash flow decreased by RMB883 million year on year.
 - ④ Deferred income tax assets increased by RMB4 million as compared with the beginning of the year, as compared to a decrease of RMB815 million for the corresponding period of the previous year. The cash flow decreased by RMB819 million year on year.
 - ⑤ Other items decreased the cash flow of RMB620 million.
- (2) A decrease of RMB2,178 million in net cash outflow from investing activities as compared to the previous year due to the decrease in cash payment for purchase and construction of fixed assets and construction in progress.
- (3) An increase of RMB4,897 million in net cash outflow from financing activities as compared with the previous year due to the decrease in cash inflow of borrowings obtained for the year and the increase in cash repayment for borrowings.
- (4) A decrease of RMB15 million due to the effect of changes in foreign exchange.

Discussion and Analysis of Operations (Continued)

I. ANALYSIS OF PRINCIPAL BUSINESSES (Continued)

2. Income and Cost

(1) Composition of operating income

Unit: RMB million

	2016		2015		Year-on-year increase/decrease (%)
	Amount	As a percentage of the operating income (%)	Amount	As a percentage of the operating income (%)	
Total operating income	57,882	100	52,759	100	9.71
By industry					
Steel rolling and processing industry	57,742	99.76	52,686	99.86	9.60
Others	140	0.24	73	0.14	91.78
By product					
Steel products	53,396	92.25	48,513	91.95	10.07
Others	4,486	7.75	4,246	8.05	5.65
By geographical location					
China	52,435	90.59	45,334	85.93	15.66
Export sales	5,447	9.41	7,425	14.07	-26.64

Discussion and Analysis of Operations (Continued)

I. ANALYSIS OF PRINCIPAL BUSINESSES (Continued)

2. Income and Cost (Continued)

- (2) Industries, products and geographical locations accounting for more than 10% of the operating income or operating profit of the Company

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 cost 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 rolling and processing industry	57,742	50,055	13.31	9.60	1.33	7.07
By product						
Hot-rolled sheets products	17,938	15,186	15.34	10.33	-6.84	15.60
Cold-rolled sheets products	20,828	17,404	16.44	15.72	8.54	5.53
Medium and thick plates	7,824	7,221	7.71	-0.25	-0.35	0.09
By geographical location						
China	52,295	44,979	13.99	15.54	6.78	7.05
Export sales	5,447	5,076	6.81	-26.64	-30.22	4.78

In case of adjustment in statistical calibers of principal businesses of the Company during the Reporting Period, the principal businesses data of the Company in the latest year according to adjusted calibers at the end of the Reporting Period.



Applicable



Not applicable

Discussion and Analysis of Operations (Continued)

I. ANALYSIS OF PRINCIPAL BUSINESSES (Continued)

2. Income and Cost (Continued)

- (3) Whether the Company's income from the sale of goods is greater than its income from the provision of services

Yes No

Industry classification	Item	2016	2015	Year-on-year increase/decrease (%)
Steel rolling and processing industry	Sales volume (0'000 tons)	1,994.25	1,910.17	4.40
	Production volume (0'000 tons)	1,985.72	1,892.81	4.91
	Stock volume (0'000 tons)	101.93	103.01	-1.05

Explanation should be given on year-on-year changes of more than 30% in relevant figures

Applicable Not applicable

- (4) Performance of material sales contracts entered into by the Company as of the end of the Reporting Period

Applicable Not applicable

Discussion and Analysis of Operations (Continued)

I. ANALYSIS OF PRINCIPAL BUSINESSES (Continued)

2. Income and Cost (Continued)

(5) Composition of operating costs

Unit: RMB million

Industry classification Item	2016		2015 Amount	As a percentage of operating costs (%)	Year-on-year increase/ decrease in operating costs (percentage point)
	Amount	As a percentage of operating costs (%)			
Steel rolling and processing industry					
Raw materials and fuel	36,575	73.07	35,150	71.16	1.91
Others	13,480	26.93	14,246	28.84	-1.91
Total	50,055	100	49,396	100	-

(6) Whether the scope of consolidation had changed during the Reporting Period



Applicable



Not applicable

In 2016, the Company established a subsidiary, namely Angang Technology Development Co., Ltd.* (鞍鋼科技發展有限公司), which was included in the scope of consolidation. In December 2016, Angang Guangzhou Automobile Steel Co., Ltd.* (鞍鋼廣州汽車鋼有限公司), a subsidiary of the Company, received capital of RMB350 million injected by other shareholders. The equity interest of Angang Guangzhou Automobile Steel Co., Ltd. held by the Company changed from 100% to 50% upon the capital injection. Therefore, Angang Guangzhou Automobile Steel Co., Ltd. became a joint venture of the Company, and was excluded from the scope of consolidation.

As at 31 December 2016, 19 subsidiaries of the Company in total were included in the scope of consolidation.

Discussion and Analysis of Operations (Continued)

I. ANALYSIS OF PRINCIPAL BUSINESSES (Continued)

2. Income and Cost (Continued)

- (7) Material changes or adjustment in businesses, products or services during the Reporting Period

Applicable Not applicable

- (8) Major customers and suppliers

Sales to major customers of the Company

Total sales amount of the top five customers (RMB million) 9,807

Proportion of total sales amount of the top five customers over total sales amount for the year (%) 17.08

Proportion of sales to related parties of total sales amount of the top five customers over total sales amount for the year (%) 6.86

Top five customers of the Company

No.	Customer name	Sales amount (RMB million)	Proportion (%)
1	Customer A	2,429	4.23
2	Customer B	2,210	3.85
3	Customer C	2,141	3.73
4	Customer D	1,729	3.01
5	Customer E	1,298	2.26
	Total	9,807	17.08

Other explanations on major customers: the top five customers include companies under the control of the same parent company.

Discussion and Analysis of Operations *(Continued)*

I. ANALYSIS OF PRINCIPAL BUSINESSES *(Continued)*

2. Income and Cost *(Continued)*

(8) Major customers and suppliers *(Continued)*

Major suppliers of the Company

Total purchase amount from the top five suppliers <i>(RMB million)</i>	19,542
Proportion of total purchase amount of the top five suppliers over total purchase amount for the year (%)	45.78
Proportion of procurement from related parties of total purchase amount of the top five suppliers over total purchase amount for the year (%)	34.29

Top five suppliers of the Company

No.	Supplier name	Purchase amount (excluding tax) <i>(RMB million)</i>	Proportion (%)
1	Supplier A	6,774	15.87
2	Supplier B	5,619	13.16
3	Supplier C	2,509	5.88
4	Supplier D	2,396	5.61
5	Supplier E	2,244	5.26
	Total	19,542	45.78

Other explanations on major suppliers: the top five suppliers include companies under the control of the same parent company.

Discussion and Analysis of Operations *(Continued)*

I. ANALYSIS OF PRINCIPAL BUSINESSES *(Continued)*

3. Expenses

Unit: RMB million

Financial indicators	2016	2015	Increase/ decrease of the Reporting Period as compared with the corresponding period of the previous year (%)	Explanations on material changes
Marketing expenses	1,928	2,311	-16.57	-
Administrative expenses	1,626	1,808	-10.07	-
Financial expenses	1,286	1,346	-4.46	-
Income tax expenses	5	837	-99.40	Income tax expenses for the year decreased by RMB832 million as compared with the corresponding period of the previous year, mainly due to (1) the recognition of deferred tax assets for losses of the previous year; (2) the earnings for the year, while the Company utilized deductible losses of previously unrecognized deferred income tax assets. The income tax expenses of RMB5 million was recognized for the earnings of subsidiaries.

Discussion and Analysis of Operations (Continued)

I. ANALYSIS OF PRINCIPAL BUSINESSES (Continued)

4. R&D expenditure

Item	2016	2015	Year-on-year increase/decrease (%)
Number of R&D staff (person)	1,789	1,898	-5.74
Percentage of the number of R&D staff in the Company (%)	5.86	5.02	Increased by 0.84 percentage point
Amount of R&D expenditure (RMB million)	1,002	1,331	-24.72
Percentage of R&D expenditure over operating income (%)	1.73	2.52	Decreased by 0.79 percentage point
Amount of capitalization of R&D expenditure (RMB million)	-	-	-
Percentage of capitalization of R&D expenditure over the R&D expenditure (%)	-	-	-

Reasons for the significant change in the proportion of total R&D expenditure over operating income as compared with the previous year:

Applicable Not applicable

Reasons for and reasonableness of the significant change of the capitalization rate of R&D expenditure:

Applicable Not applicable

Discussion and Analysis of Operations (Continued)

I. ANALYSIS OF PRINCIPAL BUSINESSES (Continued)

5. Cash flow

Unit: RMB million

Item	2016	2015	Year-on-year increase/ decrease (%)
Sub-total of cash inflow from operating activities	52,114	47,986	8.60
Sub-total of cash outflow from operating activities	47,765	42,849	11.47
Net cash flow from operating activities	4,349	5,137	-15.34
Sub-total of cash inflow from investing activities	913	1,149	-20.54
Sub-total of cash outflow from investing activities	1,463	3,877	-62.26
Net cash flow from investing activities	-550	-2,728	79.84
Sub-total of cash inflow from financing activities	26,945	30,134	-10.58
Sub-total of cash outflow from financing activities	32,358	30,650	5.57
Net cash flow from financing activities	-5,413	-516	-949.03
Net increase of cash and cash equivalents	-1,633	1,889	-186.45

Explanations of the main factors for significant year-on-year change of the relevant figures:

Applicable Not applicable

Discussion and Analysis of Operations *(Continued)*

I. ANALYSIS OF PRINCIPAL BUSINESSES *(Continued)*

5. Cash flow *(Continued)*

- (1) The net cash inflow from operating activities of the Company amounted to RMB4,349 million, representing a decrease of RMB788 million as compared with the corresponding period of the previous year, mainly due to:
 - ① Net profit for the year amounted to RMB1,615 million, representing an increase of RMB6,215 million as compared with the corresponding period of the previous year.
 - ② Inventories increased by RMB2,716 million as compared with the beginning of the year, as compared to a decrease of RMB1,965 million for the corresponding period of the previous year. The cash flow decreased by RMB4,681 million year on year.
 - ③ Operating receivables and payables increased the cash flow for the year by RMB1,126 million, as compared to an increase of RMB2,009 million in cash flow for the corresponding period of the previous year. The cash flow decreased by RMB883 million year on year.
 - ④ Deferred income tax assets increased by RMB4 million as compared with the beginning of the year, as compared to a decrease of RMB815 million for the corresponding period of the previous year. The cash flow decreased by RMB819 million year on year.
 - ⑤ The cash flow for other items decreased by RMB620 million.
- (2) The decrease of RMB2,414 million in cash outflow from investing activities for the year as compared to the previous year was mainly due to the decrease in cash payment for the purchase and construction of fixed assets and construction in progress.
- (3) The decrease of RMB2,178 million in net cash outflow from investing activities for the year as compared with the previous year was mainly due to the decrease in cash payment for the purchase and construction of fixed assets and construction in progress.

Discussion and Analysis of Operations *(Continued)*

I. ANALYSIS OF PRINCIPAL BUSINESSES *(Continued)*

5. Cash flow *(Continued)*

- (4) The increase of RMB4,897 million in net cash outflow from financing activities for the year as compared with the previous year was mainly due to the decrease in cash from borrowings obtained by the Company and the increase in cash repayment for borrowings.
- (5) The decrease of RMB3,522 million in net cash flow for the year as compared with the previous year was mainly due to (i) the decrease of RMB788 million in net cash inflow from operating activities as compared with the previous year; (ii) the decrease of RMB2,178 million in net cash outflow from investing activities as compared with the previous year as a result of the decrease in cash payment for the purchase and construction of fixed assets and construction in progress; (iii) the increase of RMB4,897 million in net cash outflow from financing activities arising from the decrease in cash received from borrowings and increase in cash repayment for borrowings for the year; and (iv) the decrease of RMB15 million in cash due to the change in the exchange rate.

Explanations on Reasons for Significant Differences in Cash Flow from Operating Activities and Net Profit of the Company during the Reporting Period

Applicable Not applicable

Discussion and Analysis of Operations (Continued)

I. ANALYSIS OF PRINCIPAL BUSINESSES (Continued)

5. Cash flow (Continued)

Item	Amount (RMB million)
Reconciliation of net profit to cash flows from operating activities:	–
Net profit	1,615
Add: Provision for impairment	19
Depreciation of fixed assets	3,295
Amortization of intangible assets	156
Loss of disposal of fixed assets, intangible assets and other long-term assets (“-” for gains)	-1
Loss on fixed assets disposal (“-” for gains)	16
Financial expenses (“-” for gains)	1,281
Investment loss (“-” for gains)	-427
Decrease in deferred tax assets (“-” for increase)	-4
Increase in deferred tax liabilities (“-” for decrease)	-18
Decrease in inventories (“-” for increase)	-2,716
Decrease in operating receivables (“-” for increase)	-1,605
Increase in operating payables (“-” for decrease)	2,731
Others	7
Net cash flow from operating activities	4,349

6. Liquidity and financial resources

As at 31 December 2016, the Group had long-term loans (exclusive of loans due within one year) of RMB1,296 million with interest rates ranging from 4.2892% to 4.75% per annum. The term of such loans range from 3 to 25 years, and the loans will fall due during the period from 2018 to 2022. The loans are mainly used for replenishing the working capital. The Group's long-term loans due within one year amounted to RMB161 million. The fixed interest rate as stipulated in the loan contract was adopted for all long-term borrowings of the Company. The interest rate was adjusted on monthly basis in accordance with the adjustments to the benchmark interest rate for loans of the same period made by the Central Bank.

Discussion and Analysis of Operations (Continued)

I. ANALYSIS OF PRINCIPAL BUSINESSES (Continued)

6. Liquidity and financial resources (Continued)

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 credit rating of “AAA”. In 2016, 17 financial institutions which had strategically cooperated with the Company provided credit facilities to the Company. The Group is capable of repaying its debts when they become due.

As at 31 December 2016, cash and bank balances of the Group denominated in foreign currencies was nil (31 December 2015: nil).

Cash and bank balances denominated in the currencies as set out below:

Unit: RMB million

	31 December 2016	31 December 2015
RMB	1,968	3,601
US dollars	–	–
HK dollars	–	–
Others	–	–
Total	1,968	3,601

As at 31 December 2016, the Group had a total capital commitment of RMB1,076 million, which was primarily attributable to the construction and renovation contracts entered into but not yet performed or partially performed, and the external investment contracts entered into but not yet performed or partially performed.

Discussion and Analysis of Operations *(Continued)*

I. ANALYSIS OF PRINCIPAL BUSINESSES *(Continued)*

7. Pension scheme

In accordance with the requirements of national insurance policies of the PRC, the Company provides all employees with basic pension (which are contributed as to 20% by the employer and as to 8% by the individual employee), pursuant to which the employee is entitled to receive pension payments on a monthly basis after retirement. For each month, the Company makes contribution to the basic pension scheme at 20% of the gross salary recognized as cost (expenses) of the previous month. In 2016, the total contribution to the basic pension scheme amounted to RMB660 million (including the employer's contribution of RMB466 million and the employees' contribution of RMB194 million).

In addition, the Company maintains corporate annuity scheme for all of its employees, the contribution to which is made by the Company at 4% of the gross salary recognized as cost (expenses) of the previous year. The Company also made compensation to the employees for their years of service prior to the establishment of the corporate annuity scheme. The Company has suspended the payment for corporate annuity since 1 August 2016. From January to July 2016, the total contribution to the corporate annuity scheme amounted to RMB90 million, including the employees' contribution of RMB34 million and the employer's contribution of RMB56 million. The compensation of corporate annuity for 2016 amounted to RMB39 million.

8. Foreign exchange risk

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

Foreign currency borrowings held by the Group amounted to USD270 million, of which the foreign exchange risk was dependent on the foreign exchange rate of RMB over USD. In 2016, due to the changes in exchange rate of RMB over USD, the Company incurred a loss of RMB43 million in currency exchange.

Discussion and Analysis of Operations *(Continued)*

II. ANALYSIS OF ASSETS AND LIABILITY

1. Significant changes in composition of assets

Unit: RMB million

	End of 2016		End of 2015		Increase/ decrease (percentage point)	Explanation for significant change
	Amount	As a percentage of total assets (%)	Amount	As a percentage of total assets (%)		
Monetary capital	1,968	2.23	3,601	4.06	-1.83	-
Account receivables	1,942	2.21	1,123	1.27	0.94	-
Inventories	10,466	11.88	8,008	9.04	2.84	-
Long-term equity investments	2,968	3.37	2,673	3.02	0.35	-
Fixed assets	49,065	55.71	51,014	57.58	-1.87	-
Construction in progress	2,232	2.53	2,852	3.22	-0.69	-
Short-term loans	18,995	21.57	16,319	18.42	3.15	-
Long-term loans	1,296	1.47	962	1.09	0.38	-

Discussion and Analysis of Operations (Continued)

II. ANALYSIS OF ASSETS AND LIABILITY (Continued)

2. Assets and liabilities measured at fair value

Unit: RMB million

Item	Opening balance	Gains or losses arising from changes in fair value for the period	Changes in fair value reported in equity	Impairment made for the period	Purchases during the period	Disposals during the period	Closing balance
Financial assets							
Of which:							
1. Financial assets measured at fair value through profit and loss (excluding derivative financial assets)	-	-	-	-	-	-	-
2. Derivative financial assets	4	-	-	-	-	-	0
3. Available-for-sale financial assets	62	-	-7	-	-	-	52
Sub-total of financial assets	66	-	-7	-	-	-	52
Investment properties	-	-	-	-	-	-	-
Productive biological assets	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-
Total	66	-	-7	-	-	-	52
Financial liabilities	-	-	-	-	-	-	-

Material changes in measurement of major assets during the Reporting Period

Yes

No

Discussion and Analysis of Operations *(Continued)*

II. ANALYSIS OF ASSETS AND LIABILITY *(Continued)*

3. Gearing ratio

As at 31 December 2016 and 31 December 2015, the Group's ratio of equity to liability was 1.06 times and 0.97 times, respectively.

4. Restrictions on assets power as at the end of the Reporting Period

The Group pledged notes receivable with a carrying amount of RMB63 million to bank during the year to apply for the issuance of notes payable of RMB63 million. The term of pledge is from July 2016 to July 2017. The Group pledged notes receivable with a carrying amount of RMB1,547 million to bank to obtain short-term borrowings of RMB1,429 million.

5. Contingent liabilities

As at 31 December 2016, the Group had no contingent liabilities.

III. ANALYSIS ON THE CORE COMPETITIVENESS

1. Secured supply of resources

The surrounding areas of Anshan have abundant reserves of iron ore. Angang Mining Co. has iron ore resources of 8,800 million tons and stands at the first place in the PRC and a leading position in the world in terms of production stripping capacity of 230 million tons per year and mineral processing capacity of 65 million tons per year. Its leading mining technology in the PRC and leading mineral processing technology in the world secured the supply of resources for sustainable development.

2. Advantages in corporate culture

The Company has established a profound corporate culture with "Innovation, Factualism, Hard Working and Contribution" as its core, which generalizes, extracts and sublimates the spirits of people of several generations. With rich connotation containment and denotation radiation, its corporate culture demonstrates the Chinese traditional virtues and fine working style of the working class in the PRC. Moreover, it has been endowed with new historical context to facilitate the innovative development of transformation and upgrading with distinctive culture of advantage, innovation, competition, and harmony.

Discussion and Analysis of Operations (*Continued*)

III. ANALYSIS ON THE CORE COMPETITIVENESS (*Continued*)

3. Technical and equipment capacity

The principal production techniques and technological equipment in the Company's Anshan production base have reached national advanced level, making the Company's main equipment modernized and large-scale. The Company also has extensive experience in the construction of steel factories and construction management.

The production base of Bayuquan Iron & Steel Branch Company* (鮫魚圈鋼鐵分公司) of Angang Steel possesses advanced technological equipment and techniques with a compact layout and thus has a sound foundation for green development with leading key indicators for technology in the PRC. The JNX-7-2 type compound coke oven is equipped with two coke dry quenching devices with a capacity of 160t/h and gas purification facilities and two blast furnaces of 4,038 cubic meters. The three top-bottom combined blown converters of 260 tons adopt static and dynamic control models for converters as well as technology for bottom blowing, sublimance and mass spectrometer, achieving automation in steelmaking with options to produce low-carbon steel and low-phosphorus steel. Ultra-low carbon steel and low-alloy steel can be refined with one LF, two RH and one ANS refining furnaces. The three casting machines have total production capacity of 6.5 million tons per year, where one of them is a thick plate casting machine and two of them are regular casting machines. The 5500 production line is currently one of the largest plate mills of wide and heavy plates in the world. Besides, its roughing rolling unit with a maximum opening of 1,100 mm and a maximum thickness of finished products of 400 mm is capable of completing the full production process of ultra-thin, ultra-wide and ultra-thick products within 60 tons through steel ingot, compound compact and continuous casting.

4. Comprehensive market competitiveness of products

In addition to certain advantages in differentiation, the Company has a comprehensive product portfolio with a vast variety of products and complete specifications. Its brand enjoys a high reputation and trustworthiness and possesses better strength in providing ancillary services for users.

The Company has a relatively stronger capability in plate products with industry leading products such as sheets for automobiles, home appliances and containers. Moreover, the Company is capable of steadily manufacturing high-grade surface cold-rolled and galvanized sheets used for covering external parts of automobiles. Meanwhile, steel for railway as well as steel plates for containers and vessels have continued to be named "China top brand".

Discussion and Analysis of Operations (*Continued*)

III. ANALYSIS ON THE CORE COMPETITIVENESS (*Continued*)

4. Comprehensive market competitiveness of products (*Continued*)

The following products of the Company were awarded the “Golden Cup Prize” for quality metallurgical products in 2014: hot rolled steel plate for vessel and oceanographic engineering structures, steel wire rod for welding, steel wire rod for steel cord, seamless steel tube for gas cylinder (cold-drawing and hot-rolling), seamless steel tube for pipeline tube (hot-rolling), casing and oil tube for petroleum (hot-rolling), hot-rolled round steel for guaranteed hardenability structure, seamless nickel and nickel alloy condensers and heat exchanger tubes (cold-rolling) and steel rail with asymmetric section for railway turnout.

The following products of the Company were awarded the “Golden Cup Prize” for quality metallurgical products in 2015: steel rail for high-speed rail, carbon steel green rod for cold heading, 8.8 boron containing steel green rod for cold heading, seamless steel tube for large volume gas cylinder (cold-drawing), seamless steel tube for low temperature (hot rolling), pipeline tube (hot-rolling seamless pipe), casing and oil tube (hot-rolling seamless pipe), hot-rolled flat steel for cold forming mold, hot-rolled round steel for cold forming mold, forging round steel for cold forming mold, forging round steel for turbine blade, seamless steel tube for high-pressure boiler (cold processing), hot rolled steel plate and steel belt for vehicle structure, hot rolled band for automotive frame and hot rolled band for automobile wheel.

5. Comprehensive R&D strength

The Company has a leading comprehensive R&D strength in the domestic steel industry.

The Company has developed hot stamping steel AC1500HS(22MnB5) and is capable to supply such product in batches. The hot stamping steel is used in the production of auto parts with steel plate strength of more than 1500MPa.

The R&D for key technology of extra thick and extra wide steel plate for high-end equipment have achieved the stable welding and production of homogeneous extra thick composite slab such as Q235B and heterogeneous composite slab such as 9Ni steel. The welding of stainless steel composite slab is also achieved.

In respect of high performance steel for oceanographic engineering, electroslag remelting technique is applied to produce 330 mm cross-section billet to produce Q960 grade steel for oceanographic engineering with the thickness of 114 mm.

Discussion and Analysis of Operations (*Continued*)

III. ANALYSIS ON THE CORE COMPETITIVENESS (*Continued*)

5. Comprehensive R&D strength (*Continued*)

Normalizing steel for oceanographic engineering with a maximum thickness of 89 mm is also developed. In terms of steel for boiler and pressure container series, extra thick steel for boilers (13MnNiMoR), tampered steel for containers with high strength (07MnMoVR, 07MnNiVDR and 07MnNiMoDR), steel for containers under low temperature (09MnNiDR and 15MnNiNbDR) can be produced with the maximum thickness of 200 mm.

High quality oriented silicon steel (30AG120, 27AG100 and 35AG115) has achieved volume production. The Company has developed the corrosion-resistant steel for railway vehicles (S450AW), achieving the efficient and green industrial production of steel which is resistant to atmospheric corrosion. The Company has also completed the localization of AP1000, CPR1000 and other steel for large-sized nuclear equipment and low-alloy high-strength steel.

6. Independent intellectual property and technology control capacity

The Company's intellectual property belongs to the top tier in the metallurgical industry in terms of the number of patent applications, licenses and proprietary technologies. The Company also plays an important role in the revision of national standards and industry standards. During the "Twelfth Five-year Plan" period, the Company completed the revision of 2 international standards, 10 national standards and 11 industry standards as the chief editor, and completed the revision of 11 national standards as one of the editors. Those standards cover steel plates, steel belts, steel tubes, wire rods, chemical products, chemical testing methods and other areas.

The "development of Angang TMCP ultra-high strength steel for vessel and oceanographic engineering series (鞍鋼TMCP超高強度船體及海洋工程用系列鋼板開發)" was awarded the Major Research and Development Achievement Award in Liaoning Province (遼寧省企業重大研發成果獎). The invention patents including "a quantitative test and analysis method for the textures of cubic materials (一種立方系材料織構的定量測試分析方法)", "a metallurgical waste product as a converter coolant and its use (一種冶金廢料產品作為轉爐冷卻劑及其使用方法)" and "a low cost method for the production of clean steel (一種低成本潔淨鋼的生產方法)" were awarded the China Patent Excellence Award (中國專利優秀獎). The projects including "development and application of low cost clean steel production technology (低成本潔淨鋼生產技術開發與應用)" and "a method for removing calibration mark of rollers of rolling mill (一種消除軋機工作輓標定印的方法)" were awarded the Excellence in Innovation Award (卓越創新獎) at the International Invention Exhibition (國際發明展).

Discussion and Analysis of Operations (Continued)

IV. ANALYSIS OF INVESTMENTS OF THE COMPANY

1. Overall information

External Investments

Investments during the Reporting Period <i>(RMB million)</i>	Investments in the corresponding period of the previous year <i>(RMB million)</i>	Change <i>(%)</i>
50	229	-78.17

2. Significant equity investments made during the Reporting Period

Applicable Not applicable

3. Significant non-equity investments being conducted during the Reporting Period

Applicable Not applicable

4. Financial asset investments

(1) Securities investments

Discussion and Analysis of Operations (Continued)

IV. ANALYSIS OF INVESTMENTS OF THE COMPANY (Continued)

4. Financial asset investments (Continued)

Stock type	Stock code	Abbreviation	Initial investment (RMB million)	Accounting measurements (%)	Book value at the beginning of the period (RMB million shares)	Gains or losses on fair value change	Gains or losses arising from changes in fair value reported in equity	Purchase amount for the current period	Disposal amount for the current period (RMB million)	Loss or gain during the period (RMB million)	Book value at the end of the period (RMB million)	Accounting item	Source of funds
						for the current period	for the current period						
Shares	600961	Zhuye Group (株冶集團)	81	Measured at fair value	62	-	11	-	-	-	52	Available for sale financial assets	Self-owned funds

(2) Derivatives investments

Unit: RMB million

Name of the derivatives investment operator	Related party with the transaction Group	Type of derivatives investment	Initial investment amount of derivatives investment	Date of commencement	Date of termination	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	
													Investments at the end of the Reporting Period
Angang Steel	None	No	Futures investment	1	29 April 2015	-	26	2,852	2,960	0	147	0.32%	33
Total				1		-	26	2,852	2,960	0	147	0.32%	33

Discussion and Analysis of Operations *(Continued)*

IV. ANALYSIS OF INVESTMENTS OF THE COMPANY *(Continued)*

4. Financial asset investments *(Continued)*

Source of funds for derivative investments Self-owned funds

Litigation case (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 business of hedging with commodity futures in 2016 was approved at the 2nd 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.)

