



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

Stock Code: 00347

2017

Annual Report

* For identification purposes only

Contents

Corporate Profile	2
Summary of Accounting Figures and Financial Indicators	7
Chairman's Statement	11
Report of the Directors	24
Report of the Supervisory Committee	33
Discussion and Analysis of Operations	35
Significant Events	68
Movement in Share Capital and Shareholders' Profile	102
Information on Directors, Supervisors, Senior Management and Employees	113
Corporate Governance	128
Annual General Meeting	169
Audit Report	170
Five-Year Summary	327
Other Relevant Corporate Information	328
Definitions	329
Documents Available for Inspection	332

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. Wang Yidong, the Company's Chairman and the person in charge, Mr. Ma Lianying, 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 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)

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.

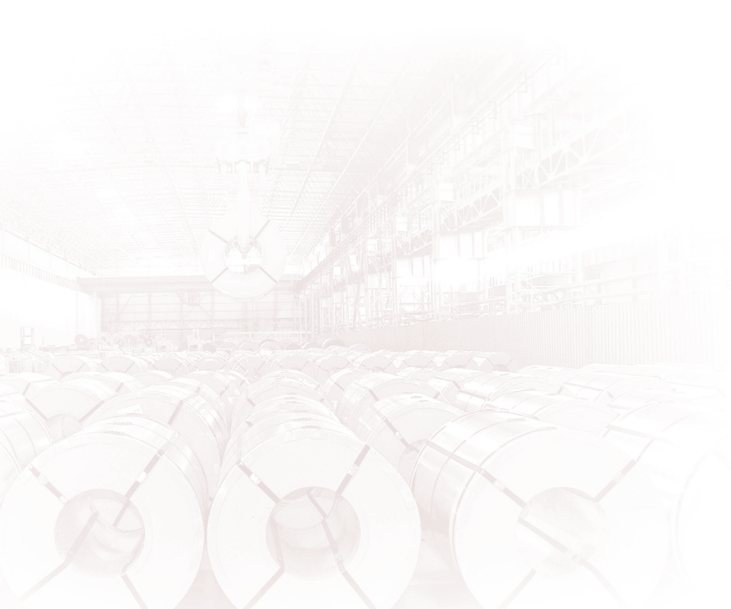
Corporate Profile (Continued)

CORPORATE PROFILE (CONTINUED)

As a large national enterprise for manufacture and sales of iron and steel, the Company has an entire process for production of iron and steel including sintering, coking, iron-making, steel-making, steel rolling and ancillary facilities. The Company's principal products include hot rolled sheets, cold rolled sheets, galvanized steel sheets, color coating plates, medium and thick plates, heavy section, heavy rails, wire rods, seamless steel pipes and cold rolled silicon steel. These products are widely used in industries such as machinery, metallurgy, petroleum, chemical industry, coal, electric power, railway, shipbuilding, automobile, construction, home electrical appliances and aviation.

The series of steel products with high-tech characteristics made by the Company including, steel for shipbuilding, railway, automobile, nuclear power, petroleum and petrochemicals, home electrical appliances, container and electrical steel have ranked among famous brand products. Research of new types of steel products for vessel plate and railway steel rail as well as technology for manufacture of steel rail has reached international advanced level. The technology for the series products of high-strength thick pipelines steel for undersea high pressure oil and gas pipeline delivery was industry-leading. Moreover, the Company established the first national key laboratory for metallic material of marine equipment and its application.

The Company has a comprehensive product portfolio with a vast variety of products and complete specifications, and its brand enjoys a high reputation and trustworthiness. Meanwhile, steel for railway as well as steel plates for containers and vessels have continued to be named "China top brand".



Corporate Profile (Continued)

I. 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	Wang Yidong		
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)

II. CONTACT PERSONS AND CONTACT METHODS

	Joint Company Secretary		Securities Affairs Representative
Name	Ma Lianyong	Chen Chun	Jin Yimin
Address	Production Area of Angang Steel, Tiexi District, Anshan City, Liaoning Province, the PRC	18/F Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong	Production Area of Angang Steel, Tiexi District, Anshan City, Liaoning Province, the PRC
Telephone	0412-6734878	00852-3912 0863	0412-8417273 0412-6751100
Fax	0412-6727772	00852-3912 0801	0412-6727772
E-mail	mly@ansteel.com.cn	jessica.chen@swcsgroup.com	ansteel@ansteel.com.cn

III. INFORMATION DISCLOSURE AND PLACES FOR INSPECTION

Company's Designated PRC Newspapers	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.hkexnews.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

I. PRINCIPAL ACCOUNTING FIGURES AND FINANCIAL INDICATORS

Unit: RMB million

Items	2017	2016		Changes over the preceding year (%)	2015
		Before adjustment	After adjustment	After adjustment	
Operating income	84,310	57,882	57,882	45.66	52,759
Operating profit	5,526	1,591	1,591	247.33	-3,873
Total profit	5,480	1,620	1,620	238.27	-3,763
Net profit attributable to shareholders of the Company	5,605	1,616	1,616	246.84	-4,593
Net profit attributable to shareholders of the Company after extraordinary items	5,586	1,594	1,594	250.44	-4,675
Net cash flow from operating activities	6,268	4,349	4,349	44.13	5,137
Basic earnings per share (RMB/share)	0.775	0.223	0.223	247.53	-0.635
Diluted earnings per share (RMB/share)	0.775	0.223	0.223	247.53	-0.635
Returns on net assets on weighted average basis (%)	11.81	3.67	3.67	Increased by 8.14 percentage points	-10.06

Summary of Accounting Figures and Financial Indicators (Continued)

I. PRINCIPAL ACCOUNTING FIGURES AND FINANCIAL INDICATORS (CONTINUED)

Items	At the end of 2017	At the end of 2016		Changes over the preceding year (%)	At the end of 2015
		Before adjustment	After adjustment	After adjustment	
Total assets	89,204	88,069	88,373	0.94	88,596
Total liabilities	38,818	42,781	43,085	-9.90	44,915
Owner's equity attributable to shareholders of the Company	49,973	44,882	44,882	11.34	43,274
Net assets per share attributable to shareholders of the Company (RMB/share)	6.91	6.20	6.20	11.45	5.98
Assets-liability ratio (%)	43.52	48.58	48.75	Decreased by 5.23 percentage points	50.70
Total share capital	7,235	7,235	7,235	–	7,235

Is there any corporate bond?

☐ Yes

☒ No

Summary of Accounting Figures and Financial Indicators (Continued)

II. MAJOR FINANCIAL INDICATORS BY QUARTER

Unit: RMB million

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Operating income	19,371	19,686	21,449	23,804
Net profit attributable to shareholders of the Company	1,069	754	1,462	2,320
Net profit attributable to shareholders of the Company after extraordinary items	1,060	774	1,478	2,274
Net cash flow from operating activities	437	173	2,680	2,978

There is no substantial difference between the aforesaid financial indicators or their sum and those disclosed in the quarterly report and interim report.

Summary of Accounting Figures and Financial Indicators (Continued)

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

Unit: RMB million

Items of Non-Recurring Gains and Losses	2017	2016	2015
1. Gains/losses from disposal of non-current assets	-44	-15	-17
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	72	40	128
3. Other non-operating revenue and expenses except those mentioned above	-2	4	-1
4. Effect on taxation	-7	-7	-28
Total	19	22	82

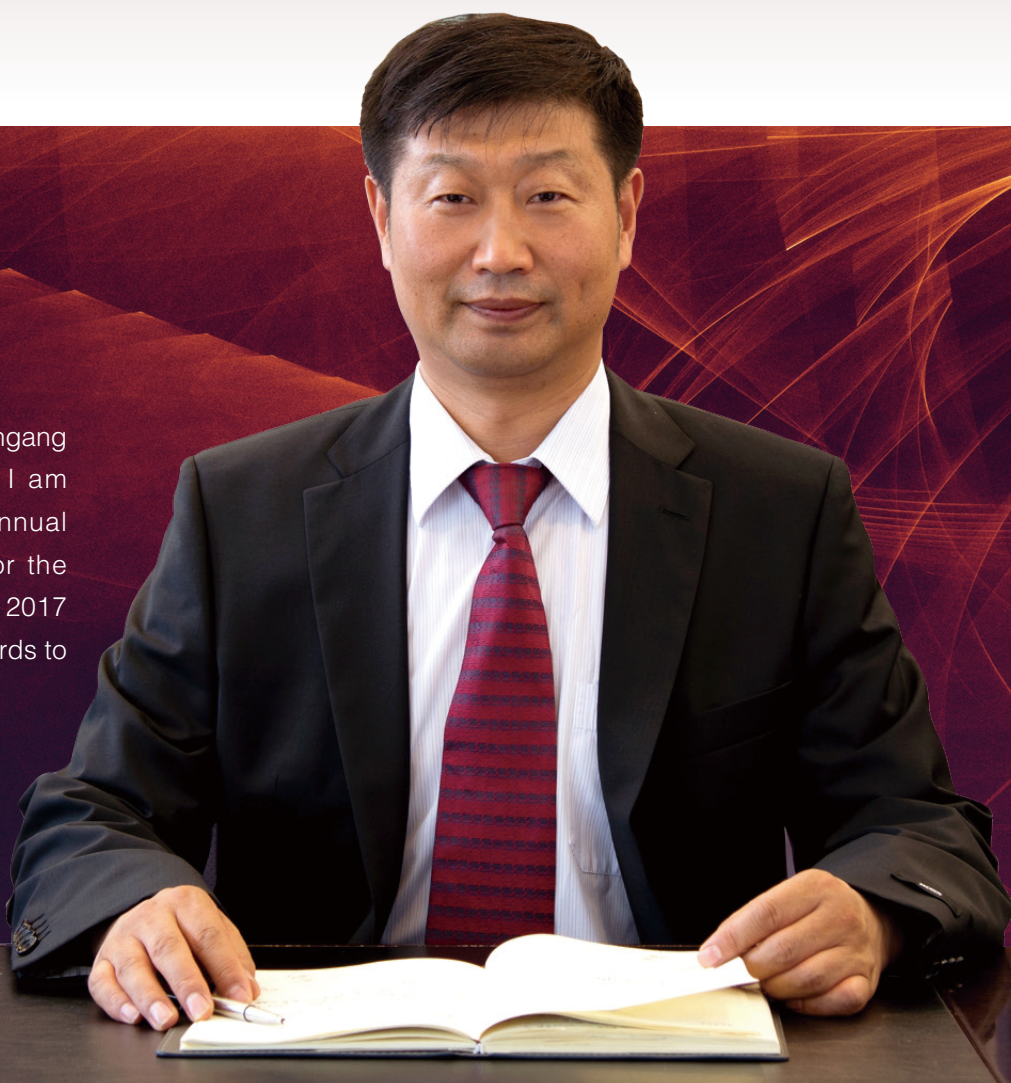
Note: For the figures of non-recurring gains and losses items, "+" indicates gains or income, "-" indicates losses or expenses.

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 2017 and hereby extend my regards to all shareholders.