(1) Market risk exists when the position held by the Company is related to the steel products industry, which is highly relevant to spot commodity operated by the Company. Although the Company makes regular analysis and estimation on the market, the judgment on the market may be deviated, resulting in potential risk. However, the risk is controllable after futures hedging with spot commodities.

(2) As the category of position held has a sufficient liquidity, there is no liquidity risk.

(3) The Futures Exchange provides credit guarantee for the category of position held, thus the credit risk is minimal.

(4) The Company carries out such business in strict compliance with the relevant requirements of hedging and total holding position and term are in line with the Company's approval.

The Company has performed valuation of relevant legal risks. Business development is carried out in accordance with the laws and regulations of futures exchanges in the PRC, and thus, risks can be controlled.

Discussion and Analysis of Operations (Continued)

IV. ANALYSIS OF INVESTMENTS OF THE COMPANY (Continued)

4. Financial asset investments (Continued)

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

Dominant future contract settlement prices of deformed bar, hot-rolled coil, copper and nickel quoted on the Shanghai Futures Exchange, and dominant future contract settlement prices of iron ore and coking coal quoted on the Dalian Commodity Exchange; on 4 January 2016, the settlement prices of deformed bar, hot-rolled coil, copper, nickel, iron ore and coking coal were RMB1,797/ton, RMB1,949/ton, RMB36,160/ton, RMB69,370/ton, RMB323.5/ton and RMB559.5/ton, respectively; on 30 December 2016, the settlement prices of deformed bar, hot-rolled coil, copper, nickel, iron ore and coking coal were RMB2,911/ton, RMB3,329/ton, RMB45,430/ton, RMB85,760/ton, RMB554.5/ton and RMB1,182.0/ton, respectively. The fair values of deformed bar, hot-rolled coil, copper, nickel, iron ore and coking coal were +RMB1,114/ton, +RMB1,380/ton, +RMB9,270/ton, +RMB16,390/ton, +RMB231/ton and +RMB622.5/ton, respectively.

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

Discussion and Analysis of Operations *(Continued)*

IV. ANALYSIS OF INVESTMENTS OF THE COMPANY *(Continued)*

4. Financial asset investments *(Continued)*

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.
- (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.

5. Use of proceeds

Applicable Not applicable

Discussion and Analysis of Operations (Continued)

V. DISPOSAL OF SIGNIFICANT ASSETS AND EQUITY INTERESTS

1. Disposal of significant assets

Counterparty	Assets disposed of	Date of disposal	Transaction price (RMB million)	Impact of the disposal on the Company (RMB million)	The net profits contributed by the assets to the Company from the beginning of the Reporting Period	Percentage of the net profit generated by the disposal of assets in the Company (%)	Pricing principle for the disposal of assets	Whether it is a connected transaction	Connected relationship with the counterparty (applicable to the connected transactions)	Whether the asset ownership has been transferred in full	Whether the liabilities and debts have been transferred in full	Carried out as scheduled or not
Angang Holding	Assets in relation to ESR	29 December 2016	126.57	2	Beneficial to operation management optimization and reduction of connected transactions	0.12	Transaction prices are determined based on valuation	Yes	Controlling shareholder of the Company	Yes	Yes	Yes

2. Disposal of significant equity interests

Applicable Not applicable

Discussion and Analysis of Operations (Continued)

VI. ANALYSIS OF MAJOR SUBSIDIARIES AND INVESTEEES

Major subsidiaries and investees accounting for over 10% of the net profit of the Company

Unit: RMB million

Name of companies	Type of companies	Principal business activities	Registered capital	Total assets	Net assets	Operating income	Operating profit	Net profit
ANSC-TKS	Company with limited liability (sino-foreign cooperative venture)	Production and sale of hot dip galvanized steel products and alloyed steel plate products	USD132 million	2,246	1,543	4,386	553	453
Angang Financial Company	Company with limited liability	Deposit, lending and financing	4,000	20,744	6,804	1,026	749	563

Acquisition and disposal of subsidiaries during the Reporting Period

Applicable Not applicable

Name of subsidiaries	Purpose of acquisition and disposal of subsidiaries during the Reporting Period	Method of acquisition and disposal of subsidiaries during the Reporting Period	Impact on the overall production and results
Angang Technology Development Co., Ltd. (鞍鋼科技發展有限公司)	Improving technology innovation and efficiency enhancement capability in a better way, facilitating implementation of technology results, maximizing R&D edges, firing up the creativity and vitality of technical staff, and enhancing competitiveness of the Company through technology enhancement	Investment	Facilitating implementation of technology results, thus enhancing competitiveness of the Company
Angang Guangzhou Automobile Steel Co., Ltd. (鞍鋼廣州汽車鋼有限公司)	Facilitating the consolidation with lower-stream industry chain	Introduction of investors	Beneficial to the consolidation with lower-stream industry chain, thus improving the profitability of the Company

Discussion and Analysis of Operations (*Continued*)

VII. POSSIBLE RISK EXPOSURES

2017 is an important year for the Company in facilitating reform and innovation, as well as speeding up transformation and upgrade. The Company will be facing numerous operating risk exposures and uncertainties. In order to better adapt to changes in domestic and external environment, prevent the occurrence of material risk event and realize our operating goals, the Company has commenced its risk evaluation works for the year 2017, and formulated the risk response measures. Based on the evaluation, the Company may expose to the following material risk exposures in 2017:

1. Environmental protection risks

(1) Details of the risks

With the implementation of the new Environmental Protection Law, the new standards on emissions of pollutants and other relevant laws, the regulation and enforcement of the government have become increasingly demanding, the supervision and standards with respect of the environmental protection measures of companies is stricter, and the requirements on the environmental protection measures of companies have increased due to the higher public awareness of environmental protection, exerting enormous pressure on the steel and iron industry in terms of environmental protection.

(2) Risk management solutions

In accordance with the requirements under environmental protection standards and relevant laws and regulation, the Company will put a lot of effort into pollution management. Adhering to the “zero tolerance” concept, the Company will conduct its environmental protection works and actively adopt risk aversion measures in order to avoid default events in relation to environmental protection laws and regulation. The Company will also make a great effort into conducting reform to raise the emission standards, implement key projects for energy conservation, emission reduction and control, and facilitate the Blue Sky Project in an orderly manner. In respect of the new projects, it will strictly implement the eco-friendly system that requires the design, construction and operation of the pollution control facilities to be simultaneous with those of the principal project, and suspend the commencement of projects pending approval from the environment assessment authority. It will speed up the rectification of construction projects in order to complete the environmental protection filing for such projects.

Discussion and Analysis of Operations *(Continued)*

VII. POSSIBLE RISK EXPOSURES *(Continued)*

2. Human resources risks – material risk exposure

(1) Details of the risks

The overall plan on human resources is not specific, and it is not closely related to the development strategy of the Company. Management over the key personnel team is not satisfactory, while the incentive mechanism is insufficient and not attractive enough. There is too much on-duty staff with unreasonable structure, high labor cost and unsound development mechanism. The unsound exit mechanism for human resources has become an obstacle for the sustainable development of the Company.

(2) Risk management solutions

Aiming to improve labor production rate, the Company will deepen the reform on management assignment, labor employment and income allocation. Moreover, it will strengthen the composition of key personnel team, optimize human resources allocation, control labor cost, arrange proper job assignment, promote corporate reform and development, and improve production efficiency, thereby enhancing its core competitiveness.

3. Procurement risks

(1) Details of the risks

Prolong fluctuation at a high level of external coal and coke prices and increase in raw material prices may result in high procurement cost, thus lowering the profits of steel companies. It is expected that it will be more difficult to predict the iron ore prices due to their greater fluctuation in 2017. Hence, the occurrence and impact of possible procurement risks will be greater.

Discussion and Analysis of Operations *(Continued)*

VII. POSSIBLE RISK EXPOSURES *(Continued)*

3. Procurement risks *(Continued)*

(2) Risk management solutions

The Company always closely monitors the changes in delivery, consumption and storage of various bulk raw materials and fuels. It will make procurement based on inventory during non-peak seasons so as to mitigate the impacts of contingency on supply, thereby ensure smooth production. The Company will put a great effort into procurement tendering and improve the accuracy of demand plan so as to avoid emergency procurement. It will maintain its inventory at a reasonable level, and reduce the funds set aside. In respect of rare raw materials and fuels, the Company will make procurement from major suppliers in China through strategic cooperation, and strengthen the stability of supplier channels, thereby ensuring stable production and supply. The Company will also put a great effort into the management of contracts and suppliers, inspections and random inspections of procurement operations, and enhance the management standard of procurement product quality, thereby ensuring the quality of procurement.

Adhering to the concept of “secure supply” and aiming to achieve the goal of “continuous and standardized” production, the Company will strengthen the awareness of quality management and make secure supply its top priority.

4. Marketing risks – material risk exposure

(1) Details of the risks

The production capacity reduction of the steel industry has a limited role in enhancing industry competitiveness and optimizing the market environment. The existing heavy overcapacity in the steel industry remains unsolved with substantial imbalance between supply and demand. The overall market demand in the lower-stream industry remains sluggish. The Company may face a more intense competition in facilitating brand marketing, characteristic marketing and service marketing, and enhancing its brand influence, leadership in price determination and market share.

Discussion and Analysis of Operations *(Continued)*

VII. POSSIBLE RISK EXPOSURES *(Continued)*

4. Marketing risks – material risk exposure *(Continued)*

(2) Risk management solutions

Adhering to the implementation of the working requirement of “one goal, one strategy, two alternation and two reforms”, the Company will facilitate brand marketing, characteristic marketing and service marketing, and enhance its brand influence, leadership in price determination and market share.

The Company will strengthen the establishment of marketing systems and mechanisms, build up the philosophy of “expanding direct supply, stabilizing supply channels, increasing direct sales”, and continue to optimize its systems and mechanisms. Making regional sale companies as the principal distribution agent, the Company will facilitate the reform of regional sale companies, thereby achieving the goal of “sale with available stocks, direct marketing and direct sales”. The Company will accelerate the process of transformation, from a simple commercial service provider transforming into multi-service comprehensive service provider. It will focus on its works centering on product types and customers.

I. PROFIT DISTRIBUTION IN ORDINARY SHARES AND TRANSFER OF RESERVE TO SHARE CAPITAL OF THE COMPANY

➤ **Formulation, implementation and adjustment of profit distribution policy for ordinary shares, especially cash dividend policy, during the Reporting Period:**

Pursuant to the Notice regarding Further Implementation of Cash Dividends Distribution of Listed Companies (《關於進一步落實上市公司現金分紅有關事項的通知》) issued by the CSRC, the thirty-seventh meeting of the Fifth Session of the Board of the Company held on 27 August 2012 considered and approved the Resolution in Relation to Amendments to the Articles of Association (《關於修改〈公司章程〉的議案》), which amended the dividend distribution policy of the Company and clarified the specific conditions and ratios of cash dividend, the review procedures of profit distribution plan and made specific requirement for the procedures of adjustments and changes of the profit distribution policy. The resolution has been approved by the general meeting of the Company.

Special Explanation of the Policy of Distribution of Cash Dividend

Whether it complies with the provisions of the Articles of Association or requirements of resolutions in shareholders' general meetings	Yes
Whether the standards and ratio of dividends are clear and definite	Yes
Whether the relevant decision-making procedures and mechanisms are complete	Yes
Whether the independent directors have tried their best to perform their duties and duly fulfilled their roles	Yes
Whether the minority shareholders have sufficient opportunity to express their views and appeal, whether their legitimate rights and interests are fully protected	Yes
Whether the conditions and procedures of the adjustments or changes of cash dividend policy are in compliance with regulations and transparent	N/A

Significant Events *(Continued)*

I. PROFIT DISTRIBUTION IN ORDINARY SHARES AND TRANSFER OF RESERVE TO SHARE CAPITAL OF THE COMPANY *(Continued)*

➤ **Proposals and plans of profit distribution of the Company for the last three years (including the Reporting Period):**

1. The profit distribution proposal of the Company for 2016

Net profit attributable to shareholders of the Company amounted to RMB1,616 million for the year of 2016, while profits distributable to shareholders of the Company amounted to RMB2,484 million at the end of 2016, in accordance with the PRC ASBE, as audited and confirmed by Ruihua Certified Public Accountants (Special General Partnership) (瑞華會計師事務所特殊普通合夥). The Board proposes to distribute cash dividend of RMB0.067 per share (tax inclusive) to shareholders for the year of 2016, amounting to RMB485 million of the distributable profits, on the basis of the total share capital of 7,234,807,847 shares. Upon the implementation of such proposal, the balance of distributable profits will be RMB1,999 million. This proposal shall be subject to consideration and approval at the 2016 annual general meeting.

2. The profit distribution proposal of the Company for 2015

As the Company recorded a loss, pursuant to the 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 make any profit distribution or transfer of reserve to share capital for the year of 2015.

3. The profit distribution proposal of the Company for 2014

On the basis of the total share capital consisting of 7,234,807,847 shares, the Company distributed cash dividend of RMB0.045 per share (including tax) to shareholders for the year of 2014, which amounted to RMB326 million of the distributable profits.

Significant Events (Continued)

I. PROFIT DISTRIBUTION IN ORDINARY SHARES AND TRANSFER OF RESERVE TO SHARE CAPITAL OF THE COMPANY (Continued)

➤ Distribution of cash dividends for the last three years

Unit: RMB million

Year	Amounts of cash dividends (including tax)	Net profit attributable to the shareholders of the Company in the consolidated financial statement during the year	Percentage of the net profit attributable to the shareholders of the Company in the consolidated financial statement (%)
2016	485	1,616	30.00
2015	0	-4,593	0
2014	326	928	35.13

II. PROPOSALS OF PROFIT DISTRIBUTION AND TRANSFER OF RESERVE TO SHARE CAPITAL DURING THE REPORTING PERIOD

Numbers of bonus share per 10 shares (share(s))	–
Dividend distribution per 10 shares (RMB) (tax inclusive)	0.67
Conversion per 10 shares (share(s))	–
Share base of the distribution proposal (shares)	7,234,807,847
Total cash dividend (RMB million) (tax inclusive)	485
Net profit attributable to shareholders of the Company (RMB million)	1,616
Percentage of cash dividend to total profits distribution (%)	100

Significant Events *(Continued)*

II. PROPOSALS OF PROFIT DISTRIBUTION AND TRANSFER OF RESERVE TO SHARE CAPITAL DURING THE REPORTING PERIOD *(Continued)*

Cash dividend for this year

The Board proposes to distribute cash dividend of RMB0.067 per share (tax inclusive) to shareholders for the year of 2016, amounting to RMB485 million of the distributable profits, on the basis of the total share capital of 7,234,807,847 shares.

Particulars of profit distribution and conversion of capital reserves into share capital

Net profit attributable to shareholders of the Company amounted to RMB1,616 million for the year of 2016, while profits distributable to shareholders of the Company amounted to RMB2,484 million at the end of 2016, in accordance with the PRC ASBE, as audited and confirmed by Ruihua Certified Public Accountants (Special General Partnership). The Board proposes to distribute cash dividend of RMB0.067 per share (tax inclusive) to shareholders for the year of 2016, amounting to RMB485 million of the distributable profits, on the basis of the total share capital of 7,234,807,847 shares. Upon the implementation of such proposal, the balance of distributable profits will be RMB1,999 million. This proposal shall be subject to consideration and approval at the 2016 annual general meeting.

Significant Events (Continued)

III. PERFORMANCE OF UNDERTAKING

The undertakings performed by the Company, shareholders, actual controllers, offerors, Directors, Supervisors, senior management or other related parties during the Reporting Period as well as the undertakings that they have not yet performed as at the end of the Reporting Period.

	Undertaking Party	Type of Undertaking	Contents of Undertaking	Date of Undertaking	Period of Undertaking	Performance of Undertaking
Undertaking made during the restructuring of assets	Angang Holding	Industry competition commitments	The Non-competition Undertaking Letter of Anshan Iron & Steel Group Complex 《鞍山鋼鐵集團公司避免同業競爭承諾函》:	5 May 2007	Indefinite	There was no breach of such undertaking
			(1) Angang Holding and its wholly-owned and holding subsidiaries have complied with relevant requirements of the state on the non-competition.			
			(2) 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.			
			(3) Angang Holding undertakes that the Company is entitled to the pre-emptive 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.			
			(4) 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.			

Significant Events *(Continued)*

III. PERFORMANCE OF UNDERTAKING *(Continued)*

Undertaking Party	Type of Undertaking	Contents of Undertaking	Date of Undertaking	Period of Undertaking	Performance of Undertaking
		<p>(5) 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>(6) 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>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>			
		<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>			

Significant Events (Continued)

III. PERFORMANCE OF UNDERTAKING (Continued)

Undertaking Party	Type of Undertaking	Contents of Undertaking	Date of Undertaking	Period of Undertaking	Performance of Undertaking	
		<p>(7) (Continued)</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> <ol style="list-style-type: none"> (1) Angang Holding ceases to be the controlling shareholder of the Company; (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); (3) When the state does not require the contents of certain undertakings, relevant section shall be terminated automatically. <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 competitions with the Company before the date of the issuance of the undertaking letter.</p>				
Other commitments made to minority shareholders	Anshan Iron and Steel Group Corporation	Commitments of concerted actions of shareholders	The Anshan Iron and Steel Group Corporation and persons acting in concert do not reduce their shareholding in the Company for six months from the date of commitment.	15 July 2015	6 months	There was no breach of such undertaking
Whether the commitments are fulfilled on time	Yes					

Significant Events (Continued)

IV. MISAPPROPRIATION OF NON-OPERATING FUNDS OF THE COMPANY BY CONTROLLING SHAREHOLDERS AND CONNECTED PERSONS

Applicable Not applicable

V. EXPLANATION OF CHANGES IN ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ACCOUNTING METHOD OF THE GROUP DURING THIS YEAR AS COMPARED WITH THE FINANCIAL REPORT OF THE PREVIOUS YEAR

Applicable Not applicable

VI. REASON FOR RETROSPECTIVE RESTATEMENT TO CORRECT MAJOR ACCOUNTING ERRORS DURING THE REPORTING PERIOD

Applicable Not applicable

VII. EXPLANATION OF CHANGES OF SCOPE IN CONSOLIDATED STATEMENTS AS COMPARED WITH THE FINANCIAL REPORT OF THE PREVIOUS YEAR

Applicable Not applicable

In 2016, the Company established a subsidiary, namely Angang Technology Development Co., Ltd. (鞍鋼科技發展有限公司), which was included in the scope of consolidation. In December 2016, Angang Guangzhou Automobile Steel Co., Ltd. (鞍鋼廣州汽車鋼有限公司), a subsidiary of the Company, received capital of RMB350 million injected by other shareholders. The equity interest of Angang Guangzhou Automobile Steel Co., Ltd. held by the Company changed from 100% to 50% upon the capital injection. Therefore, Angang Guangzhou Automobile Steel Co., Ltd. became a joint venture of the Company, and was excluded from the scope of consolidation.

As at 31 December 2016, 19 subsidiaries of the Company in total were included in the scope of consolidation.

Significant Events (Continued)

VIII. APPOINTMENT AND DISMISSAL OF ACCOUNTING FIRM

1. Accounting firm currently engaged by the Company

Name of the PRC accounting firm	Ruihua Certified Public Accountants (Special General Partnership)
Remuneration of the PRC accounting firm (RMB0'000)	372
Continued term of service of the PRC accounting firm	4 years
Name of certified public accountants of the PRC accounting firm	Cao Bin and Deng Li

2. Whether appointed another accounting firm during the period

Yes No

3. Particulars on recruitment of accounting firms, financial consultants or sponsors for internal control

Applicable Not applicable

The Company engaged Ruihua Certified Public Accountants (Special General Partnership) as the internal control and auditing firm of the Company for 2016 and the remuneration was RMB0.88 million.

IX. THE COMPANY HAS NO MATERIAL LITIGATION AND ARBITRATION DURING THE REPORT PERIOD.

X. IMPLEMENTATION AND IMPACT ON THE SHARE-BASED INCENTIVES OF THE COMPANY

Applicable Not applicable

XI. PENALTY AND RECTIFICATIONS

Applicable Not applicable

Significant Events *(Continued)*

XII. CREDIBILITY OF THE COMPANY, ITS CONTROLLING SHAREHOLDERS AND DE FACTO CONTROLLERS

In November 2015, the Company was accredited as the “Provincial Reliable and Credible Enterprise” (省級守合同重信用企業) during the year from 2013 to 2014 by Liaoning Administration of Industry and Commerce (遼寧省工商行政管理局).

In July 2016, Angang Holding, the controlling shareholder of the Company, was accredited as the “National Reliable and Credible Enterprise” (國家級守合同重信用企業) during the year from 2014 to 2015 by State Administration for Industry and Commerce (國家工商行政管理局).

The Company and Angang Holding, the controlling shareholder of the Company, did not fail to perform the court judgments, and were not in breach of trust with a large amount due and owing in 2016.

XIII. MAJOR CONNECTED TRANSACTIONS

During the year, the Group and connected persons entered into certain transactions, which constituted connected transactions and Continuing Connected Transactions of the Group under Chapter 14A of the Hong Kong Listing Rules. The details of the connected transactions and the Continuing Connected Transactions subject to the reporting requirement pursuant to Rule 14A.49 of the Hong Kong Listing Rules are summarized as follows:

Significant Events (Continued)

XIII. MAJOR CONNECTED TRANSACTIONS (Continued)

1. Continuing Connected Transactions related to daily operations

A. Connected party: Angang Group

Connected relationship: Controlling shareholder of the Company

Settlement method of the connected transaction: Cash payment

Type	Details	Pricing principle	Price (RMB)	Amount (RMB million)	As a percentage of the amount of similar transactions (%)	Transaction cap approved (RMB million)	Whether exceeding approved cap	Market price of available similar transactions (RMB)
Procurement of principal raw materials from the connected party	Iron concentrate	Not higher than the average value of medium price of Platts 65% CFR price for the northern part of China (Qingdao Port) announced daily by SBB Steel Markets Daily ((SBB 鋼鐵市場日報)) in the first month preceding the month of the transaction (T-1)*, plus the transportation cost from Bayuquan Port to Angang Steel, and adjusted upwards or downwards based on each iron concentration calculated by reference to the average value of Platts 65%, in the first month preceding the month of the transaction (T-1)*. A discount equal to 3% of the average value of Platts 65% in the first month preceding the month of the transaction (T-1)* shall apply to the price determined pursuant to the formula set out above.	428/ton	4,261	46.27	-	-	450.70/ton ^{Note 1}
	Pellet	Market price	521/ton	2,625	99.57	-	-	554.09/ton ^{Note 1}
	Sinter ore	The price of iron concentrate plus processing cost in the preceding one month (T-1)*, the processing cost of which should not be higher than that of similar products produced by Angang Steel.	487/ton	1,457	100.00	-	-	-

Significant Events (Continued)

XIII. MAJOR CONNECTED TRANSACTIONS (Continued)

1. Continuing Connected Transactions related to daily operations (Continued)

A. Connected party: Angang Group (Continued)

Type	Details	Pricing principle	Price (RMB)	Amount (RMB million)	As a percentage of the amount of similar transactions (%)	Transaction cap approved (RMB million)	Whether exceeding approved cap	Market price of available similar transactions
	Karara magnetite	<p>Premium products (iron grade\geq67.2%): not higher than the average price of such products in Mainland China sold to independent third parties in the corresponding period (which is the shipment month). The sales of premium products of Karara Mining in Mainland China sold to independent third parties are not less than 30% of the then total sales of Karara Mining's premium products.</p> <p>Standard products (67.2% > iron grade\geq65%): the price is calculated by reference to the average value of medium price of Platts 65% CFR price for the northern part of China (Qingdao Port) announced daily by SBB Steel Markets Daily, plus the difference of the transportation cost of shipping in dry metric ton from Qingdao Port to Bayuquan, Liaoning Province, as divided by 65 and multiplied by the actual grade after loading in the place of loading in the corresponding month.</p> <p>Low standard products (65% > iron grade \geq59%): the price is calculated by reference to the average value of medium price of Platts 62% iron CFR price for the northern part of China (Qingdao Port) announced daily by SBB Steel Markets Daily, plus the difference of the transportation cost of shipping in dry metric ton from Qingdao Port to Bayuquan, Liaoning Province, as divided by 62 and multiplied by the actual grade after loading in the place of loading in the corresponding month.</p>	415/ton	603	100.00	-	-	461.65/ton ^{Note 1}
	Scrap steel	Market price	-	213	20.77	-	-	-
	Billets		-	69	87.02	-	-	-
	Alloy and non-ferrous metal		-	87	3.05	-	-	-
	Sub-total		-	-	9,315	52.10	18,300	No

Significant Events (Continued)

XIII. MAJOR CONNECTED TRANSACTIONS (Continued)

1. Continuing Connected Transactions related to daily operations (Continued)

A. Connected party: Angang Group (Continued)

Type	Details	Pricing principle	Price (RMB)	Amount (RMB million)	As a percentage of the amount of similar transactions (%)	Transaction cap approved (RMB million)	Whether exceeding approved cap	Market price of available similar transactions
Procurement of energy and power from the connected party	Electricity	State price	0.43/kwh	1,704	38.29	-	-	0.43/kwh
	Water	State price	2.10/ton	41	46.84	-	-	2.10/ton
	Steam	Cost of production plus gross profit margin of 5%	49.58/GJ	6	100.00	-	-	52/GJ
	Sub-total	-	-	1,751	38.53	2,500	No	-
Purchase of ancillary products from the connected party	Lime stone	Not higher than the selling prices offered by Angang Group to independent third parties	61/ton	180	69.56	-	-	-
	Lime powder		415/ton	650	93.70	-	-	-
	Refractory materials		-	386	35.01	-	-	-
	Coke		-	10	2.30	-	-	-
	Other ancillary materials		-	251	13.16	-	-	-
	Spare parts and tools		-	209	10.79	-	-	-
	Sub-total		-	-	1,686	26.58	2,815	No

Significant Events (Continued)

XIII. MAJOR CONNECTED TRANSACTIONS (Continued)

1. Continuing Connected Transactions related to daily operations (Continued)

A. Connected party: Angang Group (Continued)

Type	Details	Pricing principle	Price (RMB)	Amount (RMB million)	As a percentage of the amount of similar transactions (%)	Transaction cap approved (RMB million)	Whether exceeding approved cap	Market price of available similar transactions
Purchase of support services from the connected party	Railway transportation service	State price	-	469	51.30	-	-	-
	Road transportation service	Market price	-	584	84.55	-	-	-
	Pipeline transportation service		-	53	100.00	-	-	-
	Agency services: - Import of raw materials, equipment, components and ancillary materials - Export of products - Tendering	Commission not higher than 1.5% (not more than the commissions levied by major state-owned import and export companies of China)	-	106	100.00	-	-	-
	Repair and maintenance of equipment and service	Market price	-	414	26.37	-	-	-
	Design and engineering services	Market price	-	277	71.70	-	-	-
	Educational facilities, education for occupational skills, on-the-job training and translation	Market price	-	4	52.71	-	-	-
	Newspaper and other publications	State price	-	1	28.98	-	-	-
	Telecommunication business and services and information system	State price or depreciation plus maintenance costs	-	22	64.84	-	-	-
	Production assistance and maintenance	Expenses of labor, materials and management as paid based on market prices	-	701	64.43	-	-	-
	Welfare assistance and maintenance	Expenses of labor, materials and management as paid based on market prices	-	218	85.91	-	-	-

Significant Events (Continued)

XIII. MAJOR CONNECTED TRANSACTIONS (Continued)

1. Continuing Connected Transactions related to daily operations (Continued)

A. Connected party: Angang Group (Continued)

Type	Details	Pricing principle	Price (RMB)	Amount (RMB million)	As a percentage of the amount of similar transactions (%)	Transaction cap approved (RMB million)	Whether exceeding approved cap	Market price of available similar transactions
	Company vehicle services	Market price	-	1	91.29	-	-	-
	Environmental protection and security inspection services	State price	-	5	42.75	-	-	-
	Business reception and meeting expenses	Market price	-	2	55.97	-	-	-
	Supply of heating fee	State price	-	2	3.03	-	-	-
	Greening services	Expenses of labor, materials and management as paid based on market prices	-	24	100.00	-	-	-
	Port agent services	Market price	-	213	100.00	-	-	-
	Sub-total	-	-	3,096	59.19	5,500	No	-
Buyout of steel products from connected party	Steel products	Determined based on the price offered by Angang Steel to third parties deducting a commission of RMB20-35/ton.	-	-	-	500	No	-