OPERATING RESULTS FOR 2017:

Pursuant to the PRC ASBE, the Group recorded a net profit attributable to shareholders of the Company of RMB5,605 million and basic earnings per share of RMB0.775 for the year ended 31 December 2017 as compared to 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.



Chairman's Statement (Continued)

PROFIT DISTRIBUTION:

The Board recommended distributing RMB1,682 million of distributable profits to all shareholders of the Company by way of cash dividend, representing 30% of the net profit attributable to shareholders of the Company in 2017. Accordingly, the cash dividend per share for 2017 is expected to be RMB0.232 (tax inclusive) on the basis of the total share capital of 7,234,807,847 shares. If there is any change in the Company's total share capital as of the record date for dividend distribution in 2017, the total amount of distributable profits to all shareholders of the Company will remain unchanged, and the cash dividend per share will be adjusted on the basis of the Company's total share capital on the record date for dividend distribution. The balance of the distributable profits will be RMB5,922 million upon the implementation of the proposal. The proposal is subject to consideration at the 2017 annual general meeting. It is expected that dividends will be distributed on or around 30 June 2018. Information regarding the record date and register close date for the entitlement to the final dividend and attendance of the annual general meeting will be announced in due course.

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 organizations and groups, 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.



Chairman's Statement (Continued)

BUSINESS REVIEW:

Following the guidance of five development concepts, namely “innovation, coordination, green, open and sharing”, and focusing on “clinging to reforms, securing survival, promoting transformation and seeking development”, the Company optimized the capacity layout and promoted upgrading and transformation; motivated innovative vitality and converged development forces. With the improvement of corporate value, innovation capacity and the comprehensive competitiveness as the core target, the Company transformed its development towards a mode in pursuit of quality, efficiency and benefit and made significant achievements in production and operation.

In 2017, the Company achieved business revenue of RMB84,310 million, representing an increase of 45.66% as compared with the previous year. Total profit reached RMB5,480 million, representing an increase of 238.27% as compared with the previous year. The net profit attributable to shareholders of the Company was RMB5,605 million, representing an increase of 246.84% as compared with the previous year. The basic earnings per share was RMB0.775, representing an increase of 247.53% as compared with the previous year.

1. Improving scale efficiency and strengthening production management and control capacity

In 2017, the Company seized favorable opportunities, optimized the production arrangement and gave full display to the capacity of rolling lines. As a result, the scale efficiency of the Company in steel production was improved.

During the Reporting Period, the Group produced 22.0757 million tons of iron, representing an increase of 1.11% as compared with the previous year; 22.5974 million tons of steel, representing an increase of 3.57% as compared with the previous year; and 20.6801 million tons of rolled steel, representing an increase of 4.14% as compared with the previous year. Sale of rolled steel amounted to 20.7786 million tons, representing an increase of 4.19% as compared with the previous year. The Group achieved a sales-output ratio of 100.48%.



Chairman's Statement (Continued)

BUSINESS REVIEW: (CONTINUED)

2. Continuing to exploit internal potential with significant results in system cost reduction

The Company exploited the internal potential of all factors and formulated an objective system, which covered 12 major areas with 62 target missions to be accomplished. Significant achievements had been made in system cost reduction and efficiency improvement. The expenses for external energy procurement and logistics costs continued to decline. It implemented energy contracting projects and promoted the application of energy conservation technologies. It approved the implementation of 26 energy conservation projects with excellent energy conservation results. It facilitated the “three enhancements and three reductions (三提三降)” policy with remarkable results in “scrap steel enhancement and iron reduction (提廢降鐵)” measures.

Through the effective combination of the procurement method, procurement tool and communication mechanism, it achieved the rediscovery of market price. With such procurement strategies as avoiding purchases at peak times, procuring at appropriate opportunities and alternative replacement and the sale of raw materials and fuels, it finally achieved the target of system cost reduction. It has fixed the annual long-term price with Shanxi Coking Coal Group Co., Limited and Heilongjiang Longmay Mining Group Co., Ltd., which curbed the purchase price.

3. Optimizing the market system and consistently expanding sale channels

The Company made more efforts in market development to explore potential customers. In 2017, it developed 129 new direct sale customers and the proportion of direct sale reached 70.2%, representing an increase of 3.77% as compared with the corresponding period of the previous year. It completed a total of over 60 certifications of domestic and overseas products, including motor steel, seamless special equipment steel, ship plate steel for production line 3,800mm of Baiyuquan, quenched and tempered ultra-high strong marine steel, South Korean KS deformed bars, Japanese JIS steel products and Indian BIS steel products, which effectively expanded sales channels for products of the Company.

Chairman's Statement (Continued)

BUSINESS REVIEW: (CONTINUED)

3. Optimizing the market system and consistently expanding sale channels (Continued)

It optimized the product structure and expanded the price difference in the industry. It adhered to the market orientation, optimized the product structure and made more marketing efforts on product lines with high added value and key varieties and significant achievements have been made in product restructuring. The TWIP1180 hot rolled sheets and QP1400 cold-rolled ultra-high strong sheets for automobiles manufactured through the whole-process technology made their global debut. The extra-thick and ultra-high strong marine steel for “Blue Whale No. 1” (藍鯨1號) provided by the Company as an exclusive supplier facilitated the successful trial mining of combustible ice in the PRC. The weathering steel for railway vehicles covered all design specifications and the bogies of bullet trains led the development of the industry. The S32101 nuclear grade ultra-wide 3,800mm duplex stainless steel plate, which was successfully developed by the Company, had shored up the weakness in special steel plate in the PRC, and reached the world-class standard. The quality of the high-strong LX86B tire cord steel is comparable with the same product of POSCO. The new non-oriented silicon steel has been exported to European markets. It supplied products to the new airport in Beijing, the Sino-Russian East pipeline, the Huanggou Pumped Storage Power Station of Guodian and other key projects.

It made innovations in production and sale models and improved the capacity of motor steel supply. It transformed the production arrangement from being based on current contracts and orders to optimal expected contracts and orders. The Company actively followed and learnt about production plans of customers and conducted scientific research to accurately master the product demands of key automobile manufacturers and reasonably lead the sale of motor steel in all areas. The sale volume of 1.47 million tons in motor steel for the year, representing an increase of approximately 17% over last year, far higher than the increment of 3% in the Chinese motor industry in 2017, hit a record high. In 2017, the Company was awarded an AAA enterprise among outstanding automobile sheet manufacturers in China's iron and steel industry.

Seizing the development opportunities in the “One Belt and One Road” strategy, the Company vigorously explored the international market and promoted export and quality improvement. Annual amount of export and settled rolled steel of the Company amounted to 1.75 million tons.

Chairman's Statement (Continued)

BUSINESS REVIEW: (CONTINUED)

4. **Strengthening informatization management and promoting the integration of “informatization and industrialization”**

In 2017, centering on the integration of informatization and industrialization and seizing the opportunity in the transformation and upgrading of the enterprise, the Company focused on informatization planning, informatization construction, the operation and maintenance of the information system and the management system on the integration of informatization and industrialization and conducted the informatization management and control in an orderly way to promote the technology and management innovation of the enterprise. Firstly, it fully conducted the top design on automation and informatization with the target of digitalization and intelligentization, deeply promoted the integration of informatization and industrialization, deepened the application of intelligent equipment, intelligent factories, big data and the industrial Internet and enhanced the intelligent manufacturing capacity of the Company to the leading level in the PRC. Secondly, it continued to improve the management system on the integration of informatization and industrialization and elaborately organized and conducted specific work on applying to be a demonstration enterprise in implementing the standards. In 2017, the Company was officially announced as a demonstration enterprise in implementing the standards on the management system integrating informatization and industrialization by the Ministry of Industry and Information Technology (MIIT). It became one of the first 50 demonstration enterprises in implementing the standards across the PRC.

5. **Strengthening financial risk management to enhance risk prevention capability**

The Company expanded financing channels to avoid capital risks. It adjusted the scale of interest-bearing liabilities as planned; actively promoted the mutual recognition of notes between financial institutes and Angang Financial Company; further enhanced the concentrated management of funds of subsidiaries and collected idle capitals on time; repaid debt financing instruments with higher interest rates in time; conducted notes pool business and made full use of stock notes to obtain pledge loans with low costs; continued to conduct the import trade financing business; and actively promoted the issuance of H Share convertible debentures in an orderly way.

It improved the inventory turnover rate to reduce inventory and control risks. It maintained operation with low inventory to minimize the inventory of high-price materials. It analyzed the inventory structure and prepared measures on reducing inventory to further reduce the funds set aside given that the production demands are met.

Chairman's Statement (Continued)

BUSINESS REVIEW: (CONTINUED)

6. Strengthening innovation in scientific research to improve product competitiveness

With the innovation in technology and techniques as the core, the full coverage of products as the target and the technology management and innovation system as the guarantee, the Company sped up in the development of products with high quality, high added value and strong leading roles in the market as well as technology greatly improving the technic quality in 2017.

Among four technological achievements related to the “innovation and application of the whole-process key technology on corrosion-resistant steel for the new-generation railway vehicles (新一代鐵路車輛用耐蝕鋼全流程關鍵技術創新及應用)”, two were certified as the internationally leading level and two were certified as the internationally advanced level. Four products of the Company, namely hot-rolling wire rod based on the EDC technique, steel wire rod for steel cord, hot-rolling pickling plates and hot-rolling seamless steel tube for cylinder, were awarded the “Golden Cup Prize” for quality metallurgical products. The “new-generation controlled rolling and controlled cooling technology and its application (新一代控軋控冷技術及應用)” won the second prize of National Scientific and Technological Progress Award (國家科技進步二等獎). Four achievements related to the “innovation and application of whole-process key technology for steels used in ultra-large container ships (超大型集裝箱船用鋼全流程關鍵技術創新及應用)” were awarded the Metallurgy Science Technology Award (冶金科學技術獎). Seven achievements related to the “key technology in the production of high alloy clean steel in converters and its integration and industrialization (轉爐流程生產高合金潔淨鋼關鍵技術及集成和產業化)” were granted the Scientific and Technological Progress Award in Liaoning Province (遼寧省科技進步獎) in 2017. 18 achievements related to the “study and application of the integrated metallurgical technology on the recycling and clean utilization of metallurgical dust of Angang (鞍鋼冶金粉塵再資源化清潔利用集成冶煉技術研究與應用)” obtained the Scientific and Technological Progress Award in Anshan City (鞍山市科技進步獎). The “3G steel plates used for the safety vessel of nuclear reactor (三代核電反應堆安全殼用鋼)”, a new product program under the Ministry of Science and Technology (MOST), passed the final acceptance inspection. Two key programmes related to the “R&D for key technology of extra thick and extra wide steel plate for high-end equipment (高端裝備用特厚特寬鋼板製造關鍵技術研發)” of the Group passed final acceptance inspection.