Significant Events (Continued)

XIII. MAJOR CONNECTED TRANSACTIONS (Continued)

1. Continuing Connected Transactions related to daily operations (Continued)

A. Connected party: Angang Group (Continued)

Type	Details	Pricing principle	Price (RMB)	Amount (RMB million)	As a percentage of the amount of similar transactions (%)	Transaction cap approved (RMB million)	Whether exceeding approved cap	Market price of available similar transactions
Sale of goods to the connected party	Steel Products	The selling price charged by the Group to the independent third parties; for provision of aforesaid products for the development of new products by the other party, the price is based on the market price if the market price exists; if the 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	3,008/ton	622	1.18	-	-	-
	Molten iron		1,415/ton	50	100.00	-	-	-
	Billets		1,736/ton	126	38.18	-	-	-
	Coke		403/ton	9	24.78	-	-	-
	Chemical by-products		-	42	3.21	-	-	-
	Sub-total		-	-	849	1.56	4,810	No
Sale of scrap steel and abandoned material to the connected party	Scrap steel	Market price	-	203	81.82	-	-	-
	Abandoned material		-	16	75.96	-	-	-
	Obsolete assets or idle assets	Market price or appraised price	-	3	100.00	-	-	-
	Sub-total	-	-	222	81.56	280	No	-

Significant Events (Continued)

XIII. MAJOR CONNECTED TRANSACTIONS (Continued)

1. Continuing Connected Transactions related to daily operations (Continued)

A. Connected party: Angang Group (Continued)

Type	Details	Pricing principle	Price (RMB)	Amount (RMB million)	As a percentage of the amount of similar transactions (%)	Transaction cap approved (RMB million)	Whether exceeding approved cap	Market price of available similar transactions
Sale of comprehensive services to the connected party	Fresh water	State price	3.19/ton	50	96.84	-	-	3.19/ton
	Clean recycled water		0.73/ton	16	92.94	-	-	-
	Soft water		4.90/ton	0.05	100.00	-	-	-
	Gas		45.30/GJ	531	87.81	-	-	-
	Blast furnace gas		20.00/GJ	320	99.80	-	-	-
	Steam		52.00/GJ	25	75.25	-	-	52.00/GJ
	Nitrogen	Production cost plus a gross profit margin of 5%	200.00/km3	2	38.42	-	-	-
	Oxygen		397.24/km3	1	75.86	-	-	-
	Argon		1000.00/km3	0.4	96.42	-	-	-
	Compressed air		106.10/km3	0.5	45.31	-	-	-
	Hydrogen		2,045/km3	0.1	32.52	-	-	-
	Used hot water		27.58/GJ	57	94.99	-	-	27.58/GJ

Significant Events (Continued)

XIII. MAJOR CONNECTED TRANSACTIONS (Continued)

1. Continuing Connected Transactions related to daily operations (Continued)

A. Connected party: Angang Group (Continued)

Type	Details	Pricing principle	Price (RMB)	Amount (RMB million)	As a percentage of the amount of similar transactions (%)	Transaction cap approved (RMB million)	Whether exceeding approved cap	Market price of available similar transactions	
	Liquid nitrogen	Production cost plus a gross profit margin of 5%	RMB377/ton	7	98.39	-	-	RMB377.35/GJ	
	Liquid oxygen		RMB404/ton	9	99.49	-	-	RMB404/ton	
	Liquid argon		RMB511/ton	5	99.02	-	-	RMB511/ton	
	Product testing service	Market price	-	5	41.29	-	-	-	
	Transportation service		-	4	95.42	-	-	-	
	Lease of production line		-	5	97.55	-	-	-	
	Sub-total		-	1,038	55.94	1,270	No	-	
Particulars on refund of bulk sale									-
Estimated total amount for continuing connected transactions to be conducted during the period (by types of transactions) and their actual implementing during the reporting period			The estimated data of Continuing Connected Transactions of the Company for the last year was based on the content and estimated caps of transactions set out in the Continuing Connected Transaction Agreements approved at the 2015 extraordinary general meeting of the Company. The total amount of Continuing Connected Transactions of the Company in 2016 did not exceed the relevant applicable caps as specified under the Continuing Connected Transaction Agreements.						
Reason for the difference between transaction price and market reference price			Note 1: As market prices of available similar transactions of iron concentrate, pellet and sinter ore were derived from average purchase prices of domestically made iron concentrate (grade of 62.94%), pellet (grade of 61.28%) and sinter ore (grade of 61.64%) in 2016 by the China Iron and Steel Association, respectively, which were not consistent with the Platts prices applied by the Company's pricing principle, the difference of prices was relatively larger.						
Relevant explanation on connected transactions	As production in the iron and steel industry is on a continuous basis, Angang Holding 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, abandoned steel, abandoned materials and integrated services to Angang Holding which is a client of the Company.								

Significant Events (Continued)

XIII. MAJOR CONNECTED TRANSACTIONS (Continued)

1. Continuing Connected Transactions related to daily operations (Continued)

B. Connected 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	Amount (RMB million)	As a percentage of the amount of similar transactions (%)	Transaction cap approved (RMB million)	Whether exceeding approved cap
Financial services provided to the Company by the connected party	Interest on deposits of settlement fund	Based on the benchmark annual interest rates on agreement deposits as stipulated by the People's Bank of China	-	15	37.35	50	No
	Maximum daily balance of deposit (including accrued interests)	-	-	1,940	-	2,000	No
	Credit interest rates	Not higher than the interest rate obtained by the Group from commercial banks during the same period	-	32	2.39	150	No
	Interest on entrusted loans		-	19	100.00	100	No
Particulars on refund of bulk sale							-
Estimated total amount for continuing connected transactions to be conducted during the period (by types of transactions) and their actual implementing during the reporting period			The estimated data of Continuing Connected Transactions of the Company for the last year was based on the content and estimated caps of transactions set out in the Continuing Connected Transaction Agreements approved at the 2015 extraordinary general meeting of the Company. The total amount of Continuing Connected Transactions of the Company in 2016 did not exceed the relevant applicable caps as specified under the Continuing Connected Transaction Agreements.				
Reason for the difference between transaction price and market reference price			The difference among credit interest rates, interest on entrusted loans and the estimated amount was relatively larger, as a result of more credit and entrusted facility applied for maximum protection of capital of the Company while entering into the Continuing Connected Transaction Agreements. As more adequate capital was available to the Company in 2016 instead of significantly utilizing credit of Angang Financial Company, the difference among credit interest rates, interest on entrusted loans of Angang Financial Company and the estimated amount was relatively larger.				

Significant Events *(Continued)*

XIII. MAJOR CONNECTED TRANSACTIONS *(Continued)*

1. Continuing Connected Transactions related to daily operations *(Continued)*

B. Connected party: Angang Financial Company *(Continued)*

Relevant explanation on connected transactions	<p>The Company utilized the free settlement platform provided by Angang Financial Company and deposited a part of 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 a safe protection for the capital of the Company.</p> <p>The Company 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 break down 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 Service Agreement entered into between the Company and Angang Financial Company, the Company set up an alert function 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>
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Significant Events (Continued)

XIII. MAJOR CONNECTED TRANSACTIONS (Continued)

1. Continuing Connected Transactions related to daily operations (Continued)

C. Connected 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)	Amount (RMB million)	As a percentage of the amount of similar transactions (%)	Transaction cap approved (RMB million)	Whether exceeding approved cap	Market price of available similar transactions
Purchase of raw materials from the connected party	Iron concentrate	Not higher than the average value of medium price of Platts 65% iron CFR price for the northern part of China (Qingdao Port) announced daily by SBB Steel Markets Daily in the first month preceding the month of the transaction (T-1)*, plus the transportation cost from Bayuquan Port to Angang Steel, and adjusted upwards or downwards based on each iron concentration calculated by reference to the average value of Platts 65%, in the first month preceding the month of the transaction (T-1)*. A discount equal to 3% of the average value of Platts 65% in the first month preceding the month of the transaction (T-1)* shall apply to the price determined pursuant to the formula set out above.	395/ton	711	7.72	-	-	426.81/ton ^{Note 2}
	Alloy	Market price	62,741/ton	17	0.61	-	-	-
	Total		-	728	6.03	1,780	No	-

Significant Events (Continued)

XIII. MAJOR CONNECTED TRANSACTIONS (Continued)

1. Continuing Connected Transactions related to daily operations (Continued)

C. Connected party: Pangang Vanadium & Titanium Group (Continued)

Particulars on refund of bulk sale	
Estimated total amount for continuing connected transactions to be conducted during the period (by types of transactions) and their actual implementing during the reporting period	The estimated data of Continuing Connected Transactions of the Company for the last year was based on the content and estimated caps of transactions set out in the Continuing Connected Transaction Agreements approved at the 2015 extraordinary general meeting of the Company. The total amount of Continuing Connected Transactions of the Company in 2016 did not exceed the relevant applicable caps as specified under the Continuing Connected Transaction Agreements.
Reason for the difference between transaction price and market reference price	Note 2: As the market price of available similar transactions of iron concentrate was derived from the average purchase price of domestically made iron concentrate (grade of 62.86%) from January to September 2016 by the China Iron and Steel Association, which was not consistent with the Platts prices applied by the Company's pricing principle, the difference of prices was relatively larger. The Company did not purchase iron concentrate from Pangang Vanadium & Titanium from October to December 2016.
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 obtaining continuous and stable supply of raw materials.

Significant Events *(Continued)*

XIII. MAJOR CONNECTED TRANSACTIONS *(Continued)*

1. Continuing Connected Transactions related to daily operations *(Continued)*

For the above Continuing Connected Transactions, the independent non-executive Directors of the Company expressed their opinions as follows:

- (1) the Continuing Connected Transactions of the Company in 2016 were carried out in the ordinary and usual course of business of the Company; (2) the Continuing Connected Transactions of the Company in 2016 were conducted (A) in accordance with the normal commercial terms (with reference to transactions of a similar nature made by similar entities in the PRC); (B) on terms no less favorable than the terms available to or offered by the third parties (if no comparable case is available); and (C) on terms which are fair and reasonable to shareholders of the Company (if no reference is available); (3) the Continuing Connected Transactions of the Company in 2016 were conducted in accordance with the terms set out in the Continuing Connected Transaction Agreements, which are fair and reasonable and in the interest of the Company and shareholders as a whole; (4) the total amount of Continuing Connected Transactions of the Company in 2016 did not exceed the relevant applicable caps as specified under the Continuing Connected Transaction Agreements. The difference between actual amounts of certain connected transactions and estimated amounts was relatively larger, due to the impact of changes in prices of commodities and trading volumes during actual operation. As the originally estimated data represented the estimated caps of transactions, the existence of difference was reasonable which did not prejudice the interests of non-controlling shareholders and the Company.

The auditors of the Company have reviewed the above non-exempt connected transactions and issued a letter to the Board. In respect of the Continuing Connected Transactions disclosed by the Company, the auditors are of the opinion that nothing has come to their attention that causes them to believe that:

- (1) the disclosed Continuing Connected Transactions have not been approved by the Board of the Company.
- (2) for the transactions involving provision of the Group's goods and services, the connected transactions were not carried out in accordance with the pricing policies of the Group in all material aspects.

Significant Events (Continued)

XIII. MAJOR CONNECTED TRANSACTIONS (Continued)

1. Continuing Connected Transactions related to daily operations (Continued)

(3) the connected transactions were not carried out in accordance with the relevant agreements in all material aspects.

(4) the Continuing Connected Transactions have exceeded the cap

2. Connected transaction of assets acquisition and disposal

Party	Relationship	Type	Content	Pricing Principle	Book value	Appraised	Transfer price	Settlement	Loss or Profit
					of transferred	value			
					Assets	assets			
					(RMB million)	(RMB million)	(RMB million)		(RMB million)
Angang Holding	Controlling shareholder	Disposal of assets	Disposed of electroslag remelting-related assets to Angang Holding	Pricing based on the appraised value	125.52	126.57	126.57	Settled by cash	1.05
Reasons for the substantial difference between the transfer price and the book value or the appraised value (if any)				Nil					
Impact on the operating result and the financial condition of the Company				No material impact					

Save as otherwise disclosed above, the Company has disclosed the connected transactions and Continuing Connected Transactions entered into for the year ended 31 December 2016 subject to the requirements under Chapter 14A of the Hong Kong Listing Rules.

3. Connected party credit and debt transaction

As of 31 December 2016, the bank borrowings of RMB40 million were guaranteed by Angang Holding whereas the bank borrowings of RMB1,000 million were guaranteed by Angang Group.

Significant Events *(Continued)*

XIII. MAJOR CONNECTED TRANSACTIONS *(Continued)*

4. Related party transactions

For the financial year ended 31 December 2016, the Group entered into certain transactions with all parties taken as “related parties” under applicable accounting standards. As set out on pages 72 to 87 above, such related party transactions include Continuing Connected Transactions and connected transactions under Chapter 14A of the Hong Kong Listing Rules, and are disclosed pursuant to the requirements under Chapter 14A of the Hong Kong Listing Rules. Details are set out in note 11 to the financial statements.

XIV. MATERIAL CONTRACTS AND THEIR IMPLEMENTATION

1. Trust, contractual or lease arrangement

(1) Trust arrangement

The Company approved the Supply of Materials and Services Agreement (2016–2018) between the Company and Angang Holding at the second extraordinary general meeting of the Company in 2015 on 12 October 2015. The Company entered into the Entrusted Management Services of Asset and Business Agreement with Angang Group Company on 22 October 2015 as the specific agreement for execution under the approved Supply of Materials and Services Agreement (2016–2018). Pursuant to the Entrusted Management Services of Asset and Business Agreement, Angang Group Company entrusts the Company to daily operate and manage the assets, businesses, additional future assets and businesses of the unlisted units under its control.

During the Reporting Period, the Company did not address any entrusted projects which resulted in profit or loss of the Company amounting to more than 10% of the Company’s total profit during the Reporting Period.

(2) Contractual arrangement

The Company did not enter into any contractual arrangement during the Reporting Period.

Significant Events *(Continued)*

XIV. MATERIAL CONTRACTS AND THEIR IMPLEMENTATION *(Continued)*

1. Trust, contractual or lease arrangement *(Continued)*

(3) Lease arrangement

The Company did not enter into any lease arrangement during the Reporting Period.

2. Material guarantee

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

3. During the Reporting Period, the Company did not entrust financial management or entrust loan externally.

XV. SOCIAL RESPONSIBILITIES

The Company had actively fulfilled its social responsibilities, which was publicly disclosed in the 2016 social responsibility report, the full text of which is set forth on CNINFO <http://www.cninfo.com.cn>.

Movement in Share Capital and Shareholders' Profile

I. MOVEMENT IN SHARE CAPITAL

1. Movement in Share Capital

Unit: Share

	Before the change		Increase/decrease during the period (+/-)					After the change	
	Number	Percentage (%)	Issue of new shares	Bonus shares	Accumulated fund	Others	Sub-total	Number	Percentage (%)
I. Shares subject to trading moratorium	55,337	0.00	-	-	-	-42,100	-42,100	13,237	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	-	-	-	-42,100	-42,100	13,237	0.00
4. Foreign 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	-	-	-	+42,100	+42,100	7,234,794,610	100.00
1. Renminbi ordinary shares	6,148,952,510	84.99	-	-	-	+42,100	+42,100	6,148,994,610	84.99
2. Domestically listed foreign shares	-	-	-	-	-	-	-	-	-
3. Overseas listed foreign 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

Reasons for movement in shares:

During the Reporting Period, there were changes in Directors, Supervisors and senior management and certain Directors of the Company who had resigned for 6 months, leading to changes in the number of shares subject to trading moratorium, shares held by domestic natural persons, shares not subject to trading moratorium, and Renminbi ordinary shares of the Company.

Movement in Share Capital and Shareholders' Profile (Continued)

I. MOVEMENT IN SHARE CAPITAL (Continued)

2. Changes in shares subject to trading moratorium

Unit: Share

Name of Shareholder	Shares subject to trading moratorium at the beginning of the year	Increase in shares subject to trading moratorium during the period	Decrease in shares subject to trading moratorium	Shares subject to trading moratorium at the end of the period	Reason for the trading moratorium	Date of release of the trading moratorium
Wang Yidong	7,650	0	1,913	5,737	Senior management locked-up shares	-
Ren Ziping	24,000	0	24,000	0	The trading moratorium of all shares was lifted 6 months upon the resignation	22 April 2016
Ma Lianyong	10,000	0	10,000	0	The trading moratorium of all shares was lifted 6 months upon the resignation	24 May 2016
Zhang Lifan	6,187	2,063	8,250	0	The trading moratorium of all shares was lifted 6 months upon the resignation	8 December 2016
Total	47,837	2,063	44,163	5,737	-	-

II. ISSUANCE AND LISTING OF SECURITIES

Issuance of securities during the Reporting Period

Applicable Not applicable

Movement in Share Capital and Shareholders' Profile (Continued)

III. SHAREHOLDERS AND DE FACTO CONTROLLER

1. Number of shareholders and details of shareholding of the Company

Unit: Share

The total number of ordinary shareholders of the Company as at the end of the Reporting Period			113,793, of which 544 were holders of H shares	The total number of ordinary shareholders of the Company as at the end of February 2017			101,270	
Details of shareholders with more than 5% of shares								
Name of shareholder	Nature of shareholder	Percentage of shareholding (%)	Number of shares as at the end of the Reporting Period	Increase/ decrease during the Reporting Period	Number of shares held subject to trading moratorium	Number of shares held not subject to trading moratorium	Status of shares	Number of shares pledged or frozen
			Amount	Amount	Amount	Amount	Amount	
Angang Holding	State-owned legal person	67.29	4,868,547,330	0	-	4,868,547,330	-	-
HKSCC (Nominees) Limited	Overseas legal person	14.85	1,074,259,656	+312,175	-	1,074,259,656	-	-
China Securities Finance Corporation Limited (中國證券金融股份有限公司)	State-owned legal person	2.99	216,322,910	-	-	216,322,910	-	-
China Securities Finance Corporation Limited (中國證券金融股份有限公司)	State-owned legal person	1.00	72,575,900	-	-	72,575,900	-	-
Abu Dhabi Investment Authority (阿布達比投資局)	Others	0.31	22,727,000	+22,727,000	-	22,727,000	-	-
ICBC Credit Fund – Agricultural Bank of China – ICBC Credit Suisse China Securities Financial Asset Management Plan (工銀瑞信基金 – 農業銀行 – 工銀瑞信中證金融資產管理計劃)	Others	0.23	16,652,700	-	-	16,652,700	-	-

Movement in Share Capital and Shareholders' Profile (Continued)

III. SHAREHOLDERS AND DE FACTO CONTROLLER (Continued)

1. Number of shareholders and details of shareholding of the Company (Continued)

Name of shareholder	Nature of shareholder	Percentage of shareholding (%)	Details of shareholders with more than 5% of shares					Status of shares	Number of shares pledged or frozen
			Number of shares as at the end of the Reporting Period	Increase/ decrease during the Reporting Period	Number of shares held subject to trading moratorium	Number of shares held not subject to trading moratorium	Number of shares		
Central European Fund – Agricultural Bank of China – Central European China Securities Financial Asset Management Plan (中歐基金–農業銀行–中歐中證金融資產管理計劃)	Others	0.23	16,652,700	–	–	16,652,700	–	–	
Boshi Fund – Agricultural Bank of China – Boshi China Securities Financial Asset Management Plan (博時基金–農業銀行–博時中證金融資產管理計劃)	Others	0.23	16,652,700	–	–	16,652,700	–	–	
Dacheng Fund – Agricultural Bank of China – Dacheng China Securities Financial Asset Management Plan (大成基金–農業銀行–大成中證金融資產管理計劃)	Others	0.23	16,652,700	–	–	16,652,700	–	–	
Jiashi Fund – Agricultural Bank of China – Jiashi China Securities Financial Asset Management Plan (嘉實基金–農業銀行–嘉實中證金融資產管理計劃)	Others	0.23	16,652,700	–	–	16,652,700	–	–	

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.

Movement in Share Capital and Shareholders' Profile (Continued)

III. SHAREHOLDERS AND DE FACTO CONTROLLER (Continued)

1. Number of shareholders and details of shareholding of the Company (Continued)

Shareholdings of the top 10 shareholders not subject to trading moratorium

Name of shareholder	Number of shares held not subject to trading moratorium at the end of the Year	Type of share	Amount
Angang Holding	4,868,547,330	Renminbi ordinary shares	4,868,547,330
HKSCC (Nominees) Limited	1,074,259,656	Overseas listed foreign shares	1,074,259,656
China Securities Finance Corporation Limited (中國證券金融股份有限公司)	216,322,910	Renminbi ordinary shares	216,322,910
China Securities Finance Corporation Limited (中國證券金融股份有限公司)	72,575,900	Renminbi ordinary shares	72,575,900
Abu Dhabi Investment Authority (阿布達比投資局)	22,727,000	Renminbi ordinary shares	22,727,000
ICBC Credit Fund – Agricultural Bank of China – ICBC Credit Suisse China Securities Financial Asset Management Plan (工銀瑞信基金–農業銀行–工銀瑞信中證金融資產管理計劃)	16,652,700	Renminbi ordinary shares	16,652,700
Central European Fund – Agricultural Bank of China – Central European China Securities Financial Asset Management Plan (中歐基金–農業銀行–中歐中證金融資產管理計劃)	16,652,700	Renminbi ordinary shares	16,652,700
Boshi Fund – Agricultural Bank of China – Boshi China Securities Financial Asset Management Plan (博時基金–農業銀行–博時中證金融資產管理計劃)	16,652,700	Renminbi ordinary shares	16,652,700
Dacheng Fund – Agricultural Bank of China – Dacheng China Securities Financial Asset Management Plan (大成基金–農業銀行–大成中證金融資產管理計劃)	16,652,700	Renminbi ordinary shares	16,652,700
Jiashi Fund – Agricultural Bank of China – Jiashi China Securities Financial Asset Management Plan (嘉實基金–農業銀行–嘉實中證金融資產管理計劃)	16,652,700	Renminbi ordinary shares	16,652,700

Movement in Share Capital and Shareholders' Profile (Continued)

III. SHAREHOLDERS AND DE FACTO CONTROLLER (Continued)

1. Number of shareholders and details of shareholding of the Company (Continued)

Explanations on the connected relationship or concerted action among the top 10 shareholders not subject to trading moratorium, and the top 10 shareholders not subject to trading moratorium and the top 10 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.

2. Details of the controlling shareholder of the Company

Controlling Shareholder	Legal representative	Date of incorporation	Organization code	Registered capital	Principal scope of operation
Anshan Iron & Steel Group Co. Ltd.	Yao Lin	9 July 1949	Unified Social Credit Number: 912103002414200141	RMB26.0 billion	Purchase and sales of metal, non-metallic mineral, iron ore and concentrate, processing, passenger transport, transportation of dangerous goods, industrial and civil gases, refractory earth and stone, ferrous metal, steel products, metal products (excluding franchising), coking products, refractory products, electrical machinery, equipment of electricity transmission and distribution and control equipment, instrumentation, railway telecommunication equipment, metallurgical machinery and equipment and manufacturing of spare parts, survey and design of engineering, development, transfer, consulting, services, training of technology, mining of refractory earth and rock, construction, installation of equipment, design of surveying, equipment and spare parts, metallurgical materials, alloy and metal materials, sales of steel, iron, vanadium, titanium and coke.

Movement in Share Capital and Shareholders' Profile (Continued)

III. SHAREHOLDERS AND DE FACTO CONTROLLER (Continued)

2. Details of the controlling shareholder of the Company (Continued)

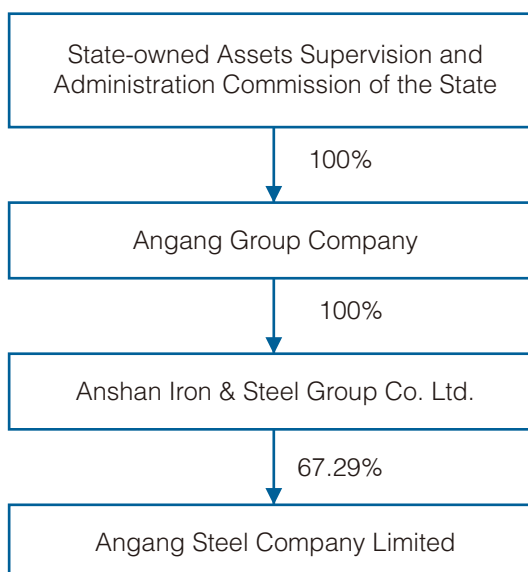
During the Reporting Period, details of direct shareholding of other domestic and overseas listed foreign shares by Angang Holding, the controlling shareholder of the Company, are as follows:

Stock Code	Name of Shares	Number of shares held (share)	Percentage of total share capital (%)
836861	Anshan Falan	50,400,000	36.0000
000629	Pangang Vanadium & Titanium (攀鋼鈮鈦)	928,946,141	10.8146
600432	Jien Nickel	21,690,200	1.3525
600684	Guangzhou Pearl River Industrial Development	2,460,000	0.3459
600270	Sinotrans Air Transportation Development	1,379,741	0.1524
601989	China Shipbuilding Industry	14,920,000	0.0813
000786	Beijing New Building Materials	1,333,456	0.0746
000001	Ping An Bank	11,396,804	0.0664
600900	China Yangtze Power	11,257,457	0.0512
601988	Bank of China	145,991,814	0.0496
300541	Beijing Advanced Digital Technology	58,700	0.0489
300542	Brilliance Technology	40,000	0.0444
601939	China Construction Bank	103,906,713	0.0416
601398	ICBC	129,625,015	0.0364
601288	Agricultural Bank of China	113,700,000	0.0350
002433	Guangdong Taiantang Pharmaceutical	197,207	0.0256
600705	AVIC Capital	1,900,704	0.0212
002081	Suzhou Gold Mantis Construction Decoration	400,000	0.0151
601166	Industrial Bank	1,340,000	0.0070
600036	China Merchants Bank	1,000,000	0.0040
601818	China Everbright Bank	700,000	0.0015
601998	China CITIC Bank	400,000	0.0008

Movement in Share Capital and Shareholders' Profile (Continued)

III. SHAREHOLDERS AND DE FACTO CONTROLLER (Continued)

3. Details of de facto controller of the Company



4. Substantial shareholders and other parties' interests and short positions in the shares and underlying shares of the Company

Save as disclosed below, as at 31 December 2016, no parties (other than Directors, Supervisors and senior management of the Company) had any interest or short position in the shares and underlying shares of the Company which were recorded in the register required to be kept under Section 336 of the SFO:

Interests in ordinary shares of the Company

Name of shareholders	Number and class of shares held	Percentage of total share capital	Percentage of total H Shares in issue	Percentage of total domestic shares in issue	Capacity
Anshan Iron & Steel Group Co. Ltd.	4,868,547,330 State shares	67.29%	-	79.18%	Beneficial owner
HKSCC Nominees Limited	1,074,259,656 H Shares	14.85%	98.94%	-	Nominee

5. During the Reporting Period, there was no shareholding increase plan proposed or implemented by the shareholders of the Company and its parties acting in concert.