Chairman's Statement (Continued)

BUSINESS REVIEW: (CONTINUED)

6. **Strengthening innovation in scientific research to improve product competitiveness (Continued)**

It sped up in enhancing the scientific and technological innovation capacity and promoted the deep integration of production, learning, research and application. Through signing strategic partnership agreements with the Institute of Metal Research (IMR) of Chinese Academy of Sciences (CAS), the Central Iron & Steel Research Institute, the University of Science and Technology Liaoning and other institutes and other methods, the Company realized application of over 100 achievements, reached over 50 cooperation intentions and signed 13 contracts on technical development and 48 contracts on technical services.

7. **Strengthening in-process management and promoting green development**

The Company strengthened the in-process management and control on environment and increased the input in environmental governance. It follows the green development concept. On the one hand, it strengthened the management of existing environmental facilities to ensure the stable and efficient operation of environmental facilities and reduce pollution from the source. On the other hand, it adopted more advanced environmental technologies and made greater efforts in the transformation of environmental facilities. The emission of pollutants will be significantly reduced after the completion of the renovation projects. In 2017, Bayuquan Iron & Steel Branch Company of Angang Steel was on the list of first demonstration companies on green manufacturing released by the MIIT.

With the continuous improvement of the environmental management system, environmental factors have been effectively controlled. The environmental regulation mechanism with the trinity of environmental indicators, regulation and responsibility has been further improved and the environmental management and control capacity has been further enhanced. In 2017, the Company did not have any significant pollution accident, with 100% execution of the “three simultaneous” eco-friendly policy. The environment and air quality continued to be improved.

Chairman's Statement (Continued)

NEW ANNUAL DEVELOPMENT PLAN OF THE COMPANY:

1. Landscape and development trend in the industry

The year 2018 will be the first year for thorough implementation of the spirit of the 19th National Congress of the Communist Party of China and also a critical year for the Company to implement the development strategy and promote industrial distribution in an all-round way. In light of the new situation and new tasks, the Company will optimise the industrial structure and accelerate transformation and upgrade to promote quality development. The year 2018 is expected to witness complex situation with both difficulties and opportunities.

Macroscopically, the overall situation in 2018 will improve despite of high uncertainties. The global economy will evolve into the critical stage of recovery and acceleration. The emerging market will lead the "shift for acceleration". In particular, China will play an increasingly important role in the economic growth of the world. Domestically, the Chinese economy will maintain the development trend of improvement amidst stabilization and the economic development will change from scale and speed oriented development into the model in pursuit of quality and benefits. In respect of economic structure, the focus will shift from increment and capacity expansion to inventory optimization. The traditional growth driver for economic development will be replaced by the new one for high quality development. In the iron and steel industry, the demands of national economy for iron and steel industry will be featured by higher quality and performance as well as better services.

From the perspective of unfavourable factors, firstly, the excess capacity of iron and steel was not completely solved. In 2017, though the excess capacity was effectively alleviated and iron and steel enterprises generally saw profit growth, there was no radical change in the fundamentals of excess capacity of iron and steel; secondly, the costs of enterprises continued to rise. In 2017, in spite of the best permissive market environment in recent years, the continuous increase in labour costs, increasing pressure of environmental protection, continued adjustments to the downstream industrial structure and persistent fluctuation in bulk raw materials and fuels pushed up the production and operation costs significantly; thirdly, trade barriers resulted in more difficult export. With the rising of protectionism for international trade, iron and steel enterprises will be involved in more and more disputes over international trade, giving rise to numerous adverse effects on export of steel products.

Chairman's Statement (Continued)

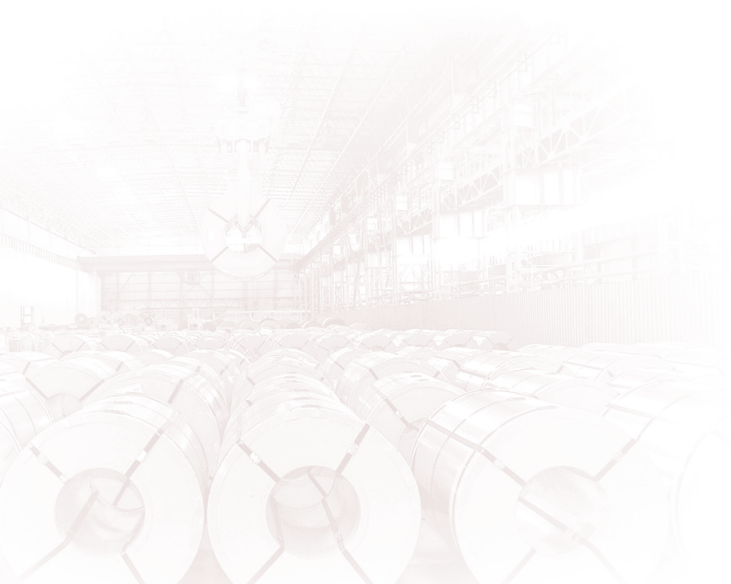
NEW ANNUAL DEVELOPMENT PLAN OF THE COMPANY: (CONTINUED)

1. Landscape and development trend in the industry (Continued)

In terms of favourable factors, firstly, state-owned and state-controlled enterprises ushered in the development opportunity for reinforcement, optimization and expansion. The objective of “deepening reform of state-owned enterprises, development of mixed ownership economy, and cultivation of world first-rate enterprises with global competitiveness” as proposed at the 19th National Congress of the Communist Party of China offers a hard-won opportunity for the development of iron and steel industry and will promote state-owned and state-controlled enterprises to speed up industrial upgrade and stride towards the high end of industry value chain; secondly, the fulfillment of “three promotions” requirements has revealed the direction of corporate development. The “three promotions” requirements as raised by Xi Jinping, the CPC Secretary General, have indicated the direction for the vigorous development of real economy in Liaoning and also posed higher development requirements on our reform and innovation as well as transformation and upgrade; thirdly, continuous intensification of contractual management will fully release development vitality. The thorough implementation of contractual management by the Company will immensely motivate the enthusiasm and initiative of staff, spark new momentum and generate new vitality.