Information on Directors, Supervisors, Senior Management and Employees

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

Name	Position	Status of			Date of Commencement of Term	Date of Termination of Term	No. of Shares			
		Position	Gender	Age			Held at the Beginning of the Reporting Period	Increased in the Reporting Period	Reduced in the Reporting Period	Shares Held at the End of the Reporting Period
							(shares)	(shares)	(shares)	(shares)
Yao Lin	Chairman	In office	Male	51	2015.06.03	-	10,000	-	-	10,000
Wang Yidong	Director	In office	Male	48	2013.07.08	-	7,650	-	-	7,650
	General Manager	In office			2013.07.08	-				
Li Zhongwu	Director	In office	Male	54	2016.06.08	-	0	-	-	0
	Deputy General Manager	In office			2016.03.30	-				
Zhang Jingfan	Director	In office	Male	52	2015.08.21	-	0	-	-	0
	Joint Company Secretary	In office			2015.11.24	-				
	Chief Accountant	In office			2015.06.03	-				
Wu Dajun	Independent non-executive Director	In office	Male	60	2016.06.08	-	0	-	-	0
Ma Weiguo	Independent non-executive Director	In office	Male	47	2016.06.08	-	0	-	-	0
Luo Yucheng	Independent non-executive Director	In office	Male	51	2016.06.08	-	0	-	-	0
Lin Daqing	Chairman of the Supervisory Committee	In office	Male	51	2015.08.21	-	0	-	-	0
Liu Xiaohui	Supervisor	In office	Female	48	2016.06.08	-	0	-	-	0
Yuan Peng	Supervisor	In office	Male	49	2016.06.08	-	0	-	-	0
Xu Shishuai	Deputy General Manager	In office	Male	43	2016.03.30	-	0	-	-	0
Meng Jinsong	Deputy General Manager	In office	Male	47	2016.03.30	-	0	-	-	0
Kwok Siu Man	Joint Company Secretary	In office	Male	58	2015.11.24	-	0	-	-	0
Zhang Lifen	Former Director	Resigned	Female	52	2015.06.03	2016.06.08	8,250	-	-	-
	Former Deputy General Manager	Resigned			2009.11.05	2016.03.30				
Chen Fangzheng	Former Independent non-executive Director	Resigned	Male	71	2013.07.08	2016.06.08	0	-	-	-
Qu Xuanhui	Former Independent non-executive Director	Resigned	Male	57	2013.07.08	2016.06.08	0	-	-	-
Liu Zhengdong	Former Independent non-executive Director	Resigned	Male	51	2014.06.04	2016.06.08	0	-	-	-
Chau Chi Wai, Wilton	Former Independent non-executive Director	Resigned	Male	56	2014.06.04	2016.06.08	0	-	-	-
Song Jun	Former Supervisor	Resigned	Male	58	2014.10.14	2016.06.08	0	-	-	-
Bai Hai	Former Supervisor	Resigned	Male	42	2013.07.08	2016.06.08	0	-	-	-
Liu Jun	Former Deputy General Manager	Resigned	Female	49	2013.03.27	2016.03.30	0	-	-	-

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

Note: All the shares held by the persons above were A Shares of the Company and were held by them in their capacity as individual beneficial owners. The shareholding at the end of the Reporting Period of former Directors who had resigned for more than 6 months and of whom the trading moratorium of the shares was lifted during the Reporting Period could not be verified and thus was not disclosed.

Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company Held by Directors, Supervisors and Senior Management

Save as disclosed above, as at 31 December 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 in Appendix 10 of the Hong Kong Listing Rules.

II. EMPLOYMENT INFORMATION

1. Major work experiences of the incumbent Directors, Supervisors and senior management members of the Company

Members of the Board of Directors

Executive Directors:

Mr. Yao Lin, chairman of the Company, is a professor-level senior engineer. He currently serves as member of the standing committee of the Party Committee and the deputy general manager of Angang Group Company (鞍鋼集團公司) cum chairman of the board of Anshan Iron & Steel Group Complex (鞍山鋼鐵集團公司). Mr. Yao graduated from the Faculty of Mechanical Electronic Engineering of the University of Science and Technology Beijing with a doctor's degree. Mr. Yao joined Anshan Iron & Steel Group Complex in 1988, and has previously served as plant manager of the Cold-Rolling Plant (冷軋廠) of the Company, deputy general manager of the Company, general manager of the Company, and member of the standing committee of the Party Committee and deputy general manager of Anshan Iron & Steel Group Complex, as well as member of the standing committee of the Party Committee and deputy general manager of Angang Group Company cum chairman of the board and the secretary to the Party Committee of Pangang Group Company (攀鋼集團有限公司).

Mr. Wang Yidong, is a Director, the General Manager of the Company and a senior engineer. He concurrently serves as the general manager of Anshan Iron & Steel Group Complex. Mr. Wang has obtained a master degree in industrial engineering from the University of Science and Technology Beijing as well as a PhD degree in machinery design and theory from the Yanshan University. Mr. Wang joined Anshan Iron & Steel Group Complex in 1991 and has previously held positions as the plant manager of the Cold-Rolling Plant (冷軋廠) of the Company, deputy general manager of Baiyuquan Steel Branch Company (鮫魚圈鋼鐵分公司) of the Company, vice head of Product Manufacturing Department of the Company, head of the Manufacturing Management and Control Centre of branch company, head of the Cold-Rolling Department, general manager of Baiyuquan Steel Branch Company (鮫魚圈鋼鐵分公司) of the Company and the Deputy General Manager of the Company.

II. EMPLOYMENT INFORMATION (Continued)

1. Major work experiences of the incumbent Directors, Supervisors and senior management members of the Company (Continued)

Members of the Board of Directors (Continued)

Executive Directors: (Continued)

Mr. Li Zhongwu is a Director and a Deputy General Manager of the Company and a senior engineer. Mr. Li graduated from Anshan Institute of Iron & Steel in iron and steel metallurgy with a bachelor's degree in engineering. Mr. Li joined Anshan Iron & Steel Group Complex in 1987, and had previously held various positions including the deputy general manager and chief engineer of the Company, assistant to the general manager of Angang Group Company (鞍鋼集團公司), general manager of Chaoyang Anling Iron & Steel Company Limited (朝陽鞍凌鋼鐵有限公司), the deputy general manager of Anshan Iron & Steel Group Complex cum general manager of Chaoyang Anling Iron & Steel Company Limited, the deputy general manager of Anshan Iron & Steel Group Complex cum general manager of Angang Automobile Steel Marketing (Service) Center (鞍鋼汽車鋼營銷(服務)中心).

Mr. Zhang Jingfan is a Director, Chief Accountant, Joint Company Secretary and a professor-level senior accountant, is a prominent talent in the field of accounting across the nation. Mr. Zhang graduated from the Harbin Institute of Technology (哈爾濱工業大學) with a bachelor's degree in management engineering, and obtained a MBA degree in business administration from the Northeastern University (東北大學). Mr. Zhang joined Angang Holding in 1989. Mr. Zhang previously served as, among others, the vice-head of the budgeting division of the Financial Planning Department of Angang Holding, head of the Financial Planning Department of the Company, head of the Financial Affairs Department of Pangang Vanadium & Titanium, the deputy general manager, the financial controller, secretary to the board of directors and manager of the Financial Affairs Department of Pangang Vanadium & Titanium cum director of Angang Group Financial Company (鞍鋼集團財務公司), Angang Group Hong Kong (Holdings) Limited and Angang Group Investment (Australia) Pty. Ltd.

II. EMPLOYMENT INFORMATION (Continued)

1. Major work experiences of the incumbent Directors, Supervisors and senior management members of the Company (Continued)

Members of the Board of Directors (Continued)

Independent Non-executive Directors:

Mr. Wu Dajun is currently a professor in the School of Accounting of Dongbei University of Finance and Economics, the director of the provincial level Key Laboratory of Accounting Information, and the discipline leader in management accounting at Dongbei University of Finance and Economics. Mr. Wu graduated from Liaoning Institute of Finance and Economics with a bachelor's degree in economics majoring in industrial accounting and graduated from Dongbei University of Finance and Economics majoring in accounting and obtained a master's degree in management and a PhD in management. At Dongbei University of Finance and Economics, Mr. Wu had served as the director of the Teaching and Research Office of the Accounting Department, deputy director of the Accounting Department and vice president of the School of Accounting. He was awarded the title of "Outstanding Teacher in Dalian City". He was also selected as an outstanding teacher of Dongbei University of Finance and Economics in 2010 and was awarded the title of "Outstanding Teacher in Liaoning Province" in 2012. Since 2000, he has won three national awards for excellence in teaching and six provincial awards for excellence in teaching.

Mr. Ma Weiguo is a Chinese certified public accountant. He is currently the partner and the Managing Director of Shenzhen Cowin Asset Management Co., Ltd. Mr. Ma graduated from Central University of Finance and Economics with a bachelor's degree majoring in accounting, graduated from Renmin University of China with a master's degree majoring in international finance, and graduated from Tsinghua University with an EMBA. Engaged in the investment banking business for nearly twenty years, Mr. Ma previously worked in United Securities (聯合證券) and served as business director of the Investment Banking Division, deputy director of the Investment Banking Committee, assistant to president, chief financial officer, vice president, in charge of investment banking business and as the leader of the Stock Issuance Internal Audit Team. Mr. Ma currently serves as an independent director of Huasi Holding Company Limited, a company listed on the Shenzhen Stock Exchange.

II. EMPLOYMENT INFORMATION (Continued)

1. Major work experiences of the incumbent Directors, Supervisors and senior management members of the Company (Continued)

Members of the Board of Directors (Continued)

Independent Non-executive Directors:

Mr. Luo Yucheng is a Chinese certified public accountant. Mr. Luo is currently a partner and deputy general manager of ShineWing Certified Public Accountants. He graduated from Hunan School of Finance and Economics with a bachelor's degree in accounting and obtained an EMBA from PBC School of Finance, Tsinghua University. He served as financial manager of China National Scientific Instruments and Materials Corporation, chief representative of CSIMC's Moscow office, manager of ShineWing Certified Public Accountants (中信永道會計師事務所), committee member (full-time) of the sixth, seventh and eighth sessions of the Stock Issuance Audit Committee of the China Securities Regulatory Commission, supporting project expert from the China Securities Regulatory Commission specially engaged by Asian Development Bank, special assistant to chairman of Central Enterprise Supervisory Committee (中央企業工委監事會) and part-time supervisor of Central Financial Supervisory Committee (中央金融工委監事會) stationed in Industrial and Commercial Bank of China. Mr. Luo currently serves as an independent director of FAW Car Co., Ltd., a company listed on the Shenzhen Stock Exchange.

II. EMPLOYMENT INFORMATION (Continued)

1. Major work experiences of the incumbent Directors, Supervisors and senior management members of the Company (Continued)

Members of the Supervisory Committee

Shareholders' representative Supervisor:

Mr. Lin Daqing is the chairman of the Supervisory Committee of the Company. He currently holds the positions of deputy secretary to the Communist Party Committee and chairman of the labor union of the Company. He is a deputy secretary to the Communist Party Committee and chairman of the labor union of Anshan Iron & Steel Group Complex (鞍山鋼鐵集團公司), and a professor-level senior engineer. Mr. Lin obtained a bachelor's degree in steel rolling from Anshan Institute of Iron and Steel (鞍山鋼鐵學院) and a master's degree in metallurgical materials engineering from the Northeastern University (東北大學). Mr. Lin joined Anshan Iron & Steel Group Complex in 1988 and has previously served as an assistant to the factory manager of Cold-Rolling Plant (冷軋廠) of Anshan Iron & Steel Group Complex; deputy factory manager and factory manager of the Wire Plant (線材廠) of the Company; an assistant to the general manager of the Company; deputy general manager of the Company; deputy general manager of Angang New Steel Group Limited (鞍鋼新鋼鐵公司); an assistant to the general manager of Anshan Iron & Steel Group Complex; a member of standing committee of the Communist Party Committee and deputy general manager cum secretary of the Committee for Discipline Inspection of Anshan Iron & Steel Group Complex.

Ms. Liu Xiaohui, a senior economist, is the deputy department head of the legal department of Angang Group Company. Ms. Liu obtained a bachelor's degree in economic law from the China University of Political Science and Law. Ms. Liu joined Anshan Iron & Steel Group Complex in 1990, and had previously held various positions including head of the risk prevention and control center of the legal department and deputy head of the legal protection division of the legal department of Anshan Iron & Steel Group Complex, and head of the legal division of the management and innovation department of Angang Group Company

II. EMPLOYMENT INFORMATION (Continued)

1. Major work experiences of the incumbent Directors, Supervisors and senior management members of the Company (Continued)

Members of the Supervisory Committee (Continued)

Staff Representative Supervisor:

Mr. Yuan Peng, a senior political affairs specialist, is currently the deputy chairman of the labor union of the Company and Anshan Iron & Steel Group Complex. Mr. Yuan graduated from Liaoning Normal University in politics with a bachelor's degree of laws, and from the Party School of the Central Committee in postgraduate studies in economics and law. Mr. Yuan joined Anshan Iron & Steel Group Complex in 1989 and subsequently held various positions including the deputy director in charge of the production and technology department of the Communist Youth League of Anshan Iron & Steel Group Complex, deputy director in charge of the office of the Communist Youth League of Anshan Iron & Steel Group Complex, and deputy director and director of the integrated office of the labor union of Anshan Iron & Steel Group Complex.

Other Senior Management Members:

Mr. Xu Shishuai, a senior engineer, is a deputy general manager of the Company. Mr. Xu obtained a master's degree from Northeastern University majoring in material engineering. Mr. Xu joined Anshan Iron & Steel Group Complex in 1996, and had previously held various positions including the director of Hot-strip Plant, deputy manager and manager of Bayuquan branch company.

Mr. Meng Jingsong, a professor-level senior engineer, is a deputy general manager of the Company. Mr. Xu obtained a PhD from Northeastern University in iron and steel metallurgy. Mr. Meng joined Anshan Iron & Steel Group Complex in 1994, and had previously held various positions including the assistant to director of Sales & Marketing Department of the Company, plant manager of First Steel Making Plant, deputy manager of Bayuquan branch company, vice director of the Angang Technical Quality Control Department, director of Technology Development Department of Angang Group Company.

II. EMPLOYMENT INFORMATION (*Continued*)

1. Major work experiences of the incumbent Directors, Supervisors and senior management members of the Company (*Continued*)

Other Senior Management Members: (*Continued*)

Mr. Kwok Siu Man, is a Joint Company Secretary of the Company. Currently, he is an executive director and the head, Corporate Secretarial of Boardroom Corporate Services (HK) Limited and a director of Boardroom Share Registrars (HK) Limited. Mr. Kwok is a fellow member of each of The Institute of Chartered Secretaries and Administrators in the United Kingdom, The Hong Kong Institute of Chartered Secretaries (the "HKICS"), The Institute of Financial Accountants in England, The Institute of Public Accountants in Australia, the Association of Hong Kong Accountants and The Hong Kong Institute of Directors; and a member of the Hong Kong Securities and Investment Institute. He possesses professional qualifications in arbitration, taxation, financial planning and human resources management. In addition, Mr. Kwok holds a bachelor of arts degree and a postgraduate diploma in laws. He was a member of the council of the HKICS and also a chief examiner of the international qualifying examinations thereof. Mr. Kwok has over 25 years' extensive legal, corporate secretarial and management experience gained at company secretary and other senior positions from several renowned companies overseas and in Hong Kong. He is currently a director of a charitable fund. He is the company secretary and a joint company secretary in a number of companies listed on the Stock Exchange.

Information on Directors, Supervisors, Senior Management and Employees (Continued)

II. EMPLOYMENT INFORMATION (Continued)

2. Positions at the shareholders of the Company

Name of the personnel who held position	Name of the shareholder	Position at the shareholder	Commencement date of term	End date of term	Receipt of remuneration and allowance in the shareholder
Yao Lin	Anshan Iron & Steel Group Complex	Chairman	2015.03	-	Yes
	Angang Group Company	Deputy General Manager	2011.07	-	
Wang Yidong	Anshan Iron & Steel Group Complex	General Manager	2015.10	-	Yes
Lin Daqing	Anshan Iron & Steel Group Complex	Deputy Secretary of the Party Committee and chairman of the labor union	2013.12	-	Yes
Liu Xiaohui	Angang Group Company	Department Head of the Legal Department	2015.04	-	Yes
Yuan Peng	Anshan Iron & Steel Group Complex	Deputy Chairman of the Labor Union	2013.03	-	Yes
Details of the position held at the shareholder			-		

3. Positions at other organizations

Name of the personnel who held position	Name of such other organization	Position held at such other organization	Commencement date of term	End date of term	Receipt of remuneration and allowance at such other organization
Wu Dajun	School of Accounting of Dongbei University of Finance and Economics	Professor	2013.01	-	Yes
Ma Weiguo	Shenzhen Cowin Asset Management Co., Ltd.	Partner and the Managing Director	2012.02	-	Yes
Luo Yucheng	ShineWing Certified Public Accountants	Partner and deputy general manager	1999.10	-	Yes
Kwok Siu Man	Boardroom Corporate Services (HK) Limited	Executive director and Head of Corporate Secretarial	2015.10	-	Yes
Details of the position held at the shareholder			-		

III. REMUNERATION OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Decision-making procedures, rationale for determination and actual payment of remuneration for Directors, Supervisors and senior management

The remuneration of each of the Directors, Supervisors and senior management was proposed by the Remuneration and Appraisal Committee under the Board and the Supervisory Committee respectively. Such remuneration has been approved upon discussion by the Board and the Supervisory Committee, and proposed for approval by the shareholders at the general meeting. Such remuneration was determined according to the business performance of the Company and the remuneration offered by comparable enterprises in the PRC.

2. Remuneration of the Directors, Supervisors and senior management of the Company during the Reporting Period

Name	Position	Gender	Age	Status of Position	Total Remuneration before Tax Received from the Company (RMB'000)	Whether the remuneration was received from a corporate shareholder
Yao Lin	Chairman	Male	51	In office	0	Yes
Wang Yidong	Director and General Manager	Male	48	In office	26.61	Yes (Risk-based annual remuneration and deferred income for 2014 and 2015 received in 2016 were paid by Angang Holding)
Li Zhongwu	Director and Deputy General Manager	Male	54	In office	17.30	Yes (As at 30 March 2016, Mr. Li served as a deputy general manager of the Company. His risk-based annual remuneration and deferred income for 2014 and 2015 received in 2016 were paid by Angang Holding)
Zhang Jingfan	Director, Chief Accountant and Joint Secretary to the Board	Male	52	In office	36.31	No
Wu Dajun	Independent Non-executive Director	Male	60	In office	7.00	No
Ma Weiguo	Independent Non-executive Director	Male	47	In office	7.00	No
Luo Yucheng	Independent Non-executive Director	Male	51	In office	7.00	No
Lin Daqing	Chairman of the Supervisory Committee	Male	51	In office	0	Yes
Liu Xiaohui	Supervisor	Female	48	In office	0	Yes
Yuan Peng	Supervisor	Male	49	In office	0	Yes
Xu Shishuai	Deputy General Manager	Male	43	In office	48.65	No

Information on Directors, Supervisors, Senior Management and Employees (Continued)

III. REMUNERATION OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (Continued)

2. Remuneration of the Directors, Supervisors and senior management of the Company during the Reporting Period (Continued)

Name	Position	Gender	Age	Status of Position	Total Remuneration before Tax Received from the Company (RMB'000)	Whether the remuneration was received from a corporate shareholder
Meng Jinsong	Deputy General Manager	Male	47	In office	17.05	Yes (As at 30 March 2016, Mr. Meng served as a deputy general manager of the Company. His risk-based annual remuneration and deferred income for 2014 and 2015 received in 2016 were paid by Angang Group Company)
Kwok Siu Man	Joint Company Secretary	Male	58	In office	0	No
Zhang Lifan	Former Director and Former Deputy General Manager	Female	52	Resigned	40.40	No (Received no remuneration from a corporate shareholder during her term of office)
Chen Fangzheng	Former Independent Non-executive Director	Male	71	Resigned	4.50	No
Qu Xuanhui	Former Independent Non-executive Director	Male	57	Resigned	4.50	No
Liu Zhengdong	Former Independent Non-executive Director	Male	51	Resigned	4.50	No
Wilton Chi Wai Chau	Former Independent Non-executive Director	Male	56	Resigned	4.50	No
Song Jun	Former Supervisor	Male	58	Resigned	0	Yes
Bai Hai	Former Supervisor	Male	42	Resigned	9.44	No
Liu Jun	Former Deputy General Manager	Female	49	Resigned	65.53	No

Note: The above remuneration excludes the insurance, welfare fund, education surcharges and other costs of salary recorded by the Company, while includes the deferred income of senior management for 2014 and 2015 returned in 2016.

Information on Directors, Supervisors, Senior Management and Employees (Continued)

IV. CHANGES IN THE COMPANY'S DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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	6 June 2016	Re-election
Xu Shishuai	Deputy General Manager	Appointed	30 March 2016	–
Meng Jinsong	Deputy General Manager	Appointed	30 March 2016	–
Zhang Lifan	Deputy General Manager	Resigned	30 March 2016	Change of job
	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

Information on Directors, Supervisors, Senior Management and Employees (Continued)

V. EMPLOYEES OF THE COMPANY

1. Number and constitution of employees

Number of current employees in the Company (person)	36,364
Number of current employees in major subsidiaries (person)	999
Total number of current employees (person)	37,363
Total number of employees receiving remuneration during the period (person)	37,363
Number of ex-employees or retired employees for which the Company and the major subsidiaries have obligations (person)	0

Specialty composition

<u>Category of specialty composition</u>	<u>Number of people (person)</u>
Production	30,457
Sales	618
Technical	4,262
Finance	275
Administration	944
Others	807
Total	37,363

Education level

<u>Category of education level</u>	<u>Number of people (person)</u>
Bachelor's degree and above	9,486
Post-secondary	9,650
Technical secondary school	16,686
Others	1,541
Total	37,363

V. EMPLOYEES OF THE COMPANY (Continued)

2. Training programs

In 2016, training programs of the Company put an emphasis on production and operations and on deepening the reform in human resources and the corporate transformation and upgrades. The training programs also fully accommodated the need of reform, innovation, transformation, and upgrades, and enhanced the Company's competitive edge in the steel production and operation industry under the new industry trends, turning the focus to practicality and effectiveness. The training programs were oriented to innovative and motivating vision, quality and efficiency, structural optimization, integration of industrialization and informatization, and green development, and adhered to the principles of seizing reform opportunities, managing to survive, facilitating transformation and seeking development. Therefore, the programs were able to inspire the innovative motivation of employees, strengthen the application and leading role of the trainings, accelerate the establishment of the core talents teams, enhance employees' active learning ability, and improve the examination and conversion of the training results, thus facilitating the improvement in the overall quality of the team.

In 2016, the Company recorded a total of 1,010,660 training hours for the employees and the number of training hours per staff reached 39.6 hours. The training expenditure reached RMB10.0844 million; training expenditure per staff member was RMB268.9; and the actual training attendance was 20,713. The attendance of core leadership forum training was 1,385, the attendance of intellectual production high-end technology seminars was 561, the attendance of serial training for marketing team was 850, and the attendance of advanced trainings of breakthroughs projects for technicians and senior talents and technicians forum trainings was 932. The attendance of key management member's trainings organized and initiated by education training center which was engaged by the Company was 1,905, the attendance of trainings for middle-level management was 4,789, the attendance of party-building project training was 370, and the total attendance of other 10 professional skills projects was 8,071. Meanwhile, the Company implemented execution trainings of integrating positions operations and inspections in accordance with the organization mode of "one specialty with multiple skills". The Company actualized point-to-point strengthened and effective output by offering trainings for positions according to their needs. The Company authorized the basic units to self-organize enhancement trainings for new technology and new processing professional abilities with the attendance of 6,779 employees, which effectively strengthened the employees' positions operations training results.

3. Salary Policy

The Company has adopted position-and-performance based and risk-linked salary annual remuneration packages for senior management; position-and-performance based remuneration and new product development incentive packages for research personnel; sales/profit-linked remuneration package for sales personnel; and position-and-performance based remuneration packages for other personnel.

Corporate Governance

I. BASIC INFORMATION ON CORPORATE GOVERNANCE

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, the Corporate Governance Code and the Guidelines for the Standardized Operation of Companies Listed on the Main Board of Shenzhen Stock Exchange, the Company has regulated its operations and established a comprehensive corporate governance system and an effective internal control system.

The corporate governance of the Company had nothing significantly inconsistent with the regulatory documents on corporate government of listed companies laid down by the CSRC.

II. THE INDEPENDENCE OF THE COMPANY FROM THE CONTROLLING SHAREHOLDER IN TERMS OF BUSINESS, PERSONNEL, ASSETS, ORGANIZATIONS, FINANCE AND OTHER ASPECTS

The Company is completely independent from the controlling shareholder in terms of business, personnel, assets, organizations, finance and other aspects. The Company is set up and operates in complete independence from the controlling shareholder in terms of business, personnel, assets, organizations, finance and other aspects, which is in conformity with the requirements of relevant laws and regulations. The Company has independent and complete business operations and possesses the capability for operating independently.

Corporate Governance (Continued)

III. COMPETITION WITH PEERS IN THE INDUSTRY

Type of problem	Name of controlling shareholder	Nature of controlling shareholder	Cause of problem	Solution	Progress and subsequent plan
Horizontal competition	Angang Holding	SASAC	Document Fa Gai Gong Ye [2005] No. 2024 issued by the National Development and Reform Commission in 2005 approved the construction of Chaoyang 2,000,000 ton steel and iron project (i.e. Angang Group Chaoyang Iron and Steel Co., Ltd., "Angang Chaoyang Steel") by Anben Iron and Steel Group (鞍本鋼鐵集團). In March 2007, the Company received a Solicitation Letter Concerning the Investment in Chaoyang Steel Project (《關於投資朝陽鋼鐵項目的徵詢意見函》) from Angang Holding, asking about the Company's plan on whether to invest in the project or not. Since the Company was then investing in the construction of Bayuquan Steel Project, the Board resolved upon deliberation that the Company not make investment in the project, instead, Angang Group Company will contribute to the construction of the project.	Angang Holding undertook to give priority to the Company to transfer all the equity held by it to the Company at a reasonable price when the Company proposes the acquisition.	No plan

For relevant information of Angang Group Chaoyang Steel and Iron Co., Ltd. please refer to the announcement on the resolution of the eighth meeting of the Fourth Session of the Board of the Company published on China Securities Journal, the Securities Times and CNINFO on 27 March 2007.

Corporate Governance (Continued)

IV. INFORMATION ON THE ANNUAL GENERAL MEETINGS AND EXTRAORDINARY GENERAL MEETINGS DURING THE REPORTING PERIOD

1. Annual general meeting during the Reporting Period

Session of Meeting	Type of Meeting	Proportion of investors involvement	Date of convening
2015 annual general meeting	Annual general meeting	71.28%	8 June 2016

V. ATTENDANCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS AT BOARD MEETINGS AND GENERAL MEETINGS

1. Attendance of independent non-executive Directors at Board meetings and general meetings

Name of independent non-executive Directors	Attendance of independent non-executive Directors at Board meetings					Non-attendance in person for two consecutive times
	Required attendance at the Board meetings during the Reporting Period	Attendance in person	Attendance through communication	Attendance by proxy	Absence	
Wu Dajun	9	3	6	0	0	No
Ma Weiguo	9	3	6	0	0	No
Luo Yucheng	9	2	6	1	0	No
Chen Fangzheng	3	2	1	0	0	No
Qu Xuanhui	3	2	1	0	0	No
Liu Zhengdong	3	2	1	0	0	No
Chau Chi Wai, Wilton	3	1	1	1	0	No

Attendance of independent non-executive Directors at general meetings 0 meeting

2. Disagreement of independent non-executive Directors on relevant issues of the Company

During the Reporting Period, no disagreement was proposed by independent non-executive Directors of the Company on relevant issues of the Company.

VI. CORPORATE GOVERNANCE REPORT

1. Corporate Governance Practice

With shares listed in both Hong Kong and Shenzhen Stock, 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 sound corporate governance practice and procedures with strict implementation, so as to ensure the interests of shareholders and maximize the investment return for the shareholders in the long run.

The Company has adopted 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 properly complied with the code provisions set out in the Corporate Governance Code.

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

In 2016, the Company did not make any insurance arrangement in respect of the Directors.

In strict compliance with the requirements of the Company Law, the Securities Law, the relevant requirements of the CSRC, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, 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, and endeavored to reduce the legal risks for Directors. Therefore, no insurance arrangement was made in respect of the Directors.

- (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.

Corporate Governance (Continued)

VI. CORPORATE GOVERNANCE REPORT (Continued)

2. Securities Transactions of the 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.

The Company has also adopted a code of conduct governing securities transactions by the employees of the Company who may possess or have access to price sensitive information in relation to the Company or its securities.