2. Development strategy of the Company

Upholding the “five development concepts”, the Company will comprehensively advance the layout integrating “leading by reform, driving by innovation, quality upgrade, intelligent manufacturing and green development” and execute the industrial development plan to optimise and reinforce the iron and steel industry and develop relevant industries in a coordinated way, so as to achieve revitalization and development of enterprises.



Chairman's Statement (Continued)

NEW ANNUAL DEVELOPMENT PLAN OF THE COMPANY: (CONTINUED)

2. Development strategy of the Company (Continued)

- (1) The iron and steel industry will be optimized and reinforced. Riding on the “cultivation of world first-rate enterprises with global competitiveness” proposed at the 19th National Congress of the Communist Party of China as an opportunity, the competitiveness of the iron and steel business will be comprehensively enhanced. Aligning to the strategic direction, the Company will center on “gross, products and production lines” and vigorously propel the implementation of development plan for iron and steel business. The clear division of labour in production lines, accurate product positioning, process reengineering and accelerated equipment upgrade will generate excellent competitive advantage and development capacity. With the advancement of quality upgrade, the Company will create 10 product series including automobile, shipbuilding and marine engineering, railway and bridges as well as manufacture iron and steel products of high quality, high technical content and high added value. Moreover, the Company will solidly boost the development of competitive products to elevate the brand influence and market competitiveness of iron and steel business, and consolidate and raise the position in industry. Great efforts will be exerted to develop key projects and the focus will be laid on critical fields including product quality enhancement, green production, and intelligent manufacturing while accelerating key investment projects.
- (2) Relevant industries will be developed in a coordinated way. Leveraging on the advantages of chain resources and platform of iron and steel business, the Company, while optimizing and reinforcing the iron and steel business, will prioritize the development in relevant industries and develop chemical technology. The Company will vigorously develop new technologies to extend the industrial chain and expand its presence to the downstream industries including pitch and coal gas by means of investment, acquisition and merger, strategic cooperation, etc. to enhance value creation capacity. In development of energy industry, the Company, aiming at becoming “an urban energy supplier and a leader in new energy industry”, will integrate the resources in three places to build the most competitive production and marketing platform for gas energy industry. Furthermore, the Company will develop auto parts industry to extend the industrial chain and create a value chain to realize closer combination of steel products with users and achieve the transformation from “a manufacturer to an integrated service provider”.

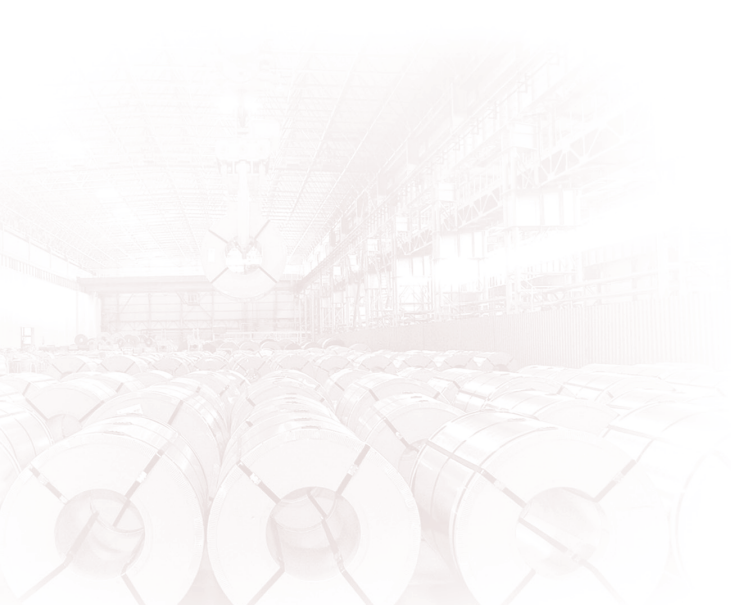
Chairman's Statement (Continued)

NEW ANNUAL DEVELOPMENT PLAN OF THE COMPANY: (CONTINUED)

3. Operation plan for the year of 2018

In 2018, the Company will firmly keep on development as the primary task, stress three critical elements "efficiency, quality and reform", and focus on "seven strengthening" to build "seven new patterns".

- (1) Strengthening ideology to build the new pattern of revitalization and development.
- (2) Strengthening strategic positioning to build the new pattern of coordinate development of the principal businesses and relevant businesses.
- (3) Strengthening efficiency enhancement to build the new pattern of efficient management and control.
- (4) Strengthening brand upgrade to build the new pattern integrating production, marketing and research.
- (5) Strengthening management improvement to build the new pattern of innovative management.
- (6) Strengthening talent team construction to build the new pattern of reinforcing enterprise relying on talents.
- (7) Strengthening tenet consciousness to build the new pattern of green share development.



Chairman's Statement (Continued)

NEW ANNUAL DEVELOPMENT PLAN OF THE COMPANY: (CONTINUED)

4. Plans for funding requirements

In 2018, the proposed investments for engineering projects and external investments of the Group will amount to RMB2,758 million.

The sources of funding for the Group in 2018 mainly include cash inflows from operating activities and bank loans.

Chairman of the Board: **Wang Yidong**

Anshan City, the PRC
26 March 2018



Report of the Directors

The Board is pleased to present the annual report and the audited financial statements for the year ended 31 December 2017.