3. Independent Non-executive Directors

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

Pursuant to the requirements of the Hong Kong Stock Exchange, the Company has verified with its independent non-executive Directors in respect of their independence as follows: the Company has received the written confirmation of each of the independent non-executive Directors ascertaining that they are in compliance with Rule 3.13 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange in respect of their independence. The Company is of the opinion that all of the independent non-executive Directors are independent.

4. The Board and its Special Committees

(1) Composition of the Board

The current session of the Board of the Company comprises seven members including one Chairman, three executive Directors and three independent non-executive Directors. The number of independent non-executive Directors of the Company represents over one-third of the members of the Board.

Corporate Governance (Continued)

VI. CORPORATE GOVERNANCE REPORT (Continued)

4. The Board and its Special Committees (Continued)

(1) Composition of the Board (Continued)

The Board of the Company establishes four special committees, which are all comprised of Directors. In particular, the majority of the members of the Audit Committee, Nomination Committee, Remuneration and Appraisal Committee are independent non-executive Directors who are also the conveners. There is at least one independent non-executive Director in the Audit Committee who possesses professional qualifications in accounting. Each of the special committees is accountable to the Board and submits proposals to the Board for consideration and approval. Members of the Board of the Company and their attendance at the meetings in 2016 are as follows:

Name	Position in the Board	Attendance at the Board meetings (attendance by proxy)/ attendance rate	Attendance at the general meetings/ attendance rate
Yao Lin	Chairman	12(1)/100%	0/0%
Wang Yidong	Executive Director	12(0)/100%	1/100%
Li Zhongwu	Executive Director	9(0)/100%	1/100%
Zhang Jingfan	Executive Director	12(0)/100%	1/100%
Wu Dajun	Independent non-executive Director	9(0)/100%	0/0%
Ma Weiguo	Independent non-executive Director	9(0)/100%	0/0%
Luo Yucheng	Independent non-executive Director	9(1)/100%	0/0%
Zhang Lifan	Former Director	3(1)/100%	0/0%
Chen Fangzheng	Former independent non-executive Director	3(0)/100%	0/0%
Qu Xuanhui	Former independent non-executive Director	3(0)/100%	0/0%
Liu Zhengdong	Former independent non-executive Director	3(0)/100%	0/0%
Chau Chi Wai, Wilton	Former independent non-executive Director	3(1)/100%	0/0%

Corporate Governance *(Continued)*

VI. CORPORATE GOVERNANCE REPORT *(Continued)*

4. The Board and its Special Committees *(Continued)*

(2) Duties and Operation of the Board

The Board is accountable to the general meetings and exercises the following powers:

- i. to convene and report at the general meetings;
- ii. to implement the resolutions passed at the general meetings;
- iii. to decide the Company's business and investment plans;
- iv. to prepare the Company's annual budget and its implementation plan;
- v. to prepare the Company's profit distribution plan and loss recovery plan;
- vi. to prepare the proposals for the increase or reduction of the Company's registered capital, issue of debentures or other securities as well as listing;
- vii. to draw up plans for significant acquisition by the Company, purchase of the Company's shares or the merger, division and dissolution of the Company and change of corporate form;
- viii. to determine the Company's internal management structure;
- ix. to appoint or dismiss the Company's manager and the Secretary to the Board, to appoint or dismiss the Company's deputy general manager and other senior management including financial controller as nominated by the manager, and determine their remunerations, awards and punishment;
- x. to prepare the Company's basic management system;
- xi. to prepare amendments to the Articles of Association of the Company.

Corporate Governance (Continued)

VI. CORPORATE GOVERNANCE REPORT (Continued)

4. The Board and its Special Committees (Continued)

(2) Duties and Operation of the Board (Continued)

Save for the resolutions in respect of the matters specified in sub-paragraphs vi, vii and xi above, which shall be passed by votes of more than two-thirds of the Directors, the resolutions in respect of other matters specified above may be passed by votes of at least half of the Directors.

The Board of the Company is responsible for the preparation of the financial statements for each financial period, which gives a true and fair view of the state of business condition, results and cash flows of the Company during the relevant period.

In 2016, the Board of the Company held a total of 12 Board meetings.

(3) Remuneration and Appraisal Committee

In 2016, the members of the Remuneration and Appraisal Committee of the Company and their attendance at meetings are as follows:

Name	Position in the Committee	Attendance at meetings
Ma Weiguo	Convener	–
Yao Lin	member	–
Li Zhongwu	member	–
Wu Dajun	member	–
Luo Yucheng	member	–
Chau Chi Wai, Wilton	Former convener	100%
Yao Lin	Former member	100%
Chen Fangzheng	Former member	100%
Qu Xuanhui	Former member	100%
Liu Zhengdong	Former member	100%

Corporate Governance *(Continued)*

VI. CORPORATE GOVERNANCE REPORT *(Continued)*

4. The Board and its Special Committees *(Continued)*

(3) Remuneration and Appraisal Committee *(Continued)*

Main duties of the Remuneration and Appraisal Committee are:

- (a) to make recommendation to the Board on the Company's policy and structure for the remuneration of all Directors and senior management and on the establishment of a formal and transparent procedure for developing remuneration policy;
- (b) to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;
- (c) to determine, with delegated responsibility, the specific remuneration packages of individual executive Directors and senior management. This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make consultation with and recommendations to the Chairman and/or Chief Executive Office on the remuneration of non-executive Directors;
- (d) to make recommendations to the Board on the remuneration of non-executive Directors;
- (e) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Company;
- (f) to review and approve the compensation payable to executive Directors and senior management for any loss or termination of their office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
- (g) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with relevant contractual terms and are otherwise reasonable and appropriate; and

Corporate Governance (Continued)

VI. CORPORATE GOVERNANCE REPORT (Continued)

4. The Board and its Special Committees (Continued)

(3) Remuneration and Appraisal Committee (Continued)

- (h) to ensure that no Director or any of his associates is involved in deciding his own remuneration.

In 2016, the Remuneration and Appraisal Committee of the Company held one meeting which mainly assessed the performance of the Directors and senior management personnel of the Company during 2015 and reviewed their remunerations for 2015, and submitted the same to the Board for consideration.

(4) Nomination Committee

In 2016, the members of the Nomination Committee of the Company and their attendance are as follows:

Name	Position in the Committee	Attendance at meetings
Wu Dajun	Convener	–
Yao Lin	member	–
Zhang Jingfan	member	–
Ma Weiguo	member	–
Luo Yucheng	member	–
Liu Zhengdong	Former convener	100%
Yao Lin	Former member	100%
Chen Fangzheng	Former member	100%
Qu Xuanhui	Former member	100%
Chau Chi Wai, Wilton	Former member	100%

Corporate Governance *(Continued)*

VI. CORPORATE GOVERNANCE REPORT *(Continued)*

4. The Board and its Special Committees *(Continued)*

(4) Nomination Committee *(Continued)*

Main duties of the Nomination Committee are:

- (a) to review the structure, size, composition of the Board (including skills, knowledge, experience and other aspects) at least annually and make recommendations with respect to the changes to be made to the Board in order to coordinate with the Company's corporate strategy;
- (b) to identify individuals appropriately qualified to serve as Directors and to select or make recommendation to the Board on the selection of individuals nominated for directorship;
- (c) to assess the independence of independent non-executive Directors; and
- (d) to make recommendations to the Board on the appointment or re-appointment of Directors and succession plan for Directors, in particular, the Chairman and the General Manager.

In 2016, the Nomination Committee of the Company held one meeting to nominate the candidates of executive Directors, candidates of independent non-executive Directors, and deputy general manager to the Board and other personnel of the Company in accordance with the qualification requirements and relevant requirement of regulations and the Articles of Association.

Corporate Governance (Continued)

VI. CORPORATE GOVERNANCE REPORT (Continued)

4. The Board and its Special Committees (Continued)

(5) Audit Committee

In 2016, the members of the Audit Committee of the Company and their attendance are as follows:

Name	Position in the Committee	Attendance at meetings
Luo Yucheng	Convener	100%
Ma Weiguo	member	100%
Wu Dajun	member	100%
Chau Chi Wai, Wilton	Former convener	100%
Chen Fangzheng	Former member	100%
Qu Xuanhui	Former member	100%
Liu Zhengdong	Former member	100%

Main duties of the Audit Committee are:

- (a) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;
- (b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;
- (c) to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

Corporate Governance *(Continued)*

VI. CORPORATE GOVERNANCE REPORT *(Continued)*

4. The Board and its Special Committees *(Continued)*

(5) Audit Committee *(Continued)*

(d) to monitor the integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In reviewing these reports before submission to the Board, the committee should focus particularly on:

- (i) any changes in accounting policies and practices;
- (ii) major judgmental areas;
- (iii) significant adjustments resulting from audit;
- (iv) the going concern assumptions and any qualifications;
- (v) compliance with accounting standards; and
- (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting.

(e) Regarding (d) above:

- (i) members of the committee should liaise with the Board and senior management and the committee must meet, at least twice a year, with the Company's auditors; and
- (ii) the committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors;

(f) to review the Company's financial controls, internal control and risk management systems;

Corporate Governance *(Continued)*

VI. CORPORATE GOVERNANCE REPORT *(Continued)*

4. The Board and its Special Committees *(Continued)*

(5) Audit Committee *(Continued)*

- (g) to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. This discussion should include the adequacy of resources, staff qualifications and experience, training programs and budget of the Company's accounting and financial reporting function;
- (h) to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;
- (i) where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;
- (j) to review the Company's financial and accounting policies and practices;
- (k) to review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;
- (l) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;
- (m) to report to the Board on the matters in respect of the terms of reference;
- (n) to consider other topics, as defined by the Board;
- (o) to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action; and

Corporate Governance (*Continued*)

VI. CORPORATE GOVERNANCE REPORT (*Continued*)

4. The Board and its Special Committees (*Continued*)

(5) Audit Committee (*Continued*)

- (p) to act as the key representative body for overseeing the Company's relations with the external auditor.

The Audit Committee of the Company reviewed the internal control system and report of the Company with reference to the latest requirements set out in C.2.2 of the Corporate Governance Code in the Hong Kong Listing Rules, taking into account of the resources of the accounting and financial reporting of the Company, the sufficiency of qualifications and experience of its staff and the training courses for employees and the relevant budget. It will also submit the reviewed internal control report to the Board of the Company for consideration.

In 2016, the Audit Committee of the Company held a total of four meetings. During the meetings, the Audit Committee mainly reviewed the quarterly, interim and annual financial statements of the Company and financial information set out in the quarterly, interim and annual reports of the Company, reviewed the internal control system of the Company, etc.

The Audit Committee and the management of the Company have jointly examined the Company's accounting policy and have discussed the issues in relation to the auditing, internal control and financial statements of the Company, including a review of the audited financial statements for the year ended 31 December 2016.

VI. CORPORATE GOVERNANCE REPORT (Continued)

4. The Board and its Special Committees (Continued)

(5) Audit Committee (Continued)

In accordance with relevant regulations of CSRC and Shenzhen Stock Exchange, the Audit Committee of the Company performed their duties with due diligence, and summarized its performance as follows:

✧ Opinions after reviewing the Financial Report for 2016

The Company's financial report for 2016 was prepared based on the requirements of the PRC ASBE; expenditures were reasonable; revenues, expenses and profits were recognized truly and accurately; relevant provisions were made as specified by the laws, regulations and relevant systems, reflecting the Company's financial positions, operating results and cash flow in a true, accurate and complete manner; it was approved to be submitted to the Board of the Company for consideration.

✧ Opinions on the Audit Work by Accountants for 2016

Ruihua Certified Public Accountants (Special General Partnership) performed their duties during the auditing of the Company's financial statements for 2016 in accordance with relevant laws and regulations of the PRC and Hong Kong and in compliance with professional ethics of accountants, and expressed their opinion on the Company's accounting statements objectively and fairly, enabling the Company to satisfy the requirements from the domestic and overseas regulatory institutions.

(6) Training for Directors

In order to help Directors better their performance of the duties and responsibilities, the Company arranged training on the Hong Kong Listing Rules, laws and regulations, Director's responsibilities and other issues for the current Directors, namely: Yao Lin, Wang Yidong, Li Zhongwu, Zhang Lifen, Wu Dajun, Ma Weiguo, Luo Yucheng.

Corporate Governance (*Continued*)

VI. CORPORATE GOVERNANCE REPORT (*Continued*)

5. Chairman and General Manager

The positions of Chairman and General Manager of the Company are assumed by different persons with definite division of duties.

Duties of the Chairman:

- i. to preside over the general meetings and to convene and preside over the Board meetings;
- ii. to supervise and check the implementation of resolutions of the Board;
- iii. to sign the securities issued by the Company; and
- iv. to exercise other powers conferred by the Board.

Duties of the General Manager:

The General Manager of the Company reports to the Board and exercises the following powers:

- i. to take charge of the Company's production, operation and management and to organize and implement the resolutions of the Board and report to the Board;
- ii. to organize and implement the Company's annual business plan and investment plan;
- iii. to make proposals in relation to the Company's internal organizational structure;
- iv. to make proposals in relation to the Company's basic management system;
- v. to prepare the basic rules and regulations of the Company;
- vi. to make proposals in relation to the appointment or dismissal of the deputy general manager or other senior management personnel of the Company (including the financial controller);
- vii. to appoint or dismiss the management personnel other than those required to be appointed or dismissed by the Board; and
- viii. other powers as conferred under the Articles of Association of the Company or granted by the Board.

Corporate Governance (*Continued*)

VI. CORPORATE GOVERNANCE REPORT (*Continued*)

6. Rights of Shareholders

- (1) How the shareholders can convene an extraordinary general meeting

Pursuant to Article 76 of the Articles of Association of the Company:

“any shareholder(s) individually or aggregately holding more than 10% of the shares of the Company shall be entitled to request in writing to the Board to convene an extraordinary general meeting. The Board shall reply, in writing, within 10 days upon receipt of such proposal, whether or not it consents to the convening of extraordinary general meeting in accordance with the provisions of the laws, administrative regulations and the Articles of Association of the Company.

The Board shall give the notice convening an extraordinary general meeting within 5 days after it has passed the relevant resolution. Any change made to the original request in the notice shall be subject to the consent of such shareholder(s).

If the Board does not consent to convene such an extraordinary general meeting or does not reply within 10 days upon receipt of such request, such shareholder(s) individually or in aggregate holding more than 10% of the shares of the Company shall be entitled to request in writing to the Supervisory Committee to convene such an extraordinary general meeting.”

- (2) The procedures by which enquiries may be put to the Board and sufficient contact details to enable these enquiries to be properly directed.
- (3) Procedures and sufficient contact details for putting forward proposals at shareholders’ general meetings.

7. Changes in the Articles of Association during the Reporting Period.

The Company amended Article 11 and Article 141 of the Articles of Association according to the production and operational requirements of the Company. The other provisions of the Articles of Association remain unchanged. The amended provisions are as follows:

Corporate Governance *(Continued)*

VI. CORPORATE GOVERNANCE REPORT *(Continued)*

7. Changes in the Articles of Association during the Reporting Period. *(Continued)*

After amendment: Article 11

“The aim of operation of the Company is to take the major business of steel production as principal, excellent business performance as basis and capital operation as means. By reasonably utilizing capital in the domestic and foreign capital markets, to promote the level of technical equipment and product competitiveness of the enterprise, thereby constantly adding value of capital, increasing the revenue of the enterprise year by year and taking excellent business performance as satisfactory return for the shareholders of the Company.

The Company agrees to receive military industry fixed asset investment and commits to account for the central budget investment as state-owned capital or state-owned capital reserve which is exclusively owned by Anshan Iron & Steel Group Complex.”

After amendment: Article 141

“The Company establishes the Board which is comprised of seven to ten directors. The specific number of directors shall be within this range and as determined by the general meeting. The Board includes one chairman and at most three deputy chairmen.”

8. Corporate Governance Responsibilities

The Board is responsible for performing the functions as set out in code provision D.3.1 of the Corporate Governance Code to ensure that the Company has established comprehensive corporate governance practices and procedures. During the Reporting Period, the Board has:

- (1) established and reviewed the corporate governance policies and practices of the Company as well as made relevant recommendations;
- (2) reviewed and monitored the training and continuous development of the Directors and senior management;
- (3) reviewed and monitored the policies and practices of the Company regarding the compliance of relevant legal and regulatory requirements;

VI. CORPORATE GOVERNANCE REPORT (Continued)

8. Corporate Governance Responsibilities (Continued)

- (4) established, reviewed and monitored the code of conduct for Directors and employees; and
- (5) reviewed as to whether the Company has complied with the Corporate Governance Code and made disclosures in the Corporate Governance Report.

9. Remuneration of auditor

For the year ended 31 December 2016, the Company paid audit fees of RMB4.6 million to the external auditor of the Company, of which RMB3.72 million was paid for audit fees of annual financial report and RMB0.88 million was paid for audit fees of internal control.

10. Joint Company Secretaries

Mr. Zhang Jingfan and Mr. Kwok Siu Man, the joint secretaries to the Board of the Company, were respectively appointed on 24 November 2015. Their biographies are set out in the section of “Information on Directors, Supervisors, Senior Management and Employees” in this annual report. Mr. Kwok Siu Man is nominated as the joint secretary of the Company by Boardroom Corporate Services (HK) Limited (“Boardroom”). Boardroom has provided certain corporate secretarial services to the Company pursuant to the engagement letter entered into between the Company and Boardroom. Mr. Zhang Jingfan is the major contact person of Mr. Kwok and the Company in relation to corporate secretarial matters. Mr. Zhang is also an executive Director, chief accountant, joint company secretary and secretary to the Board of the Company.

During the current year, Mr. Zhang, the joint company secretary and the secretary to the Board, has attended relevant professional training of not less than 15 hours. As Mr. Kwok was first appointed as the company secretary of a Hong Kong Hang Seng Index constituent stock company in 1991 and has been acting in such capacity for a number of other reputable companies listed on the Stock Exchange at substantial times since then, he is not required to have at least 15 hours of relevant continuous professional development training for five consecutive years from 2012 (including the current year) under the Listing Rules. Although Mr. Kwok enjoyed the aforesaid waiver, he has attended relevant seminars and made speech at meetings for over 15 hours during the current year.

Corporate Governance (*Continued*)

VII. APPRAISAL AND INCENTIVE MECHANISM FOR THE SENIOR MANAGEMENT

The Company has set up position-based and risk-based annual salary distribution schemes for the senior management personnel. The position-based salary scheme is linked to the Company's overall operating results while the risk-based annual salary system is linked to the performance of and operational indicators assumed by individuals.

VIII. RISK MANAGEMENT

The Company has formulated and implemented an internal control and risk management system. The Board is the decision-making body for internal control and risk management and is responsible for reviewing the efficiency of internal control and risk management of the Company. The Board and the Audit Committee regularly receive the information related to internal control and risk management of the Company from the management. The material matters relating to internal control and risk are reported to the Board and the Audit Committee. The Company has established its internal control and risk management department and internal audit department, and has equipped the departments with adequate professional personnel. The internal control and risk management department and the internal audit department regularly report to the Audit Committee.

The internal control of the Company is under ongoing supervision and evaluation. The Company incorporates its headquarters and all of its enterprises into internal control evaluation through comprehensive inspections at multiple levels such as regular tests, enterprise self-examination and audit check, and prepares a self-evaluation report on internal control. The Board reviews the self-evaluation report on internal control of the Company every year. For the information related to the internal control of the Company during the Reporting Period, please refer to the self-evaluation report on internal control.

The Company has formulated and issued the Management System for Insiders and Information Disclosure Management System to specifically regulate the processing, publication and internal control of the inside information. The Company regularly assesses the implementation of the systems and discloses the information in accordance with the related regulations.

Corporate Governance (Continued)

VIII. RISK MANAGEMENT (Continued)

The Company organizes and carries out annual risk assessment every year to identify significant risks, fulfill risk management responsibility, and organize and formulate the major strategies and measures against significant risks with integration with the internal control. During the implementation, the management of the Company conducts dynamic management of the significant risks, and performs regular or irregular analysis of various internal and external uncertainties. The Company adopts corresponding measures to strengthen the management and control accordingly to ensure that the Company can pay sufficient attention and sufficiently monitor and address the significant risks of the Company.

During the Reporting Period, the Board reviewed and evaluated the internal control and risk management of the Company. The Board considered the internal control and risk management of the Company were effective.

IX. INTERNAL CONTROL

1. Specific information on whether significant defects of internal control were found during the Reporting Period

Yes No

2. Self-evaluation Report on Internal Control

Date of disclosure of full text of the evaluation report on internal control 29 March 2017

Reference of disclosure of full text of the audit report on internal control on CNINFO <http://www.cninfo.com.cn>

The proportion of the total unit asset under the scope of evaluation to the total assets of the consolidated financial statements of the Company 98.28%

The proportion of the unit operating income to the operating income of the consolidated financial statements of the Company 99.40%

Corporate Governance (Continued)

IX. INTERNAL CONTROL (Continued)

2. Self-evaluation Report on Internal Control (Continued)

Defect identification standards

Type	Financial report	Non-financial report
Nature identification standard	The directors, supervisors and senior management are found to have fraudulent behavior; significant deficiency that has been identified and reported to the management but remain uncorrected after a reasonable period of time; amendment to published financial report to reflect correction to significant reporting error due to fraudulent behavior or mistakes; significant reporting error discovered by external audit is not firstly found by the Company; other defect that may have impact on the correct judgment of the users of the statements.	1. Defect identification standards for daily operations and internal control: ① Significant defect: affects most of the principal business types/major functions of the Company; has significant effect on the overall operation of the Company and it will be difficult for the Company to recover in the long run. ② Major defect: affects part of the principal business types/major functions of the Company; has relatively large impact on the overall operation of the Company and the Company is required to pay a considerable consideration for its recovery in a longer period. ③ General defect: affects certain of the principal business types/major functions or general business/general functions of the Company; has medium or below impact on the overall operation of the Company and the Company is required to pay a considerable consideration for its recovery in a certain period.

IX. INTERNAL CONTROL (Continued)

2. Self-evaluation Report on Internal Control (Continued)

Defect identification standards

Type	Financial report	Non-financial report
		<p>2. Defect identification standards for internal control of the Company's reputation as follows: ① Significant defect: serious problems occur in various sales factors and most of the partners cease to cooperate or reduce the level of cooperation; negative reports issued by popular authoritative media to cause the suspension of cooperation among customers, suppliers and the Company; material quality problems are found in application of products to key construction projects and have certain impact on the society, thus the recognition from the public decreases; negative effect brought by counterfeit incident, thus the recognition from the public and loyalty of customers decrease; the Company's business is forced to stop by regulatory authorities. ② Major defect: partners continue to be dissatisfied with the Company in terms of quality, delivery time and price and other factors, thus certain partners cease their cooperation with the Company; negative reports from various media causes important partners to be concerned and public image is prejudiced; material quality issue results in discontinuity of cooperation and indirectly affects the cooperation with similar customers; the occurrence of counterfeit incident affects the normal sales channels and refund, thus the interests of both the Company and the customers are prejudiced; the Company is reported or publicly denounced by regulatory authorities. ③ General defect: overly prolonged delivery of goods and unstable quality, resulting in the reduction in cooperation with partners; concern from partners due to negative reports in a certain scope; quality issues in the application of products and inappropriate response resulting in tightening of conditions for continual cooperation with customers; the occurrence of counterfeit incident affects the normal sales of the Company's customers, resulting in the request of goods return or clarification from customers; internal rectification required by regulatory authorities.</p>

Corporate Governance (Continued)

IX. INTERNAL CONTROL (Continued)

2. Self-evaluation Report on Internal Control (Continued)

Defect identification standards

Type	Financial report	Non-financial report
		<p>3. Defect identification standards for internal control of the Company's safety: ① Significant defect: affects certain number of staff/public health/safety; significant accidents. ② Major defect: affects part of staff/public health/safety; major accidents. ③ General defect: affects minority of staff/public health/safety; relatively larger accidents.</p> <p>4. Defect identification standards for internal control of the Company's environmental protection: ① Significant defect: serious damage on the environment; occurrence of environmental protection incident at the level of significant environmental accident (National level II) or above. ② Major defect: relatively large damage on the environment; the occurrence of larger environmental accident (National III level). ③ General defect: mid-level impact on the environment; the occurrence of general environmental incident (National level IV).</p>
Qualitative identification standard	<p>1. Significant defect: significant effect on liquidity (0.8 time \leq turnover of current assets < 1 time); effect on total profit \geq RMB50 million; effect on total assets \geq RMB8 billion.</p> <p>2. Major defect: larger effect on liquidity (0.5 time \leq turnover of current assets < 0.8 time); RMB10 million \leq effect on total profit < RMB50 million; RMB4.8 billion \leq effect on total assets < RMB8 billion.</p>	

Corporate Governance (Continued)

IX. INTERNAL CONTROL (Continued)

2. Self-evaluation Report on Internal Control (Continued)

Defect identification standards

Type	Financial report	Non-financial report
3.	General defect: middle-level or smaller effect on liquidity (turnover of current assets < 0.5 time); effect on total profit < RMB10 million; effect on total assets < RMB4.8 billion.	–
Number of significant defects of financial report	0	0
Number of significant defects of non-financial report	0	0
Number of major defects of financial report	0	0
Number of major defects of non-financial report	0	0

Corporate Governance (Continued)

X. AUDIT REPORT ON INTERNAL CONTROL

Opinion on the review of the audit report on internal control

Ruihua Certified Public Accountants (Special General Partnership) has audited the internal control of the financial report of the Company in respect of its effectiveness, and is of the opinion that Angang Steel Company Limited maintained effective internal control on the financial report in all material aspects in accordance with the Basic Standards for Enterprise Internal Control (《企業內部控制基本規範》) and the relevant regulations as of 31 December 2016.

Disclosure of the audit report on internal control	Disclosed
Date of disclosure of full text of the audit report on internal control	29 March 2017
Reference of disclosure of full text of the audit report on internal control	on CNINFO http://www.cninfo.com.cn
Type of opinion on the audit report on internal control	Standard unqualified opinion
Whether there is material defect of the non-financial report	No

The opinion of the audit report on internal control issued by accounting firm is consistent with that of the self-evaluation report of the Board.

Annual General Meeting

The annual general meeting of the Company will be held on Thursday, 8 June 2017, details of which and the proposed resolutions are set out in the accompanying notice of annual general meeting of the Company.

Audit Report



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RuiHua Audit [2017] No. 01490031

TO ALL THE SHAREHOLDERS OF ANGANG STEEL COMPANY LIMITED:

I. AUDITORS' OPINIONS

We have audited the financial statements of Angang Steel Company Limited (hereinafter as "Angang Steel Company"), which comprise the consolidated and company balance sheets as of December 31, 2016, and the consolidated and company income statements, the consolidated and company cash flow statements and the consolidated and company's statements of change in shareholders' equity and the notes to the financial statements in 2016.

In our opinion, the accompanying financial statements were prepared in accordance with the Accounting Standards for Business Enterprises in all material aspects and give a true and fair view of the consolidated and company financial position of Angang Steel Company as at 31 December 2016 and of its consolidated and company operating results and cash flows for 2016.

II. BASIS OF OPINIONS

We have conducted our audit in accordance with the Chinese Auditing Standards issued by the Chinese Institute of Certified Public Accountants. Our responsibilities under those standards are further described in the responsibilities of Certified Public Accountants for the audit of the financial statements section of the auditors' report. We are independent of Angang Steel Company in accordance with the ethical codes of Chinese certified public accountants, and we have fulfilled our other ethical responsibilities in accordance with the codes. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

III. KEY AUDIT MATTERS

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

Deferred income tax assets related to deductible loss

(1) Details

As at 31 December 2016, the deferred income tax assets in the notes to the consolidated financial statements of Angang Steel Company amounted to RMB1,525,000,000.00, of which the deferred income tax assets of RMB1,025,000,000.00 were related to deductible loss. When recognizing the deferred income tax assets relating to deductible loss.

It is probable that all unused tax loss will be recognized as the deferred income tax assets to the extent the management of Angang Steel Company considered that there will be sufficient taxable profit against which the deductions can be offset according to the financial projections of the parent company and its subsidiaries which has deductible losses. The management is required to make significant judgement to evaluate whether the deferred income tax assets can be realized in the future. The estimation and assumptions of the management also contain uncertainties.

(2) Application for auditing

Our audit team includes taxation experts when auditing the relevant taxations. With the support of taxation experts, we implemented the auditing procedures mainly including: we assessed the design and execution of the internal control of Angang Steel Company relating to taxation; we obtained the income tax filling information relating to the deductible loss and verified the amount of deductible loss with the assistance of taxation experts; we obtained the financial forecast of the parent company and its related subsidiaries for the future periods which was approved by the management, assessed whether the preparation conformed to the overall industrial trends and the conditions of each of the subsidiaries and took into account the impacts of special circumstances, and assessed its feasibility; we reviewed whether the deferred income tax assets were recognized to the extent that it was probable that the taxable profit can be utilized against deductible loss in the future.

Audit Report *(Continued)*

IV. OTHER INFORMATION

The management of Angang Steel Company (hereinafter as “the management”) is responsible for the other information which comprises all the information in the annual report other than the financial statements and this auditors’ report.

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

Combining with our audit to the financial statements, our responsibility is to read the other information. During the process, we considered if there is significant inconsistency or there is likely significant misstatement between the other information and the financial statements or the information we obtained during the audit.

As we have performed the work on the other information obtained before the date of our auditors’ report, we shall report if we confirmed there was a significant misstatement among the other information. We have nothing needed to be reported on this case.

V. RESPONSIBILITIES OF THE MANAGEMENT AND GOVERNING BODIES FOR THE FINANCIAL STATEMENTS

The management of Angang Steel Company is responsible for the preparation of the financial statements that give a true and fair view in accordance with the Accounting Standards for Business Enterprises, and also designing, implementing and maintaining the internal control system as necessary such that the financial statements are free from material misstatement, whether due to fraud or error.

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

The governing bodies are responsible for overseeing the financial reporting process of Angang Steel Company.

VI. RESPONSIBILITIES OF CERTIFIED PUBLIC ACCOUNTANTS FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

- (1) Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (2) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- (3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- (4) Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of Angang Steel Company to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause Angang Steel Company to cease to continue as a going concern.

Audit Report (*Continued*)

VI. RESPONSIBILITIES OF CERTIFIED PUBLIC ACCOUNTANTS FOR THE AUDIT OF THE FINANCIAL STATEMENTS (*Continued*)

- (5) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (6) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Angang Steel Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicated with the governing bodies regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that they identify during the audit.

We also provided the governing bodies with a statement that we had complied with relevant ethical requirements regarding independence, and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence (if applicable).

From the matters we had discussed with the governing bodies, we confirmed which matters were the most important to the audit of the financial statements for the current period and thus constituted the key audit matters. We set out these matters in the auditors' report. Unless the disclosure of these matters are forbidden by the laws and regulations, or, in rare cases, if it is reasonably expected that the negative impacts caused by discussing certain matters in the auditors' report would be larger than the benefits for public interest. We shall not disclose the matters in the auditors' report under such circumstances.

RuiHua Certified Public Accountants
(Special General Partnership)

Certified Public Accountants
Registered in the People's Republic of China

Beijing, China
March 28, 2017

Cao Bin
Deng Li

Consolidated Balance Sheet

As of December 31, 2016 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

Items	Notes	December 31, 2016	December 31, 2015
Current assets:			
Cash at bank and on hand	6(1)	1,968	3,601
Financial assets at fair value through profit or loss	6(2)		4
Notes receivable	6(3)	8,352	8,311
Accounts receivable	6(4)	1,942	1,123
Prepayments	6(6)	2,586	2,493
Dividends receivable	6(7)		6
Other receivables	6(5)	362	49
Inventories	6(8)	10,466	8,008
Non-current assets due within 1 year			
Other current assets			
Total current assets		25,676	23,595
Non-current assets:			
Available-for-sale financial assets	6(9)	839	849
Long-term equity investments	6(10)	2,968	2,673
Investment properties			
Fixed assets	6(11)	49,065	51,014
Construction in progress	6(12)	2,232	2,852
Construction material	6(13)	9	6
Intangible assets	6(14)	5,755	6,086
Long-term deferred expenses			
Deferred income tax assets	6(15)	1,525	1,521
Other non-current assets			
Total non-current assets		62,393	65,001
Total assets		88,069	88,596

Legal representative:
Yao Lin

Chief Accountant:
Zhang Jingfan

Controller:
Che Chengwei

Consolidated Balance Sheet (Continued)

As of December 31, 2016 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

Items	Notes	December 31, 2016	December 31, 2015
Current liabilities:			
Short-term loans	6(16)	18,995	16,319
Financial liabilities at fair value through profit or loss			
Notes payable	6(17)	1,766	3,991
Accounts payable	6(18)	10,055	5,799
Advances from customers	6(19)	4,065	2,834
Employee benefits payable	6(20)	124	167
Tax payable	6(21)	(131)	20
Interests payable	6(22)	76	181
Other payables	6(23)	1,678	2,106
Non-current liabilities due within 1 year	6(24)	161	4,587
Other current liabilities	6(25)		7,000
Total current liabilities		36,789	43,004
Non-current liabilities:			
Long-term loans	6(26)	1,296	962
Bonds payable	6(27)	3,944	
Long-term employee benefits payable	6(28)		1
Deferred income	6(29)	739	914
Deferred income tax liabilities	6(15)	13	34
Other non-current liabilities			
Total non-current liabilities		5,992	1,911
Total liabilities		42,781	44,915

The notes to the financial statements of page 163 to 288 are the components of the annual financial report.

Financial statements from 145 to 162 pages are signed by the following:

Legal representative:
Yao Lin

Chief Accountant:
Zhang Jingfan

Controller:
Che Chengwei

Consolidated Balance Sheet (Continued)

As of December 31, 2016 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

Items	Notes	December 31, 2016	December 31, 2015
Shareholders' equity:			
Share capital	6(30)	7,235	7,235
Capital reserve	6(31)	31,519	31,519
Other comprehensive income	6(32)	12	18
Special reserve	6(33)	52	54
Surplus reserve	6(34)	3,580	3,580
Undistributed profit	6(35)	2,484	868
Differences from translation of foreign currency			
Subtotal of Shareholders' equity attributable to shareholders of parent company		44,882	43,274
Minority interests		406	407
Total shareholders' equity		45,288	43,681
Total liabilities and shareholders' equity		88,069	88,596

The notes to the financial statements of pages 163 to 288 are the components of the annual financial report.

Financial statements from 145 to 162 pages are signed by the following:

Legal representative:
Yao Lin

Chief Accountant:
Zhang Jingfan

Controller:
Che Chengwei

Consolidated Income Statement

For the year ended December 31, 2016 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

Items	Notes	2016	2015
1. Operating income		57,882	52,759
Including: Operating income	6(36)	57,882	52,759
2. Operating costs		56,718	57,027
Less: Operating costs	6(36)	50,186	49,469
Tax and surcharges	6(37)	271	224
Marketing expenses	6(38)	1,928	2,311
Administrative expenses	6(39)	1,626	1,808
Financial expenses	6(40)	1,286	1,346
Impairment losses on assets	6(41)	1,421	1,869
Add: Gains/losses from fair value variation ("-" for losses)	6(42)		4
Investment income ("-" for losses)	6(43)	427	391
Including: Income from investment in jointly ventures and associates		335	340
3. Operating profit ("-" for losses)		1,591	(3,873)
Add: Non-operating income	6(44)	61	182
Less: Non-operating expenses	6(45)	32	72
Including: Losses on non-current assets disposal		23	32
4. Profit before income tax ("-" for losses)		1,620	(3,763)
Less: Income tax expenses	6(46)	5	837
5. Net profit for the period ("-" for losses)		1,615	(4,600)
The net profit belongs to the owners of the company		1,616	(4,593)
Minority interest income		(1)	(7)

Consolidated Income Statement (Continued)

For the year ended December 31, 2016 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

Items	Notes	2016	2015
6. The net amount after tax of other comprehensive income			
	6(32)	(6)	11
(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(32)	(6)	11
a. The shares of the other comprehensive income which can be reclassified in profit or loss of the invested company in equity method	6(32)	1	4
b. The profit or loss from the change at fair value of available-for-sale financial assets	6(32)	(7)	7
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 year ended December 31, 2016 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

Items	Notes	2016	2015
7. Earnings per share			
(1) Basic earnings per share (RMB/share)	19(2)	0.223	(0.635)
(2) Diluted earnings per share (RMB/share)	19(2)	0.223	(0.635)
8. Total comprehensive income		1,609	(4,589)
The other comprehensive income belongs to the owners of the company		1,610	(4,582)
The other comprehensive income belongs to the minority		(1)	(7)

The notes to the financial statements of pages 163 to 288 are the components of the annual financial report.

Financial statements from 145 to 162 pages are signed by the following:

Legal representative:
Yao Lin

Chief Accountant:
Zhang Jingfan

Controller:
Che Chengwei

Consolidated Cash Flow Statement

For the year ended December 31, 2016 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

Items	Notes	2016	2015
1. Cash flows from operating activities:			
Cash received from selling of goods or rendering of services		52,004	47,633
Refund of tax and fare		16	20
Other cash received from operating activities	6(48)	94	333
Sub-total of cash inflows		52,114	47,986
<hr/>			
Cash paid for goods and services		38,797	34,382
Cash paid to and for the employees		4,098	4,076
Cash paid for all types of taxes		2,402	1,633
Other cash paid for operating activities	6(48)	2,468	2,758
Sub-total of cash outflows		47,765	42,849
<hr/>			
Net cash flow from operating activities	6(49)	4,349	5,137
<hr/>			
2. Cash flows from investing activities			
Cash received from return of investments			149
Cash received from investment income		396	685
Net cash received from disposal of fixed assets, intangible assets and other non-current assets		148	4
Net cash received from disposal of subsidiaries and other operating units			
Other cash received from investment activities	6(48)	369	311
Sub-total of cash inflows		913	1,149
<hr/>			
Cash paid for acquisition of fixed assets, intangible assets and other non-current assets		1,393	3,807
Cash paid for acquisition of investments			70
Net cash paid for acquisition of subsidiaries and other operating units			
Other cash paid for investment activities		70	
Sub-total of cash outflows		1,463	3,877
<hr/>			
Net cash flow from investing activities		(550)	(2,728)

Consolidated Cash Flow Statement (Continued)

For the year ended December 31, 2016 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

Items	Notes	2016	2015
3. Cash flows from financing activities			
Cash received from absorbing investments			11
Including: received of subsidiary from minority shareholders			11
Cash received from borrowings		26,945	30,123
Other cash received from financing activities			
Sub-total of cash inflows		26,945	30,134
Cash paid for settling of debts		31,052	28,861
Cash paid for distribution of dividends or profit and repayment of interests		1,303	1,782
Including: dividends or profit paid to minority shareholders			
Other cash paid for financing activities		3	7
Sub-total of cash outflows		32,358	30,650
Net cash inflow from financing activities	6(48)	(5,413)	(516)
4. Effect of changes in foreign exchange rate on cash and cash equivalents		(19)	(4)
5. Net increase in cash and cash equivalents	6(49)	(1,633)	1,889
Add: Cash and cash equivalents brought forward	6(49)	3,601	1,712
6. Cash and cash equivalents carried forward	6(49)	1,968	3,601

The notes to the financial statements of pages 163 to 288 are the components of the annual financial report.

Financial statements from 145 to 162 pages are signed by the following:

Legal representative:
Yao Lin

Chief Accountant:
Zhang Jingfan

Controller:
Che Chengwei

Consolidated Statement of Changes in Shareholders' Equity

As of December 31, 2016 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

Items	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 December 31, 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 January 1, 2016	7,235	31,519		18	54	3,580		868		407	43,681
3. Increase/decrease in 2016				(6)	(2)			1,616		(1)	1,607
("-" represents loss)				(6)	(2)			1,616		(1)	1,609
(1) Total amount comprehensive income				(6)				1,616		(1)	1,609
(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					(2)						(2)
i. Extracts of this period					54						54
ii. Usage of this period					(56)						(56)
(6) Others											
4. Balance as of December 31, 2016	7,235	31,519		12	52	3,580		2,484		406	45,288

The notes to the financial statements of pages 163 to 288 are the components of the annual financial report.

Financial statements from 145 to 162 pages are signed by the following:

Legal representative:
Yao Lin

Chief Accountant:
Zhang Jingfan

Controller:
Che Chengwei

Consolidated Statement of Changes in Shareholders' Equity (Continued)

As of December 31, 2016 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

Items	2015											Total of shareholders' equity
	Shareholders' equity attributable to shareholders of the parent company										Minority interests	
	Share capital	Capital reserve	Less: treasury stock	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Undistributed profit	Others			
1. Balance as of December 31, 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 January 1, 2015	7,235	31,154		7	30	3,580		5,787			403	48,196
3. Increase/decrease in 20145												
("-" 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		365										365
iii. Others												
(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 December 31, 2015	7,235	31,519		18	54	3,580		868			407	43,681

The notes to the financial statements of pages 163 to 288 are the components of the annual financial report.

Financial statements from 145 to 162 pages are signed by the following:

Legal representative:
Yao Lin

Chief Accountant:
Zhang Jingfan

Controller:
Che Chengwei

Balance Sheet

As of December 31, 2016 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

Items	Notes	December 31, 2016	December 31, 2015
Current assets:			
Cash at banks and on hand		1,228	2,774
Financial assets at fair value through profit or loss			4
Notes receivable		8,280	8,235
Accounts receivable	16(1)	3,263	1,635
Prepayments		2,488	1,806
Interests receivable			6
Dividends receivable	16(2)	360	47
Inventories		9,075	7,178
Non-current assets due within 1 year			
Other current assets			
Total current assets		24,694	21,685
Non-current assets:			
Available-for-sale financial assets		839	849
Long-term equity investments	16(3)	4,533	4,538
Investment property			
Fixed assets		48,233	50,399
Construction in progress		1,268	1,569
Construction materials		3	4
Intangible assets		5,568	5,714
Long-term deferred expenses			
Deferred income tax assets		1,425	1,486
Other non-current assets			
Total non-current assets		61,869	64,559
Total assets		86,563	86,244

Legal representative:
Yao Lin

Chief Accountant:
Zhang Jingfan

Controller:
Che Chengwei

Balance Sheet (Continued)

As of December 31, 2016 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

Items	Notes	December 31, 2016	December 31, 2015
Current liabilities:			
Short-term loans		18,995	15,917
Financial liabilities at fair value through profit or loss			
Notes payable		1,766	3,989
Accounts payable		9,889	5,627
Advances from customers		3,622	2,458
Employee benefits payable		124	167
Tax and surcharges payable		157	220
Interests payables		67	171
Other payables		1,524	1,708
Non-current liabilities due within 1 year		1	4,566
Other current liabilities			7,000
Total current liabilities		36,145	41,823
Non-current liabilities:			
Long-term loans		800	301
Bonds payable		3,944	
Long-term employee benefits payable			1
Deferred income		597	689
Deferred income tax liabilities		13	19
Other non-current liabilities			
Total non-current liabilities		5,354	1,010
Total liabilities		41,499	42,833
Shareholders' equity:			
Share capital		7,235	7,235
Capital reserve		31,565	31,565
Other comprehensive income		12	18
Special reserve		52	54
Surplus reserves		3,570	3,570
Undistributed profits		2,630	969
Total shareholders' equity		45,064	43,411
Total liabilities and shareholders' equity		86,563	86,244

The notes to the financial statements of pages 163 to 288 are the components of the annual financial report.

Financial statements from 145 to 162 pages are signed by the following:

Legal representative:
Yao Lin

Chief Accountant:
Zhang Jingfan

Controller:
Che Chengwei

Income Statement

For the year ended December 31, 2016 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

Items	Notes	2016	2015
1. Operating income	16(4)	57,534	51,534
Less: Operating costs	16(4)	49,889	48,387
Tax and surcharges		267	219
Marketing expenses		1,821	2,259
Administrative expenses		1,567	1,765
Financial expenses		1,279	1,343
Impairment losses on assets		1,425	1,861
Add: Gains/losses from fair value variation			4
Investment income	16(5)	410	396
Including: Income from investment in jointly ventures and associates		335	340
2. Operating profit		1,696	(3,900)
Add: Non-operating income		54	163
Less: Non-operating expenses		32	63
Including: Losses on non-current assets disposal		23	23
3. Profit before income tax		1,718	(3,800)
Less: Income tax expenses		57	797
4. Net profit for the period		1,661	(4,597)

Income Statement (Continued)

For the year ended December 31, 2016 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

Items	Notes	2016	2015
5. The net amount after tax of other comprehensive income		(6)	11
(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		(6)	11
(2) The other comprehensive income which can be classified into profit or loss		1	4
a. The shares of the other comprehensive income which can be reclassified in profit or loss of the invested company in equity method		(7)	7
b. The profit or loss from the change of the fair value of available-for-sale financial assets			
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 into foreign currency of financial statements			
6. Total comprehensive income		1,655	(4,586)

The notes to the financial statements of pages 163 to 288 are the components of the annual financial report.

Financial statements from 145 to 162 pages are signed by the following:

Legal representative:
Yao Lin

Chief Accountant:
Zhang Jingfan

Controller:
Che Chengwei

Cash Flow Statement

For the year ended December 31, 2016 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

Items	Notes	2016	2015
1. Cash flows from operating activities:			
Cash received from selling of goods or rendering of services		51,029	46,975
Refund of tax and fare		16	5
Other cash received from operating activities		93	304
Sub-total of cash inflows		51,138	47,284
<hr style="border-top: 1px dashed black;"/>			
Cash paid for goods and services		38,047	33,934
Cash paid to and for employees		3,992	4,011
Cash paid for all types of taxes		2,321	1,587
Other cash paid for operating activities		2,401	2,675
Sub-total of cash outflows		46,761	42,207
<hr style="border-top: 1px dashed black;"/>			
Net cash flow from operating activities		4,377	5,077
<hr style="border-top: 1px dashed black;"/>			
2. Cash flows from investing activities			
Cash received from return of investments			149
Cash received from investment income		396	738
Net cash received from disposal of fixed assets, intangible assets and other non-current assets		148	3
Net cash received from disposal of Subsidiaries and other business units			6
Other cash received from investment activities		301	277
Sub-total of cash inflows		845	1,173
<hr style="border-top: 1px dashed black;"/>			
Cash paid for acquisition of fixed assets, intangible assets and other non-current assets		1,197	2,516
Cash paid for acquisition of investments		50	228
Other cash paid for investment activities		70	
Sub-total of cash outflows		1,317	2,744
<hr style="border-top: 1px dashed black;"/>			
Net cash flow from investing activities		(472)	(1,571)
<hr style="border-top: 1px dashed black;"/>			

Cash Flow Statement (Continued)

For the year ended December 31, 2016 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

Items	Notes	2016	2015
3. Cash flows from financing activities			
Cash received from absorbing investments			
Cash received from borrowings		26,344	29,008
Other cash received from financing activities		40	
Sub-total of cash inflows		26,384	29,008
Cash paid for settling of debts		30,452	28,265
Cash paid for distribution of dividends or profit and repayment of interests		1,252	1,729
Other cash paid for financing activities		112	290
Sub-total of cash outflows		31,816	30,284
Net cash inflow from financing activities		(5,432)	(1,276)
4. Effect of changes in foreign exchange rate on cash and cash equivalents		(19)	(4)
5. Net increase in cash and cash equivalents		(1,546)	2,226
Add: Cash and cash equivalents brought forward		2,774	548
6. Cash and cash equivalents carried forward		1,228	2,774

The notes to the financial statements of pages 163 to 288 are the components of the annual financial report.

Financial statements from 145 to 162 pages are signed by the following:

Legal representative:

Yao Lin

Chief Accountant:

Zhang Jingfan

Controller:

Che Chengwei

Statement of Changes in Shareholders' Equity

As of December 31, 2016 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

Items	2016								
	Share capital	Capital reserve	Less: treasury stock	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Undistributed profit	Total of shareholders' equity
1. Balance as of December 31, 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 January 1, 2016	7,235	31,565		18	54	3,570		969	43,411
3. Increase/decrease in 2016									
("-" represents loss)									
(1) Total amount comprehensive income				(6)	(2)			1,661	1,653
(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					(2)				(2)
i. Extracts of this period					54				54
ii. Usage of this period					(56)				(56)
(6) Others									
4. Balance as of December 31, 2016	7,235	31,565		12	52	3,570		2,630	45,064

The notes to the financial statements of page 163 to 288 are the components of the annual financial report.

Financial statements from 145 to 162 pages are signed by the following:

Legal representative:
Yao Lin

Chief Accountant:
Zhang Jingfan

Controller:
Che Chengwei

Statement of Changes in Shareholders' Equity (Continued)

As of December 31, 2016 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

Items	2015								
	Share capital	Capital reserve	Less: treasury stock	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Undistributed profit	Total of shareholders' equity
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 December 31, 2015	7,235	31,565		18	54	3,570		969	43,411

The notes to the financial statements of pages 163 to 288 are the components of the annual financial report.

Financial statements from 145 to 162 pages are signed by the following:

Legal representative:
Yao Lin

Chief Accountant:
Zhang Jingfan

Controller:
Che Chengwei

Notes to the Financial Statements

For the year 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 28 March, 2017.

There are 19 subsidiaries within the scope of the consolidation, please refer to Note 8 interests in other entities, and of which 1 subsidiary is newly established and 1 subsidiary is reduced compared with last year, please refer to Note 7 Changes in combination scope. The Company and its subsidiaries (abbreviated as the Group) are principally engaged in ferrous metal smelting and steel pressing and processing.

2. BASIC 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 2014.

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.

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 December 31, 2016, the financial performance and cash flow of the Group for the year. 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 2014.

Notes to the Financial Statements *(Continued)*

For the year 2016 (Expressed in million RMB unless otherwise indicated)

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) 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.

Notes to the Financial Statements (*Continued*)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

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

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

(a) The business combinations under common control (*Continued*)

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.

(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.

Notes to the Financial Statements *(Continued)*

For the year 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 *(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 reevaluate 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 year 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.

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 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.

Notes to the Financial Statements *(Continued)*

For the year 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

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.

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.

Notes to the Financial Statements (*Continued*)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

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.

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.

Notes to the Financial Statements *(Continued)*

For the year 2016 (Expressed in million RMB unless otherwise indicated)

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

(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.

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.

Notes to the Financial Statements (*Continued*)

For the year 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

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.
- (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.

Notes to the Financial Statements *(Continued)*

For the year 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)*

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.

(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.

Notes to the Financial Statements (*Continued*)

For the year 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*)

(ii) Held-to-maturity investments (*Continued*)

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.

(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.

Notes to the Financial Statements *(Continued)*

For the year 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

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.

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 year 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 year 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 year 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 de-recognition, 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.

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.

Notes to the Financial Statements *(Continued)*

For the year 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)*

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.

(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.

Notes to the Financial Statements (*Continued*)

For the year 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*)

(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.

(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 recognized 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 recognized 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 year 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.

Notes to the Financial Statements (*Continued*)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

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.

(d) Physical inventory at fixed periods is taken under perpetual inventory system.

Notes to the Financial Statements *(Continued)*

For the year 2016 (Expressed in million RMB unless otherwise indicated)

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

(11) Inventories *(Continued)*

- (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.

- (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 year 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.

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

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 are 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 year 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)*

(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 year 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 year 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.

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.

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(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.

(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	17–24years	3–5	3.958–5.706
Other fixed assets	5–12years	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 year 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.

(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).

Notes to the Financial Statements (*Continued*)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

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

(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.

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 for 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.

Notes to the Financial Statements *(Continued)*

For the year 2016 (Expressed in million RMB unless otherwise indicated)

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

(16) Intangible assets

(a) Intangible assets

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.

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 year 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".

Notes to the Financial Statements *(Continued)*

For the year 2016 (Expressed in million RMB unless otherwise indicated)

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 year 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 year 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 year 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.

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 assured that government grant, scheduled in the relevant government documents and guaranteed by the fiscal budget, could be received on schedule.

Notes to the Financial Statements *(Continued)*

For the year 2016 (Expressed in million RMB unless otherwise indicated)

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

(20) Government grants *(Continued)*

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.

(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 bases 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 relates 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 the above-mentioned, deferred income tax liability resulting from any other taxable temporary difference shall be recognized.

Notes to the Financial Statements (*Continued*)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

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 relates 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.

(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 a adjustment to goodwill. Income taxes and deferred taxes except mentioned before shall be recorded into current profit or loss.

Notes to the Financial Statements *(Continued)*

For the year 2016 (Expressed in million RMB unless otherwise indicated)

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

(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.

(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.

Notes to the Financial Statements (*Continued*)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

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

(22) Leases (*Continued*)

(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.

(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.

Notes to the Financial Statements *(Continued)*

For the year 2016 (Expressed in million RMB unless otherwise indicated)

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

(23) Employee benefits *(Continued)*

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.

(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.

Notes to the Financial Statements (*Continued*)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

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

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

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.

(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.

Notes to the Financial Statements *(Continued)*

For the year 2016 (Expressed in million RMB unless otherwise indicated)

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

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

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

For 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 taken 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.

(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 year 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.

(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.

Notes to the Financial Statements *(Continued)*

For the year 2016 (Expressed in million RMB unless otherwise indicated)

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

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

(i) Projected liabilities

Provision for product quality guarantee, estimated onerous contracts, and delayed 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.

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% (Before April 30th)
City construction and Education surtax	Paid circulating tax: 7%, 3%, 2%
Enterprise income tax	Taxable income: 25%
Custom duty	FOB: 5%–15%

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unless otherwise specified, the opening balance refers to the balance as of January 1, 2016, and the closing balance refers to the balance as of December 31, 2016, the current year refers to the year 2016, last year refers to the year 2015.

(1) Cash at bank and on hand

Items	Closing balance	Opening balance
Cash	1	1
Bank deposits	1,801	3,564
Other cash balance	166	36
Total	1,968	3,601

(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	7,231	8,272
Commercial Acceptance Notes	1,121	39
Total	8,352	8,311

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Notes receivable (Continued)

- (b) Notes receivable of the Company pledged at the end of the year

Items	Bills undue that have been pledged by the end of the year
Bank Acceptance Notes	1,610
Total	1,610

Note: The Group has applied for the 63 million yuan notes payable this year by pledging 63 million yuan notes receivable to the bank whose pledge deadline is July 2016 to July 2017. The Group has pledged notes receivable whose values 1,547 million yuan to the bank to gain the short-term loan of 1,429 million yuan.

- (c) Outstanding notes receivable endorsed or discounted by the Company as at the end of the year

Items	Amount of termination confirmation	Amount of non-termination confirmation
Bank Acceptance Notes	11,968	
Commercial Acceptance Notes	94	
Total	12,062	

- (d) No notes receivable were transferred to accounts receivable due to insolvency of the issuer as of December 31, 2016.

Notes to the Financial Statements (Continued)

For the year 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	1,489	77		
Accounts receivable with amounts that are individually insignificant and subject to separate assessment for bad debts provision	454	23	1	100
Total	1,943	100	1	100

Items	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 year 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	1,851	95		
1 to 2 years	19	1		
2 to 3 years	72	4		
Over 3 years	1		1	100
Total	1,943	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

(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.

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) Accounts receivable (Continued)

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

The total amount of top five accounts receivable according to closing balance of debtors of the Group for the year was RMB1,235 million, which accounted for 64% of the closing balance of the total accounts receivable. The closing balance of corresponding bad debt provision amounted to 0.

(5) Prepayments

- (a) Prepayment classified by aging

Aging	Closing balance		Opening balance	
	Balance	Percentage (%)	Balance	Percentage (%)
Within 1 year	2,275	88	1,968	79
1 to 2 years	140	5	227	9
2 to 3 years	125	5	252	10
Over 3 years	46	2	46	2
Total	2,586	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 prepayment balance of the top five debtors is RMB2,167 million in total, accounting for 84% of the prepayment balance at the end of the year.