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 2017

Composition of operating income

Unit: RMB million

	2017		2016		
	Amount	As a percentage of the operating income (%)	Amount	As a percentage of the operating income (%)	Year-on-year increase/decrease (%)
Total operating income	84,310	100	57,882	100	45.66
By industry					
Steel rolling and processing industry	84,000	99.63	57,742	99.76	45.47
Others	310	0.37	140	0.24	121.43
By product					
Steel products	77,693	92.15	53,396	92.25	45.50
Others	6,617	7.85	4,486	7.75	47.50
By geographical location					
China	77,837	92.32	52,435	90.59	48.44
Export sales	6,473	7.68	5,447	9.41	18.84

Report of the Directors (Continued)

1. PRINCIPAL BUSINESSES (CONTINUED)

Composition of the principal businesses in 2017 (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	84,000	72,428	13.78	45.47	44.70	0.47
By product						
Hot-rolled sheets products	23,322	19,409	16.78	30.01	27.81	1.44
Cold-rolled sheets products	30,579	25,186	17.64	46.82	44.71	1.20
Medium and thick plates	12,263	11,380	7.20	56.74	57.60	-0.51
By geographical location						
China	77,527	66,370	14.39	48.25	47.56	0.40
Export sales	6,473	6,058	6.41	18.84	19.35	-0.40

Report of the Directors (Continued)

1. PRINCIPAL BUSINESSES (CONTINUED)

Composition of the principal businesses in 2017 (Continued)

Composition of operating costs

Unit: RMB million

Industry classification	Item	2017		2016		Year-on-year increase/decrease in operating cost (percentage point)
		Amount	As a percentage of operating costs (%)	Amount	As a percentage of operating costs (%)	
Steel rolling and processing industry	Raw materials and fuel	58,500	80.77	36,575	73.07	7.7
	Others	13,928	19.23	13,480	26.93	-7.7
Total		72,428	100	50,055	100	-

2. WHETHER THE SCOPE OF CONSOLIDATION HAD CHANGED DURING THE REPORTING PERIOD

The number of subsidiaries of the Company decreased by one in the year: Changchun Welded Plate, a subsidiary of the Company, was deregistered this year after it was merged by TKAS-SSC, another subsidiary of the Company.

As at 31 December 2017, 18 subsidiaries of the Company in total were included in the scope of consolidation.

3. MATERIAL CHANGES OR ADJUSTMENT IN BUSINESSES, PRODUCTS OR SERVICES DURING THE REPORTING PERIOD

☐ Applicable ☒ Not applicable

Report of the Directors (Continued)

4. PLANS OF PROFIT DISTRIBUTION DURING THE REPORTING PERIOD

Net profit attributable to shareholders of the Company amounted to RMB5,605 million for the year of 2017, while profits distributable to shareholders of the Company amounted to RMB7,604 million at the end of 2017, 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 RMB1,682 million of distributable profits to all the shareholders of the Company by way of cash dividends, accounting for 30% of the net profits attributable to shareholders of the Company. Accordingly, the cash dividend is expected to be RMB0.232 per share (tax inclusive) for the year of 2017, on the basis of the total share capital of 7,234,807,847 shares. In the case of any change in the total share capital of the Company as at the record date of the dividend distribution, the total amount of distributable profits to all shareholders of the Company will remain unchanged, while the cash dividend per share will be adjusted based on the total share capital of the Company as at the record date of the dividend distribution. Upon the implementation of such proposal, the balance of distributable profits will be RMB5,922 million. This proposal shall be subject to consideration and approval at the 2017 annual general meeting. It is expected that dividends will be distributed on or around 30 June 2018.

5. ANALYSIS OF MAJOR SUBSIDIARIES AND INVESTEEES

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

During the Reporting Period, there were no major subsidiaries and investees accounting for over 10% of the net profit of the Company.

2. Acquisition and disposal of subsidiaries during the Reporting Period

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
Changchun Welded Plate	Improving management efficiency, reducing operation costs and enhancing market competitiveness	Merger	No impact

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>)	19,992
Proportion of total sales amount of the top five customers over total sales amount for the year (%)	23.80
Proportion of sales to related parties of total sales amount of the top five customers over total sales amount for the year (%)	20.56

Top five customers of the Company

No.	Customer name	Sales amount (<i>RMB million</i>)	Proportion of sales amount over total sales amount for the year (%)
1	Customer A	5,214	6.21
2	Customer B	4,620	5.50
3	Customer C	4,346	5.17
4	Customer D	3,094	3.68
5	Customer E	2,718	3.24
Total		19,992	23.80

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>)	30,438
Proportion of total purchase amount of the top five suppliers over total purchase amount for the year (%)	49.54
Proportion of procurement from related parties of total purchase amount of the top five suppliers over total purchase amount for the year (%)	38.02

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 of purchase amount over total purchase amount for the year (%)
1	Supplier A	14,086	22.93
2	Supplier B	6,060	9.86
3	Supplier C	3,562	5.80
4	Supplier D	3,216	5.23
5	Supplier E	3,514	5.72
Total		30,438	49.54

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 2017.

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 (or the appointment date of the Director or Supervisor) until the election of Directors or Supervisors for the next session of the Board or Supervisory Committee at the 2019 annual general meeting of the Company, 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, under which the Company shall make any compensation (except statutory compensation) to the Director or Supervisor if such contract is terminated within one year of its execution.

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 2017.

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 OF THE HONG KONG LISTING RULES

The Directors confirmed that there was no matter occurring in 2017 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 252 and 253 of this annual report.

15. OPERATING RESULTS

The results of the Company for the year ended 31 December 2017 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 (32) to the financial statements on page 272 of this annual report.