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Dividends receivable

The investee company	Closing balance	Opening balance
WISDRI Engineering and Research Incorporation (Limited for "WISDRI")		6
Total		6

(7) 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	334	92		
Other receivables with amounts that are individually insignificant and subject to separate assessment for bad debts provision	28	8		
Total	362	100		

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(7) Other receivables (Continued)

(a) Classification of other receivables (Continued)

Type	Opening balance			
	Book value		Bad debt provision	
	Amount	Percentage (%)	Amount	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	21	22
Guangzhou automobile steel loans	300	
Export tax rebate	34	14
Other	7	13
Total	362	49

(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.

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(8) Inventory

(a) Classification of inventory

Items	Closing balance		
	Book value	Inventory falling price reserves	Carrying value
Raw materials	2,609	176	2,433
Work in progress	3,264	244	3,020
Finished goods	2,787	196	2,591
Revolving materials	828		828
Spare parts	1,357	12	1,345
Materials in transit	243		243
Work in progress – outsourced	6		6
Total	11,094	628	10,466

Items	Opening balance		
	Book value	Inventory falling price reserves	Carrying value
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

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(8) Inventory (Continued)

(b) Changes in Inventory falling price reserves

Items	Opening balance	Increment of the year		Decrement of the year		Closing balance
		Current account	Written back	Written off		
Raw materials	94	197		115	176	
Work in progress	119	788		663	244	
Finished goods	395	424		623	196	
Spare parts		12			12	
Total	608	1,421		1,401	628	

(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.

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(9) Available-for-sale financial assets

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

Item	Closing value	Opening value
Listed investment	52	62
Including: Hong Kong		
Mainland	52	62
Non-listed investment	787	787
Total	839	849

(b) 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:	839		839	849		849
Measured at fair value	52		52	62		62
Measured at cost	787		787	787		787
Total	839		839	849		849

(c) 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	52
Changes in fair value amounts accumulated through other comprehensive income	11
Provision for impairment	

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(9) Available-for-sale financial assets (Continued)

(d) 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. (hereinafter referred to as "Longmay Group")	220		220
Anshan Falan Packing Material Co. Ltd. (hereinafter referred to as "Anshan Falan")	21		21
Dalian Shipbuilding Industry Co.,Ltd Shipyard Company (hereinafter referred to as "Dalian Shipyard")	151		151
China Shipbuilding Industry Equipment and Materials Bayuquan Co., Ltd (hereinafter referred to as "China Shipbuilding")	10		10
Dalian Shipbuilding Industry Group Steel Co., Ltd (hereinafter referred to as "Dalian Steel")	69		69
Guoqi Automobile Lightweight (Beijing) Technology Research Institute Co., Ltd. (hereinafter referred to as "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 year 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(9) Available-for-sale financial assets (Continued)

(d) 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	1
Dalian Shipyard					15	
China Shipbuilding					10	
Dalian Steel					15	
Guoqi Lightweight					7	
Changsha Steel					14	1
Total						2

(10) Long-term equity investment

Details of long-term equity investments

The invested entity	Opening value	Increase/Decrease			Other comprehensive income adjustment
		Increase	Decrease	Investment income under the equity method	
a. Jointly venture					
TKAS Auto Steel Company Limited ("ANSC-TKS")	891				226
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				6
Guangzhou automobile Steel					(9)
Minor total	1,211				224

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(10) Long-term equity investment (Continued)

Details of long-term equity investments (Continued)

The invested entity	Opening value	Increase/Decrease			
		Increase	Decrease	Investment income under the equity method	Other comprehensive income adjustment
b. Associated venture					
Angang Group Finance Co., Ltd ("Angang Finance")	1,245			111	1
Guangzhou Nansha Steel Logistical Co., Ltd. ("Nansha Logistical")	60			(2)	
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			3	
minor total	1,462			111	1
Total	2,673			335	1

The invested entity	Increase/Decrease				Closing value	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)		(3)	735	
ANSC – Dachuan					228	
Changchun FAM		(8)			91	
Guangzhou Automobile Steel				350	341	
Minor total		(387)		347	1,395	
2. Associated enterprise						
Angang Finance					1,357	
Nansha Logistical					58	
AISSG					96	
Shanghai chemical					1	
Guangzhou Steel		(1)			61	
Minor total		(1)			1,573	
Total		(388)		347	2,968	

Notes to the Financial Statements (Continued)

For the year 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:	469	919	95	1,483
Purchase	96	(103)	19	12
Transform from projects under construction	373	1,022	76	1,471
Decrease:	37	218	59	314
Dispose or scrap	37	218	59	314
The balance at the end of the year	28,363	70,996	5,193	104,552
② Accumulated depreciation				
The balance at the beginning of the year	8,874	39,349	4,113	52,336
Increase:	661	2,400	234	3,295
Count for depreciation	661	2,400	234	3,295
Decrease:	6	114	56	176
Dispose or scrap	6	114	56	176
The balance at the end of the year	9,529	41,635	4,291	55,455
③ Provision for impairment				
The balance at the beginning of the year	6	26	1	33
Increase				
Decrease:	1			1
Dispose or scrap	1			1
The balance at the end of the year	5	26	1	32
④ Book value				
The closing book value	18,829	29,335	901	49,065
The opening book value	19,051	30,920	1,043	51,014

Notes to the Financial Statements (Continued)

For the year 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	104	61	5	38	
Others	3	2		1	
Total	109	64	5	40	

(c) The Group had no financial leased-in fixed asset as of December 31, 2016.

(d) Fixed assets held under financial leases

Items	Closing carrying value	Opening carrying value
Buildings and plants	23	30
Machineries and equipment	8	49
Total	31	79

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(12) Constructions in progress

(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	248		248	237		237
Guangzhou Project	8		8	79		79
Dalian Project	21		21	144		144
Zhengzhou project	66		66	69		69
Guangzhou automobile project				478		478
Cool rolling project	869		869	511		511
The three area of the converter workshop environmental renovation project	108		108	162		162
4300 thick plate line new pre-straightening machine and cold straightening machine project	187		187	64		64
60 thousand m ³ /h oxygen generating unit project	140		140	99		99
Cold rolled high strength steel and auxiliary reconstruction project	272		272	227		227
Heavy Plate Plant Thick Plate High-strength Steel Plate Heat Treatment Line Reconstruction Project	46		46			
Others	267		267	782		782
Total	2,232		2,232	2,852		2,852

Notes to the Financial Statements (Continued)

For the year 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	Opening balance	Increase of the period	Transferred	Other decrease	Closing balance
				into fixed assets		
Bayuquan Project	3,015	237	149	138		248
Guangzhou Project	129	79	5	76		8
Dalian Project	246	144		123		21
Zhengzhou project	153	69	45	48		66
Guangzhou automobile project	1,450	478	(478)			
Cool rolling project	1,470	511	359	1		869
The three area of the converter workshop environmental renovation project	1,000	162	78	132		108
4300 thick plate line new pre straightening machine and cold straightening machine project	325	64	123			187
60 thousand m ³ /h oxygen generating unit project	387	99	41			140
Cold rolled high strength steel and auxiliary reconstruction project	296	227	45			272
Heavy Plate Plant Thick Plate High- strength Steel Plate Heat Treatment Line Reconstruction Project	53		46			46
Others	13,671	782	440	953	2	267
Total		2,852	853	1,471	2	2,232

Notes to the Financial Statements (Continued)

For the year 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 (Continued)

Items	Accumulated capitalized borrowing cost	Of which: capitalized this period	Capitalization rate (%)	Expenditure over budget (%)	Project progress (%)	Resource of fund
Bayuquan Project	690			77	77	Self-financing
Guangzhou Project	3			83	83	Self-financing
Dalian Project				59	72	Self-financing
Zhengzhou project	1	1	3.98	74	90	Self-financing
Borrowings						
Guangzhou automobile project		(24)				Note
Cool rolling project	69	30	4.47	54	68	Self-financing
Borrowings						
The three area of the converter workshop environmental renovation project	36	7	4.18	99	99	Self-financing
4300 thick plate line new pre straightening machine and cold straightening machine project				57	95	Self-financing finance appropriation
60 thousand m ³ /h oxygen generating unit project	17	10	4.18	32	91	Self-financing
Cold rolled high strength steel and auxiliary reconstruction project	17	10	4.18	86	86	Self-financing
Heavy Plate Plant Thick Plate High- strength Steel Plate Heat Treatment Line Reconstruction Project				87	87	Self-financing
Others	597	2	4.18	74	74	Self-financing
Total	1,430	36				

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

Due to absorbing other shareholders by the subsidiary, Guangzhou Automobile Steel becomes a joint venture this year, note 7(2).

(c) As of December 31, 2016, there was no construction in progress whose carrying value was higher than its realizable value.

Notes to the Financial Statements (Continued)

For the year 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	6	
Special equipment	3	6
Total	9	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:	1		2		3
(a) Purchase	1		2		3
(b) internal R&D					
(c) Enterprise merger					
Decrease:	186				186
(a) Disposition					
(b) Enterprise merger	186				186
The balance at the end of the year	7,375	43	53	4	7,475
2. Accumulative amortization					
The balance at the beginning of the year	1,478	43	47	4	1,572
Increase:	154		2		156
(a) Counting and Drawing	154		2		156
(b) Enterprise merger					
Decrease:	8				8
(a) Disposition					
(b) Enterprise merger	8				8
The balance at the end of the year	1,624	43	49	4	1,720
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	5,751		4		5,755
The opening book value	6,082		4		6,086

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(15) Deferred income tax assets and deferred income tax liabilities

(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	165	661	160	642
Deductible loss	1,025	4,098	1,130	4,519
Salaries payable	50	199	24	96
Accumulated depreciation of fixed assets	33	133	9	35
Unrealized inter-group profit	90	358	13	50
Government grants	149	597	172	689
Termination benefits				2
Employee training expenses	9	38	12	48
Others	4	17	1	4
Total	1,525	6,101	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	3	14	6	24
Capitalized borrowing costs	10	38	13	51
Unrealized inter-group loss			15	62
Total	13	52	34	137

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(15) Deferred income tax assets and deferred income tax liabilities (Continued)

(c) Deductible loss has not been recognized as deferred tax assets

Items	Closing balance	Opening balance
Deductible loss	6,443	8,813
Total	6,443	8,813

(d) Deductible loss has not been recognized as deferred tax assets which is due to next year

Items	Closing balance	Opening balance
2016		2,833
2017	2,061	5,860
2018		
2019		9
2020	4,382	111
2021		
Total	6,443	8,813

(16) Short-term loans

Items	Closing balance	Opening balance
Pledged loans	1,429	
Guaranteed loans	1,000	3,423
Credit loans	16,566	12,896
Total	18,995	16,319

Note: The guarantee loans of the short-term loans are mainly used to replenish working capital, which is guaranteed by Angang group. The pledge of the pledged loans is the notes receivable, note: 6(3(2)).

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(17) Notes payable

Types of notes	Closing balance	Opening balance
Bank acceptances	1,433	3,451
Trade acceptances	333	540
Total	1,766	3,991

(18) Account payables

(a) Classification of account payables by nature

Items	Closing balance	Opening balance
Account payables for purchasing	9,318	5,208
Construction payables	363	379
Operation expenses on supporting production	80	104
Freight	208	37
Others	86	71
Total	10,055	5,799

(b) Significant account payables aging over 1 year

Creditor	Balance owed	Aging
Tangyuan Tianyu Coal & Coke Energy Co., Ltd.	61	1-2 year, 4-5 year
Total	61	

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(18) Account payables (Continued)

(c) Aging of account payables

Aging	Closing balance		Opening balance	
	Balance	Percentage (%)	Balance	Percentage (%)
Within 1 year	9,971	99	5,733	99
1 to 2 years	24	7		
2 to 3 years	2	1		
Over 3 years	58	1	58	1
Total	10,055	100	5,799	100

(19) Advances from customers

(a) Classification of advances from customers by nature

Items	Closing balance	Opening balance
Selling of products	4,063	2,830
Others	2	4
Total	4,065	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 year 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(20) Employee benefits payable

(a) The situation about employee benefits payable

Item	Opening value	Increase	Decrease	Closing value
A. Short-term remuneration	166	3,246	3,288	124
B. After-service benefits – Defined Contribution Plans		569	569	
C. Termination benefits	1	240	241	
D. Other benefits due within one year				
E. Others				
Total	167	4,055	4,098	124

(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	2,322	2,356	81
2. Staff welfare		261	261	
3. Social insurance		253	253	
Including: Medical insurance		204	204	
Staff and workers' injury insurance		46	46	
Maternity insurance				
Others		3	3	
4. Housing fund		296	296	
5. Labor union fee and staff training fee	51	47	55	43
6. Short paid absences				
7. The short-term profit sharing plan				
8. Others		67	67	
Total	166	3,246	3,288	124

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(20) 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		452	452	
2. Unemployment insurance		22	22	
3. Occupational pension contribution		95	95	
Total		569	569	

(21) Taxes payable

Items	Closing balance	Opening balance
VAT	(200)	(85)
Business tax		3
Resource tax	1	1
Corporate income tax	11	7
City maintenance and construction tax	3	6
Property tax	12	10
Land use tax	26	26
Individual income tax	14	6
Educational surcharges	2	4
Others		42
Total	(131)	20

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(22) Interests payable

Items	Closing balance	Opening balance
Staging interest maturity of long-term borrowings	9	10
Interest for corporate bonds	67	171
Total	76	181

(23) Other payables

(a) Classification of other payables by nature

Items	Closing balance	Opening balance
Construction payables	339	767
Quality assurance – project/spare parts	463	724
Freight charges	7	72
Deposit for steel shelves	61	62
Performance assurance	115	110
The national special funds paid by Anshan Iron and Steel Group Company	328	
Others	365	371
Total	1,678	2,106

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(23) 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	27	Project quality assurance	No
Acre Coking & Refractory (Dalian) Engineering Technology Corporation	48	Project quality assurance	No
Acre Coking & Refractory Engineering Technology Corporation	30	Project quality assurance	No
China Sanye Group Co., Ltd	11	Project quality assurance	No
Anshan Iron and Steel Group Automation Company	17	Project quality assurance	No
Anshan Iron and Steel Group Information Industry Co., Ltd	14	Project quality assurance	No
Songjiang Harbin Electric Furnace Factory Co., Ltd.	15	Project quality assurance	No
MCC Heavy Industry Equipment Co., Ltd.	18	Project quality assurance	No
Others	301	Project quality assurance	No
Total	481		

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(24) 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 (26))	161	592
Bond payable due within 1 year (Note (27))		3,995
Total	161	4,587

(25) Other current liabilities

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

(26) Long-term loans

(a) Classification of Long-term loans

Items	Closing balance	Opening balance
Guaranteed loans	555	575
Credit loans	902	979
Minor total	1,457	1,554
Less: Long-term loans due within 1 year (Note: 6(24))	161	592
Total	1,296	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%–4.75%.

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(26) Long-term loans (Continued)

(b) Classification of long-term loans by the maturity date

Items	Closing date	Opening date
Within 1 year	161	592
1 year to 2 year (include 2 year)	457	60
2 year to 3 year (include 3 year)	633	358
3 year to 5 year (include 5 year)	206	544
Total	1,457	1,554

(27) Bonds payable

(a) Bonds payable

Items	Closing date	Opening date
Medium term note	3,944	3,995
Less: Ending balance due within one year (Note: 6(24))		3,995
Total	3,944	

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(27) Bonds payable (Continued)

(b) Increase or decrease in bonds payable

Type of bonds	Par value	Issuance date	bond duration	Issuance amount	Opening balance
Medium term note					
13MTN001	4,000	22 May 2013	3 years	4,000	3,995
16MTN001	1,000	27 July 2016	5 years	1,000	
16MTN002	2,000	3 August 2016	5 years	2,000	
16MTN003	1,000	31 August 2016	5 years	1,000	
subtotal	8,000			8,000	3,995
Less: Ending balance	4,000			4,000	3,995
due within one year					
(Note: 6 (24))					
Total	4,000			4,000	

Type of bonds	Current issue	Accrued interest at face value	Amortization with the Premium or Discount of Bonds	Repayment this year	Opening balance
Medium term note					
MTN001			5	4,000	
MTN001	1,000		(14)		986
MTN002	2,000		(28)		1,972
MTN003	1,000		(14)		986
subtotal	4,000		(51)	4,000	3,944
Less: ending balance due			5	4,000	
within one year					
(Note: 6(25))					
Total	4,000		(56)		3,944

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(28) Long-term employee benefits payable

Items	Closing value	Opening value
Termination benefits		1
Total		1

(29) Deferred income

Item	Opening date	Increase	Decrease	Closing date	Cause of formation
Government grants	914	26	201	739	
Total	914	26	201	739	–

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		9		74	Asset
Shenyang Steel plus the overall relocation project	138		5		133	Asset
5500mm defense heavy plate steel project	57		17		40	Asset
The support funds for Guangzhou automotive steel project	87	6		93		Asset
Environmental funds	99		15		84	Asset
ESR	30		(39)	69		Asset
Two sintering flue gas desulfurization	42		6		36	Asset
Industrial comprehensive demonstration project of low carbon production technology in metallurgical plant	27		3		24	Asset
Others	151	20	23		148	Asset
Total	914	26	39	162	739	

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(30) Share capital

	Opening balance		Changes of the period(+,-)					Closing balance	
	Balance	Proportion	New shares issued	Bonus issue	Shares transferred from reserves	Others	Subtotal	Balance	Proportion
2016									
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

	Opening balance		Changes of the period(+,-)					Closing balance	
	Balance	Proportion	New shares issued	Bonus issue	Shares transferred from reserves	Others	Subtotal	Balance	Proportion
2015									
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 year 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(31) Capital reserve

2016	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	10	365		375
Total	31,154	365		31,519

Note: Capital appropriation transfers in captain reserve of 365 million yuan which is enjoyed by Anshan Iron and Steel Group Company.

(32) 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 which 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	7
Amount for the period before tax	(10)	17	1	4	(9)	21
Minus: Transform into profit or loss from other comprehensive income		6				6
Minus: Income tax expenses	(3)	4			(3)	4
The after-tax amount attributed to the parent company	(7)	7	1	4	(6)	11
The after-tax amount attributed to minority shareholders						
The balance at the end of the period	11	18	1		12	18

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(33) Special reserve

2016	Opening balance	Increase of the period	Decease of the period	Closing balance
Safety production expenses	54	54	56	52
Total	54	54	56	52
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

(34) Surplus reserve

2016	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 year 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(35) Undistributed profits

Items	This period	Last period
Opening balance	868	5,787
Increase of the period	1,616	(4,593)
Including: Net profit transferred this period	1,616	(4,593)
Other adjustment factors		
Decrease of the period		326
Including: Extraction of surplus reserve this period		
Extraction of general risk provisions this period		
Distribution of cash dividend this period		326
Conversed capital		
Other decreases		
Closing balance	2,484	868

Note: On 28 March 2017, the Board has proposed for the Company to distribute cash dividend of RMB0.067 per share to the shareholders of ordinary shares, which amounts to the sum of RMB485 million. This proposal is subject to approval of the general meeting of the shareholders in 2016. The cash dividend proposed after the balance sheet date was not recognised as liabilities at the balance sheet date.

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(36) Operating revenue and operating cost

Items	This period	Last period
Prime operating revenue	57,742	52,686
Other operating revenue	140	73
Total	57,882	52,759
Operating cost for main business	50,055	49,396
Other operating cost	131	73
Total	50,186	49,469

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

(37) Taxes and surcharges

Items	This period	Last period
Resources tax and business tax	3	8
City maintenance and construction tax	156	126
Educational surcharge and local educational surcharge	112	90
Total	271	224

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

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(38) Marketing expenses

Items	This period	Last period
Delivery expense	1,413	1,393
Packing expense	57	391
Sales and service expense	123	199
Employee benefits	122	125
Warehouse storage expense	46	26
Agency fee for commissioned sales	41	15
Insurance expense	5	4
Others	121	158
Total	1,928	2,311

(39) General and administrative expenses

Items	This period	Last period
Employee benefits	697	566
Taxes	506	460
Amortization of intangible assets	156	158
Assistance for production expense	4	93
Research and development costs	62	68
Depreciation	55	67
Pollution discharge fees		63
Computer maintenance expense	14	27
Safety production cost		65
Afforestation fees	8	34
Repair and maintenance	18	18
Accountancy Fees	4	4
others	102	185
Total	1,626	1,808

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(40) Finance expenses

	This period	Last period
Interest expense	1,360	1,528
Including: It has to pay off all the interests from the bank loans and other loans	937	911
The financial charges during the financial lease period		
Other interest expenditures	423	617
Less: Interest income	43	33
Less: Capitalized interest expense	79	299
Exchange gain or loss	43	113
Less: Capitalized exchange gain or loss		
Others	5	37
Total	1,286	1,346

(41) Impairment losses

Items	This period	Last period
Provision for bad debts		
Provision for written-down of inventories	1,421	1,869
Total	1,421	1,869

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(42) Changes in fair value gains and losses

Sources	This period	Last period
Financial assets at fair value through profit or loss		4
Including: Fair value gains arising from derivative financial instruments		4
Total		4

(43) Investment income

Items	This period	Last period
Long-term equity investment income under the equity method	335	340
Investment income from disposal of long-term equity investments	17	
Investment income at fair value through profit or loss	73	(8)
The investment income during the holding of available-for-sale financial assets	2	8
Investment income from disposal of available for sale financial assets		51
Total	427	391

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(44) Non-operating income

Items	This period	Last period	Recorded into extraordinary gains and losses
Total gains from disposal of non-current assets	8	15	8
Including: Gains on fixed assets scrapped	7	15	7
Other gains on disposal of fixed assets	1		1
Government grant <i>(Disclosed in the below: Details of government grants)</i>	40	128	40
Others	13	39	13
Total	61	182	61

Details of government grants:

Items	This period	Last period
The government grants related to assets	39	96
The government grants related to income	1	32
Total	40	128

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(45) Non-operating expenses

Items	This period	Last period	Recorded into extraordinary gains and losses
Total loss on disposal of non-current assets	23	32	23
Including: Loss on fixed assets scrapped	23	32	23
Other loss on disposal of fixed assets			
Others	9	40	9
Total	32	72	32

(46) 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	27	10
Changes on deferred income tax expenses	(22)	827
Total	5	837

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(46) Income tax expenses (Continued)

(b) The reconciliation between accounting profit and income tax expenses

Items	This period
Total profit	1,620
Income tax expenses calculated at statutory/applicable tax rates	405
Income tax expenses calculated at statutory/applicable tax rates	
Effect of adjustments for income tax for prior periods	(38)
Effect of income not subject to tax	(103)
Effect of additional deductible expenses	69
Effect of costs, expenses and loss not deductible for tax purposes	(313)
Effect of costs, expenses and loss not deductible for tax purposes	2
Effect of current unrecognised deductible temporary difference or deductible loss arising from deferred tax income assets R&D expenses plus the deductible	
Effect of losses expected can not make up by subsequent years	
Others	(17)
Income tax expenses	5

(47) Other comprehensive income

Note: 6(32).

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(48) Items on statements of cash flow

(a) Cash received from other operating activities

Items	This period	Last period
Government grants	40	298
Rental income	11	11
Deposit income	11	8
Others	32	16
Total	94	333

(b) Cash paid for other operating activities

Items	This period	Last period
Freight fee payments for others	1,438	1,731
Commission fee	41	19
Sewage fee	72	55
Computer maintenance fees	18	17
Security and firefighting expense	16	13
Green fees	24	34
Pipage	56	65
Intermediary cost	19	17
Purchases and sales business fee	142	75
Insurance fee	31	25
Other operating expenses	611	707
Total	2,468	2,758

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(48) Items on statements of cash flow (Continued)

(c) Cash received from other investing activities

Items	This period	Last period
Income from test run	199	242
Interest income	68	41
Construction period margin	4	
Hedging gain	98	
Net monetary fund included in the consolidated day of Angang Steel processing and distribution (Changchun) Co., Ltd. & Anshan Iron and Steel Laser Tailor Welded Plate (Changchun) Co., Ltd.		28
Total	369	311

(d) Cash paid for other investment activities

Items	This period	Last period
Hedging losses	70	
Total	70	

(e) Cash paid for other financing activities

Items	This period	Last period
Intermediary fees for loans	3	7
Total	3	7

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(49) 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	1,615	(4,600)
Add: Provision for impairment	19	60
Depreciation of fixed assets	3,295	3,767
Amortization of intangible assets	156	158
Amortization of long-term deferred expense		
Loss on disposal of fixed assets, Intangible assets and other non-current assets ("-" for gains)	(1)	
Loss on scrap of fixed assets	16	17
Loss on the change of fair value		(4)
Financial expenses	1,281	1,345
Investment loss	(427)	(391)
Decrease in deferred tax assets ("-" for increase)	(4)	815
Increase in deferred tax liabilities ("-" for decrease)	(18)	12
Decrease in inventories ("-" for increase)	(2,716)	1,965
Decrease in operating receivables ("-" for increase)	(1,605)	1,391
Increase in operating payables ("-" for decrease)	2,731	618
Others	7	(16)
Net cash flow from operating activities	4,349	5,137

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(49) Supplement to cash flow statement (Continued)

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

Items	This period	Last period
2. Change in cash and cash equivalents:		
Cash at the end of the period	1,968	3,601
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	(1,633)	1,889

(b) Composition of cash and cash equivalents

Items	Closing balance	Opening balance
1. Cash at bank and on hand	1,968	3,601
Of which: Cash	1	1
Bank deposits available	1,801	3,564
Other deposits available	166	36
2. Cash equivalents		
Of which: Bond due within 3 months		
3. Closing balance of cash and cash equivalents	1,968	3,601

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(50) Restricted assets of ownership or use rights

Items	Closing date	Reason
Notes receivable	1,610	Note: 6(3(2))
Total	1,610	

7. CHANGES IN CONSOLIDATION SCOPE

- The company set up a new subsidiary this year: Anshan Steel Technology Development Co., Ltd. (hereinafter referred to as "Anshan Steel Technology").
- In December 2016, Guangzhou Automobile Steel absorbed other shareholders with a capital increase of RMB350 million. After this, the proportion of the shares held by the Company in Guangzhou Auto Steel changed from 100% to 50%, and Guangzhou Auto Steel changed into the joint venture. Details are as follows:

Subsidiary name	Equity disposal price	Equity disposal ratio (%)	Equity disposal	The time of loss of control	The basis for determining the time of loss of control	The difference between the disposal price and the disposal statement corresponds to the share of the net assets of the subsidiary
Guangzhou Automobile Steel	0	50	Absorb other shareholders	2016.12.26	Other shareholders to increase capital	9

Subsidiary name	The proportion of the remaining shares on the day of loss of control (%)	The book value of the remaining shareholding on the day of loss of control	The fair value of the remaining equity interest on the date of loss of control	Revaluation of gains or losses arising from the remaining equity at fair value	The method of Determining the Fair Value of Remaining Equity on the Day of Loss of Control and the main hypothesis	The amount of other comprehensive income related to the equity investment of the Company is transferred to the investment gains and losses
Guangzhou Automobile Steel	50	341	341	0	Evaluation value	0

Notes to the Financial Statements *(Continued)*

For the year 2016 (Expressed in million RMB unless otherwise indicated)

8. INTERESTS IN OTHER ENTITIES

(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 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 year 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	Steel trade	100	Establish
Zhengzhou Steel	Zhengzhou	Zhengzhou	Steel Processing and Distribution	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. ("Angang Weifang")	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 Tianjin i")	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
Anshan Iron and Steel Technology	Anshan	Anshan	Metallurgy and related materials, equipment Development and development	100	Establish

Notes to the Financial Statements *(Continued)*

For the year 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
Guangzhou Automobile Steel	Guangzhou	Guangzhou	Metal products industry	50	Equity method

Notes to the Financial Statements (Continued)

For the year 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	1,453	1,439
Cash and cash equivalents	254	324
Non-current assets	793	838
Total Assets	2,246	2,277
Current liabilities	696	420
Non-Current liabilities	7	9
Total Liabilities	703	429
Minority interests		
Subtotal of Shareholders' equity attributable to shareholders of parent company	1,543	1,848
The share of the net assets calculated by the share of atake	772	924
Adjusting events		
– goodwill		
– unrealized profit resulting from intra-group trade	(37)	(33)
– others		
The book value of equity investments in joint ventures	735	891
The fair value of the equity investments in joint ventures which exist the public offer		
Operating revenue	4,386	4,645
Finance costs	1	(1)
Income tax expenses	110	59
Net profit	453	425
Net profit from discontinued operations		
Other comprehensive income		
The total of comprehensive income	453	425
Dividends received from joint ventures this year	379	650

Notes to the Financial Statements (Continued)

For the year 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	4,818	10,115
Cash and cash equivalents	4,447	8,967
Non-current assets	15,926	14,873
Total Assets	20,744	24,988
Current liabilities	13,940	18,742
Non-current liabilities		
Total Liabilities	13,940	18,742
Minority interests	19	22
Subtotal of Shareholders' equity attributable to shareholders of parent company	6,785	6,224
The share of the net assets calculated by the share of atake	1,357	1,245
Adjusting events		
– goodwill		
– unrealized profit resulting from intra-group trade		
– others		
The book value of equity investments in associations	1,357	1,245
The fair value of the equity investments in associations which exist the public offer		
Operating revenue	1,026	1,227
Finance costs		
Income tax expenses	187	184
Net profit	563	563
Net profit from discontinued operations		
Other comprehensive income	5	23
The total of comprehensive income	568	586
Dividends received from associations this year		

Notes to the Financial Statements (Continued)

For the year 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	Closing date/ the date occurred in this period	Opening date/ the date occurred in last period
Associations:		
The book value of equity investments	660	320
The followings are calculated by shares		
– net profit	(2)	12
– Other comprehensive income		
– The total of comprehensive income	(2)	12
Joint ventures:		
The book value of equity investments	215	217
The followings are calculated by shares		
– net profit		4
– Other comprehensive income		
– The total of comprehensive income		4

Notes to the Financial Statements *(Continued)*

For the year 2016 (Expressed in million RMB unless otherwise indicated)

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 monitoring.

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 December 31, 2016, other assets and liabilities of the Group are denominated in RMB balances.

Items	Closing balance	Opening balance
Bank deposits (<i>dollar</i>)	1,801.89	587.93
Short-term loans (<i>dollar</i>)	270,000,000.00	400,000,000.00
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	123,946.81

Notes to the Financial Statements (Continued)

For the year 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)

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.

Foreign currency short-term loan balance of the group was US270 million on December 31, 2016, and the Group had no significant foreign currency risk in foreign currency short-term borrowing due to the use of long-term foreign exchange.

A. On December 31, 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	6.6529	6.2401	6.9370	6.4936
Euro	7.3417	6.9036	7.3068	7.0952

Notes to the Financial Statements *(Continued)*

For the year 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 December 31, 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
December 31, 2016	Dollar		
	Euro		
December 31, 2015	Dollar	(18)	(18)
	Euro		

As of December 31, 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 year 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 December 31, 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 December 31, 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 RMB157 million decrease (last period: RMB178 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 year 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 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 December 31, 2016.

Due to the accounts receivables of the top five customers, which accounted for 54% of the receivables and other receivables on the balance sheet date (last period: 46%), 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 year 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.

The repayment date of the Group's long-term debts, please refer to Note 6(26).

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 year 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	52			52

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

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(1) Information on the parent of the company

Groupname	Registration place	The nature of business	Registered Capital	The Group's shareholding	Proportion of voting-right
Ansteel Group	Tie Xi District Anshan Liaoning Province	Production and sale of steel and metal products, steel filament tubes, and metal structures	10,794	67.29	67.29

Note: Angang Group Corporation is the ultimate controlling party.

(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 year 2016 (Expressed in million RMB unless otherwise indicated)

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(4) Related parties without control relationship

Name of enterprise	Relation with the Company
ANSC-TKS	Joint venture
Changchun FAM	Joint venture
Guangzhou Automotive Steel	Joint venture
Anshan Jingu	Associate
Nansha Logistical	Associate
Angang Finance	Associate
Falan Packing	Fellow subsidiary
Angang House Property Construction Co.	Fellow subsidiary
Angang group Engineering Technology Development Co., Ltd	Fellow subsidiary
Angang Cold Rolled Steel Plate Co., Ltd. Putian	Fellow subsidiary
Angang Electric Co., Ltd	Fellow subsidiary
Angang Real Estate Development Group Co., Ltd	Fellow subsidiary
Angang Steel Rope Co., Ltd.	Fellow subsidiary
Anshan Iron and Steel Group Co., Ltd. Chaoyang	Fellow subsidiary
Angang Engineering Technology Co., Ltd	Fellow subsidiary
Angang Trade	Fellow subsidiary
Angang Mining Co.	Fellow subsidiary
Angang Railway Transport Facilities Construction Co.	Fellow subsidiary
Angang Automatism Co.	Fellow subsidiary
Angang Construction Group	Fellow subsidiary
Angang Mining Construction Co.	Fellow subsidiary
Angang Auto Transport Co., Ltd	Fellow subsidiary
Angang Entity Group	Fellow subsidiary
Anshan Yingkou Harbor co., LTD	Fellow subsidiary
Angang Heavy Machine Co., Ltd	Fellow subsidiary
Angang Cast Steel Co., Ltd	Fellow subsidiary
Angang Group Energy-saving Technology Service Co., Ltd	Fellow subsidiary
Angang Group Information Industry Co., Ltd	Fellow subsidiary
Angang Refractory Co., Ltd	Fellow subsidiary
Anshan Angang Vesuvius Refractory Co., Ltd	Joint venture of the parent company
Anshan Jidong Cement Co., Ltd	Joint venture of the parent company
Pangang Group Iron and Vanadium Titanium Resources Co., Ltd	Fellow subsidiary
Pangang Trade	Fellow subsidiary
Pangang Group Chengdu Steel Vanadium Co., LTD	Fellow subsidiary
Pangang Group Design Institute	Fellow subsidiary
Pangang Group Panzhihua Steel Vanadium Co., LTD	Fellow subsidiary

Notes to the Financial Statements (Continued)

For the year 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 year	Last year
Raw materials	Note. i	9,315	9,138
Steel products	Note. ii		51
Supplementary materials	Note. ii	1,686	2,326
Energy and power supplies	Note. iii	1,751	1,659
Support services	Note. iv	3,096	4,510
Total		15,848	17,684

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

Contents	Pricing policy	This year	Last year
Products	Note. v	849	1,578
Scrap steel and materials	Note. v	222	187
General services	Note. vi	1,038	788
Total		2,109	2,553

Notes to the Financial Statements (Continued)

For the year 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 year	Last year
Raw materials	Note. I	728	1,489
Total		728	1,489

Notes:

- i. The iron ore concentrate purchase price is 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. 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 ($67.2\% > \text{iron grade} \geq 65\%$) 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 ton from Qingdao port to Bayuquan port, Liaoning, divided by 65 and multiplied by the actual product grade. The price of low grade products ($65\% > \text{iron grade} \geq 59\%$) 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 ton 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 year 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. 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 labor, 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.
- (c) Guarantee of loans

Warrantor	Warranty	Amount		Expiring date	Whether fulfilled
		Guaranteed	Starting date		
Ansteel Group	The Company	40	February 10, 2015	February 9, 2018	No
Ansteel Group	The Company	1,000	May 27, 2016	May 26, 2017	No

Notes to the Financial Statements (Continued)

For the year 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

(i) Service from sales agent

For the year 2016, the amount of domestic and export sales agent service provided Angang Trade were 211 million tons respectively (287 million tons respectively for the year 2015).

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

Name of enterprise	Sales in this year	Sales in last year
ANSC-TKS	2,429	2,816
TKAS-SSC	44	55
Nansha Logistical	33	49
Anshan Jingu	177	

(iii) Sale of assets

The Company sold assets relating to electroslag remelting valued RMB127 million to Ansteel Group this year.

Notes to the Financial Statements (Continued)

For the year 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, 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		73	105	Credit, Guarantee Loans
Deposit		834		528	306	

In 2016, the Group's interest income of deposit in Angang Finance was RMB15 million (for the year ended 2015: RMB11 million) and the interest expenditure for loans from Angang Finance was RMB32 million (for the year end 2015: RMB26 million). The highest daily deposit in Angang Finance in 2016 was RMB1,940 million (for the year ended 2015: 1,324 million).

(v) Loan and interest paid to Ansteel Group

Items	Annual interest rate (%)	Opening balance	Increment	Decrement	Closing balance	Terms of credit
Loan	4.35	350	670	1020		Credit Loan

The Ansteel Group entrusted the Angang Finance to grant and manage the loans of 350 million, and granted the other 670 million to the Group directly. The loan interest expenditure in 2016 was RMB19 million (for the year 2015 was RMB40 million).

Notes to the Financial Statements (Continued)

For the year 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

Items	2016	2015
Directors' fees	0.39	0.36
Other remuneration:		
Salaries, allowances and non-cash amount of interest	2.61	2.22
Performance-related bonus		
Equity-settled share option expenses	0.42	0.43
Pension plan contributions	0.52	0.44
Other remuneration	3.55	3.09
Total	3.94	3.45

Fees paid to executive directors, non-executive directors, supervisors and senior management personnel:

Name	This year					Total
	Directors' fees	Salaries, allowances and non-cash amount of interest	Performance-related bonus	Equity-settled share option expenses	Pension plan contributions	
Executive directors:						
Yao Lin						
Wang Yidong		0.27		0.05	0.05	0.37
Zhang Lifen		0.17		0.03	0.03	0.23
Zhang Jingfan		0.36		0.07	0.07	0.50
Li Zhongwu		0.40		0.06	0.08	0.54
Subtotal for executive directors		1.20		0.21	0.23	1.64

Notes to the Financial Statements (Continued)

For the year 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 (Continued)

Name	This Year					Total
	Directors' fees	Salaries, allowances and non-cash amount of interest	Performance-related bonus	Equity-settled share option expenses	Pension plan contributions	
Non-executive directors:						
Wu Dajun	0.07					0.07
Ma Weiguo	0.07					0.07
LuoYucheng	0.07					0.07
Chen Fangzheng	0.04					0.04
Qu Xuanhui	0.04					0.04
Liu Zhengdong	0.05					0.05
Zhou Zhiwei	0.05					0.05
Subtotal for non-executive directors	0.39					0.39
supervisors:						
Liu Xiaohui						
Lin Daqing						
Yuan Peng						
Song Jun						
BaiHai		0.09		0.03	0.02	0.14
Subtotal for supervisors		0.09		0.03	0.02	0.14
Senior management:						
Liu Jun		0.66		0.08	0.13	0.87
Xu Shishuai		0.49		0.07	0.10	0.66
Meng Jinsong		0.17		0.03	0.04	0.24
Ma Lianyong						
Xu Zhiwu						
Ren Ziping						
Liu Jie						
Subtotal for Senior management		1.32		0.18	0.27	1.77
Total	0.39	2.61		0.42	0.52	3.94

Notes to the Financial Statements (Continued)

For the year 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 (Continued)

Name	Last Year					Total
	Directors' fees	Salaries, allowances and non-cash amount of interest	Performance-related bonus	Equity-settled share option expenses	Pension plan contributions	
Executive directors:						
Yao Lin						
Wang Yidong		0.42		0.08	0.08	0.58
Zhang Lifen		0.40		0.07	0.08	0.55
Zhang Jingfan		0.09		0.03	0.02	0.14
Subtotal for executive directors		0.91		0.18	0.18	1.27
Non-executive directors:						
Chen Fangzheng	0.09					0.09
Qu Xuanhui	0.09					0.09
Liu Zhengdong	0.09					0.09
Zhou Zhiwei	0.09					0.09
Subtotal for non-executive directors	0.36					0.36

Notes to the Financial Statements (Continued)

For the year 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 (Continued)

Name	Last Year					Total
	Directors' fees	Salaries, allowances and non-cash amount of interest	Performance-related bonus	Equity-settled share option expenses	Pension plan contributions	
supervisors:						
Lin Daqing						
Zhu Jun		0.26		0.04	0.05	0.35
Bai Hai		0.10		0.03	0.02	0.15
Subtotal for supervisors		0.36		0.07	0.07	0.50
Senior management:						
Liu Jun		0.34		0.07	0.07	0.48
Ma Lianyong		0.25		0.04	0.05	0.34
Xu Zhiwu						
Ren Ziping		0.36		0.07	0.07	0.50
Liu Jie						
Subtotal for Senior management		0.95		0.18	0.19	1.32
Total	0.36	2.22		0.43	0.44	3.45

Note: None of the directors, supervisors or senior managers agreed to waive the payment agreement in this year.

Top five employees by remuneration involved three directors and two senior managers (two directors, one supervisor and two senior managers for the year 2015), and whose payment are set out in detail above.

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(6) Balances of related-party transactions

(a) Accounts receivable and prepayments

Items	Closing balance	Opening balance
Accounts receivable		
Angang Trade	780	172
Angang Cast Steel Co., Ltd	45	
Angang Steel Rope Co., Ltd.	42	26
Angang Real Estate Development Group Co., Ltd	6	16
Angang Mining Co.	3	
Angang Group Corporation	4	8
Angang Electric Co., Ltd	1	2
ANSC-TKS	8	1
Anshan Iron and Steel Group Co., Ltd. Chaoyang		19
Anshan Jidong Cement Co., Ltd		37
Angang Cold Rolled Steel Plate Co., Ltd.Putian		21
Angang Heavy Machine Co., Ltd	29	44
Pangang Group Chengdu Steel Vanadium Co., LTD		5
Guangzhou automotive steel	1	
Other Related Parties	1	4
Total	920	355
Prepayments		
Angang Trade	1,514	1,367
Angang Engineering Technology Co., Ltd	1	13
Angang Heavy Machine Co., Ltd	4	
Angang Auto Transport Co., Ltd	2	2
Angang Construction Group		3
Total	1,521	1,385

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(6) Balances of related-party transactions (Continued)

(a) Accounts receivable and prepayments (Continued)

Other receivables

Items	Closing balance	Opening balance
Guangzhou automotive steel	300	
Total	300	

(b) Accounts payable and receivables in advance

Items	Closing balance	Opening balance
Accounts payable		
Anshan Iron and Steel Group Co., Ltd.		
Chaoyang	7	5
Angang Group Engineering Technology Development Co., Ltd	2	16
Angang Group Energy-saving Technology Service Co., Ltd	13	
Angang Trade	4,471	1,170
Angang Mining Co.	23	
Angang Automatism Co.	6	9
Angang Construction Group	29	23
Angang Mining Construction Co.	6	7
Angang Auto Transport Co., Ltd	28	16
Angang Entity Group	31	35
Anshan Yingkou Harbor Co., LTD	11	
Angang Heavy Machine Co., Ltd	2	6
Angang Group Corporation	24	5
Angang Electric Co., Ltd	7	4
Falan Packing	9	5
ANSC-TKS	100	102

Notes to the Financial Statements (Continued)

For the year 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
Accounts payable (Continued)		
Anshan Angang Vesuvius Refractory Co., Ltd	42	104
Angang Railway Transport Facilities Construction Co.	7	6
Angang Steel Rope Co., Ltd.	2	2
Angang Refractory Co., Ltd	61	
Angang Cold Rolled Steel Plate Co., Ltd. Putian	1	
Other Related Parties	3	2
Total	4,885	1,517
Receivables in advance		
Angang Mining Co.	8	9
Angang Construction Group	14	7
Angang Auto Transport Co., Ltd	30	1
Angang Entity Group	30	22
Angang Heavy Machine Co., Ltd	1	3
Falan Packing	4	8
Angang Group Corporation	1	
ANSC-TKS	125	216
Pngang Trade		13
Angang Cast Steel Co., Ltd		3
Angang Trade		66
Angang Mining Construction Co.		2
Other Related Parties	1	
Total	214	350

Notes to the Financial Statements (Continued)

For the year 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		
Angang Real Estate Development Group Co., Ltd	1	
Angang Engineering Technology Co., Ltd	32	231
Angang Trade	7	69
Angang Group Information Industry Co., Ltd	14	14
Angang Automatism Co.	24	33
Angang Construction Group	13	75
Angang Mining Construction Co.	2	23
Angang Auto Transport Co., Ltd		1
Angang Entity Group	13	17
Angang Heavy Machine Co., Ltd	5	12
Angang Group Corporation		1
Angang Electric Co., Ltd	5	11
Angang House Property Construction Co.		1
Angang Railway Transport Facilities Construction Co.	1	5
Anshan Yingkou Harbor co., LTD		19
Pangang Group Panzhihua Steel Vanadium Co., LTD		5
Pangang Group Design Institute	3	
Anshan Angang Vesuvius Refractory Co., Ltd	3	
Other Related Parties	1	
Total	124	517

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

12. SHARE-BASED PAYMENT

As of December 31, 2016, there is no share based payment transaction need to be disclosed.

13. COMMITMENTS

(1) Significant commitment

Items	2016	2015
Investment contracts entered but not yet performed or performed partially	18	18
Construction and renovation contracts entered but not yet performed or performed partially	1,058	1,420
Total	1,076	1,438

(2) Contingencies

As of Dec 31, 2016, there were no contingencies need to be disclosed.

14. SUBSEQUENT EVENTS

- (1) The Board of Directors proposes to allocate cash dividends after the balance sheet date, please refer to Note 6.(35).
- (2) Angang Group Corporation which is the parent company of the company, changed commercial registration information approved by Anshan Business Administration on January 25, 2017, and the completed information can be seen as follows:

Name: Angang Group Corporation; Unified social credit code: 91210300241420014;
Type: Co., Ltd (Corporate-owned); Registered capital: RMB26,000 million.

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

15. OTHER SIGNIFICANT INSTRUCTIONS

On July 4, 2016, the 7th board of director approved the bill about carrying out the company's 2016 annual commodity futures hedging business on the second session: the Company, combining the actual requirement of the Company's business development, decided to continue conducting commodity futures hedging business in 2016 to control business risk effectively, improve the ability to against market fluctuations, hedge the spot stock price risk between the procurement of original fuel and sales of steel products, according to the regulations of standard operational guidelines for main board listed company from Shenzhen Stock Exchange. Hedging scale should be controlled within 50% of the purchasing and sales target, and the hedging plan quantity for each type was as follows: about 1 million tons of steel, about 5.3 million tons of the original fuel, about 25,000 tons of non-ferrous metal, and ferrous alloy is about 40,000 tons. The highest cash deposit will depend on the supreme holding position. The highest deposit was RMB350 million in 2016.

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	2,921	89		
Accounts receivable with amounts that are individually insignificant and subject to separate assessment for bad debts provision	343	11	1	100
Total	3,264	100	1	100

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

16. NOTES TO PARENT'S FINANCIAL STATEMENTS (Continued)

(1) Accounts receivable (Continued)

(a) Accounts receivable by category (Continued)

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

(b) Aging analysis of accounts receivable

Aging	Closing balance			
	Book value		Bad debt provision	
	Balance	Percentage	Balance	Percentage
Within 1 year	3,161	97		
1 to 2 years	19	1		
2 to 3 years	83	2		
Over 3 years	1		1	100
Total	3,264	100	1	100

Notes to the Financial Statements (Continued)

For the year 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 (Continued)

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.

(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 RMB1,857 million, accounting for 57% of the balance at the end of the year, and bad debt provision of which was 0 in total.

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

16. NOTES TO PARENT'S FINANCIAL STATEMENTS (Continued)

(2) Other receivables

(a) Nature of other receivables

Type	Closing balance			
	Book value		Bad debt provision	
	Balance	Percentage	Balance	Percentage
The receivables with amounts that are individually significant and subject to separate assessment for bad debts provision	334	93		
Other receivables with amounts that are individually insignificant and subject to separate assessment for bad debts provision	26	7		
Total	360	100		

Type	Opening balance			
	Book value		Bad debt provision	
	Balance	Percentage	Balance	Percentage
The receivables with amounts that are individually significant and subject to separate assessment for bad debts provision	14	30		
Other receivables with amounts that are individually insignificant and subject to separate assessment for bad debts provision	33	70		
Total	47	100		

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

16. NOTES TO PARENT'S FINANCIAL STATEMENTS (Continued)

(2) Other receivables (Continued)

(b) Classification of other receivable according to the nature

Other accounts receivable	Closing book value	Opening book value
Petty cash	20	22
Loan for Guangzhou Automotive Steel	300	
Export rebates	34	14
Other	6	11
Total	360	47

(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 investment

(a) Types of long-term equity investments

Items	Closing date			Opening date		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Investments in subsidiaries	1,565		1,565	1,865		1,865
Investments in joint ventures and associates	2,968		2,968	2,673		2,673
Total	4,533		4,533	4,538		4,538

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

16. NOTES TO PARENT'S FINANCIAL STATEMENTS (Continued)

(3) Long-term equity investment (Continued)

(b) Investments in subsidiaries

The invested company	Opening date	Increment	Decrement	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		
Angang Technology		50		50		
Zhengzhou Steel	123			123		
Total	1,865	50	350	1,565		

(c) Investments for the joint ventures and associates

Note: the same to 6(10).

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

16. NOTES TO PARENT'S FINANCIAL STATEMENTS (Continued)

(4) Operating revenue and operating cost

Items	This period	Last period
Prime operating income	57,417	51,465
Other operating income	117	69
Total	57,534	51,534
Prime operating cost	49,783	48,319
Other operating cost	106	68
Total	49,889	48,387

(5) Investment income

Items	This period	Last period
Long-term equity investment income measured at equity method	335	340
Investment income from disposal of long-term equity investments		5
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	73	(8)
The investment income during the period when held the available-for-sale financial assets	2	8
Disposal of available for sale financial assets investment returns		51
Total	410	396

Notes to the Financial Statements (Continued)

For the year 2016 (Expressed in million RMB unless otherwise indicated)

17. NET CURRENT ASSETS

Items	Closing balance	Opening balance
Current assets	25,676	23,595
Less: current liabilities	36,789	43,004
Net current assets/(liabilities)	(11,113)	(19,409)

18. TOTAL ASSETS LESS CURRENT LIABILITIES

Items	Closing balance	Opening balance
Total assets	88,069	88,596
Less: current liabilities	36,789	43,004
Total assets less current liabilities	51,280	45,592

Notes to the Financial Statements (Continued)

For the year 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	(15)	(17)
Government grant recorded into profit/loss for current period except that relevant to enterprise operation and in compliance with government policies	40	128
Other Non-recurring gains/losses	4	(1)
Subtotal	29	110
Effect on taxation	(7)	(28)
Effect on minority interest (after tax)		
Total	22	82

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	3.67	0.223	0.223
Net profit (exclusive of non-operating profit) attributable to ordinary shares	3.62	0.220	0.220

Five-Year Summary

	2016	2015	2014	2013	2012
Operating revenue	57,882	52,759	74,046	75,329	78,214
Net (loss)/profit	1,615	(4,600)	924	755	(4,252)
Total assets	88,069	88,596	91,291	92,865	103,337
Total liabilities	(42,781)	(44,915)	(43,095)	(45,775)	(54,304)
Net assets	45,288	43,681	48,196	47,090	49,033

Other Relevant Corporate Information

INCORPORATION:

Organization code	The uniform social credit code of the Company was 912100002426694799.
Changes in the main business of the Company since the Company's Listing	No changes in the main business
Changes of the Controlling Shareholder of the Company	None

AUDITOR:

Name of auditor	Ruihua Certified Public Accountants (Special General Partnership)
Place of business of auditor	3-9/F, China Overseas Property Plaza, Building 7, 8 Xibinhe Road, Yong Ding Men, Dong Cheng District, Beijing, China

BUSINESS ADDRESS OF THE COMPANY IN HONG KONG:

23/F, Entertainment Building, 30 Queen's Road Central, Hong Kong

Definitions

“A Share(s)”	ordinary share(s) issued by the Company, with RMB-denominated par value of RMB1.00 each, which are listed on the Shenzhen Stock Exchange and traded in RMB;
“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 the companies it holds 30% or above interests in (not including the Group);
“Angang Group Company”	Angang Group Company* (鞍鋼集團公司), the ultimate controlling shareholder of the Company;
“Angang Holding”	Anshan Iron & Steel Group Co. Ltd., the controlling shareholder of the Company;
“ANSC-TKS”	TKAS Auto Steel Company Limited;
“Anshan Iron & Steel Group Complex”	Anshan Iron and Steel and the companies it holds 30% or above interests in (not including the Group);
“ANSI”	Angang New Steel and Iron Company Limited* (鞍鋼集團新鋼鐵有限責任公司), the former wholly-owned subsidiary of Angang Holding. In January 2006, the Company acquired the 100% equity interests of ANSI held by Angang Holding and cancelled the business registration of ANSI;
“associate”	has the meaning ascribed thereto under the Hong Kong Listing Rules;

Definitions (*Continued*)

“Board”	the board of Directors;
“close associate”	has the meaning ascribed thereto under the Hong Kong Listing Rules;
“Company” or “Angang Steel”	Angang Steel Company Limited;
“connected person”	has the meaning ascribed thereto under the Hong Kong Listing Rules;
“Continuing Connected Transactions”	the non-exempt continuing connected transactions;
“Continuing Connected Transaction Agreements”	The Supply of Materials and Services Agreement (2016–2018), the Supply of Materials Agreement (2016–2018) and the Financial Service Agreement (2016–2018) are collectively named as the Continuing Connected Transaction Agreements;
“controlling shareholder”	has the meaning ascribed thereto under the Hong Kong Listing Rules;
“Corporate Governance Code”	the Corporate Governance Code and Corporate Governance Report, as set out in Appendix 14 of the Hong Kong Listing Rules;
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the national securities markets in the PRC;

Definitions (*Continued*)

“Director(s)”	the director(s) of the Company;
“EPS”	earnings per share;
“Financial Service Agreement (2016–2018)”	On 23 December 2015, the Financial Service Agreement (2016–2018) entered into between the Company and Angang Financial Company, which was approved at the third extraordinary general meeting of the Company in 2015;
“Group”	Angang Steel Company Limited and its subsidiaries;
“H Share(s)”	ordinary share(s) issued by the Company, with RMB-denominated par value of RMB1.00 each, which are listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“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*);
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Hong Kong Listing Rules;

Definitions *(Continued)*

“Pangang Vanadium & Titanium”	Pangang Group Vanadium Titanium & Resources Co., Ltd.;
“Pangang Vanadium & Titanium Group”	Pangang Vanadium & Titanium and its subsidiaries;
“PRC”	the People’s Republic of China (for the purpose of this annual report, excluding Hong Kong, Macau Special Administrative Region and Taiwan);
“PRC ASBE”	Accounting Standards for Business Enterprises — Basic Standard and 41 Specific Standards issued by the Ministry of Finance of the PRC, and application guidance, bulletins and other relevant accounting regulations issued thereafter, collectively;
“Reporting Period”	the 12-month period from 1 January 2016 to 31 December 2016;
“RMB”	Renminbi, the lawful currency of the PRC;
“SFO”	Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong);
“Supervisor(s)”	member(s) of the Supervisory Committee;
“Supervisory Committee”	the supervisory committee of the Company;

Definitions (*Continued*)

“Supply of Materials Agreement (2016–2018)”	On 12 October 2015, the Supply of Materials Agreement (2016–2018) entered into between the Company and Pangang Vanadium & Titanium, which was approved at the second extraordinary general meeting of the Company in 2015;
“Supply of Materials and Services Agreement (2016–2018)”	On 12 October 2015, the Supply of Materials and Services Agreement (2016–2018) entered into between the Company and Angang Group, which was approved at the second extraordinary general meeting of the Company in 2015; and
“%”	per cent.

* *For identification purposes only*

Documents Available for Inspection

1. Financial statements signed by the Legal Representative, Chief Accountant and Comptroller of the Company and with seal affixed;
2. Original of the auditor's report sealed by accounting firms and signed and sealed by certified public accountants;
3. Originals of all documents and manuscripts of announcements disclosed by the Company in the China Securities Journal in 2016;
4. Annual report of the Company disclosed in the Hong Kong stock market;
5. The above documents are available for inspection at the secretarial office of the Board of Angang Steel Company Limited* situated at Production Area of Angang Steel, Tie Xi District, Anshan City, Liaoning Province.

Angang Steel Company Limited*

The Board

28 March 2017

Note: This report is prepared in both Chinese and English. The Chinese version shall prevail in case of any inconsistency between the two versions.



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