17. RESERVES

Changes in the reserves during the year are set out in note 6 (35) to the financial statements on page 275 of this annual report.

18. EMPLOYEE RETIREMENT SCHEME

Details of the employee retirement scheme of the Company are set out in note 6 (21) to the financial statements on page 263 of this annual report.

19. CONTINUING CONNECTED TRANSACTIONS

Details of Continuing Connected Transactions of the Company for the year are set out on pages 300 to 315 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 327 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 2017.

By order of the Board

Wang Yidong

Chairman

26 March 2018



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.

- I Members of the Supervisory Committee attended two general meetings and four Board meetings of the Company as non-voting participants and convened four 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 4th meeting of the 7th Session of the Supervisory Committee	28 March 2017	<ol style="list-style-type: none">1. The Report of the Supervisory Committee for 2016 was approved.2. The Proposal in relation to the Remunerations of the Supervisors for 2016 was approved.3. 2016 Annual Report and its summary were approved.4. The 2016 Self-assessment Report on Internal Control was approved.
2	The 5th meeting of the 7th Session of the Supervisory Committee	28 April 2017	<ol style="list-style-type: none">1. 2017 First Quarterly Report of the Company and its text were approved.
3	The 6th meeting of the 7th Session of the Supervisory Committee	28 August 2017	<ol style="list-style-type: none">1. 2017 Interim Report of the Company and its text were approved.
4	The 7th meeting of the 7th Session of the Supervisory Committee	30 October 2017	<ol style="list-style-type: none">1. 2017 Third Quarterly Report of the Company and its text were approved.

Report of the Supervisory Committee (Continued)

- II In 2017, 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 the 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 2017 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.
4. The Company's financial report truly reflected the Company's financial position and operating results.
5. The disposals 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 erosion of 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

26 March 2018

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 during the Reporting Period as compared with the corresponding period of the previous year (%)	Explanation and reasons for significant change
Operating income	84,310	57,882	45.66	Note 1
Operating costs	72,743	50,186	44.95	Note 2
Marketing expenses	2,334	1,928	21.06	–
Administrative expenses	1,807	1,626	11.13	–
Financial expenses	1,174	1,286	-8.71	–
Total profit	5,480	1,620	238.27	Note 3
Net profit attributable to shareholders of the Company	5,605	1,616	246.84	Note 3
Net cash flow	469	-1,633	128.72	Note 4

Note 1: The increase of RMB26,428 million in operating income for 2017 as compared with the corresponding period of the previous year was mainly due to the rise in product prices and increase in sales volume.

Note 2: The increase of RMB22,557 million in operating costs for 2017 as compared with the corresponding period of the previous year was mainly due to the rise in the prices of raw materials and fuels and the increase in sales volume.

Discussion and Analysis of Operations (Continued)

I. ANALYSIS OF PRINCIPAL BUSINESSES (CONTINUED)

1. Overview (Continued)

Note 3: In 2017, the Company took advantage of the turnaround of the steel market in a timely manner, and achieved significant improvement in the operating results through the implementation of the following measures: strengthening production management and control and optimizing production organization to push for cost reduction and efficiency enhancement of the system vigorously; making differentiated and opportune purchases with thorough grasp of the timing for purchasing raw materials and fuels; reinforcing regional selling and corporate brand building; devoting greater efforts to the restructuring of product portfolio to make profits; deepening technical marketing; improving service quality; maintaining a stable relationship with direct supply clients and attaching greater importance to key projects.

Note 4: The increase of RMB2,102 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 RMB6,268 million, representing an increase of RMB1,919 million as compared with the corresponding period of the previous year, mainly due to:
 - ① Net profit for the year amounted to RMB5,612 million, representing an increase of RMB3,997 million as compared with the corresponding period of the previous year.
 - ② Inventories increased by RMB1,378 million from the beginning of the year, as compared to an increase of RMB2,716 million for the corresponding period of the previous year. The cash flow increased by RMB1,338 million year-on-year.
 - ③ Operating receivables increased by RMB1,138 million, while an increase of RMB1,605 million was recorded in the same period last year. Accordingly, cash flow recorded a year-on-year increase of by RMB467 million during the two years.
 - ④ Operating payables decreased by RMB1,242 million, while an increase of RMB2,731 million was recorded in the same period last year. Accordingly, cash flow recorded a year-on-year decrease of RMB3,973 million during the two years.
 - ⑤ Other items increased the cash flow by RMB90 million.

Discussion and Analysis of Operations (Continued)

I. ANALYSIS OF PRINCIPAL BUSINESSES (CONTINUED)

1. Overview (Continued)

Note 4: (Continued)

- (2) Net cash flow from investing activities decreased by RMB795 million as compared with the previous year, mainly due to: (i) a decrease of RMB304 million in net cash from disposal of fixed assets, intangible assets and other long-term assets and income from test run as compared with the previous year and (ii) an increase of RMB475 million in cash payment for purchase and construction of fixed assets and construction in progress as compared with the previous year.
- (3) Net cash flow from financing activities increased by RMB959 million as compared with the previous year, mainly due to: (i) a decrease of RMB6,027 million in cash flow from borrowings obtained as compared with the previous year and (ii) a decrease of RMB7,129 million in cash repayment for borrowings as compared with the previous year.
- (4) Cash flow increased by RMB19 million due to the effect of changes in exchange rate.

Discussion and Analysis of Operations (Continued)

I. ANALYSIS OF PRINCIPAL BUSINESSES (CONTINUED)

2. Income and Cost

(1) Composition of operating income

Unit: RMB million

	2017		2016		Year on-year increase/ decrease (%)
	Amount	As a percentage of the operating income (%)	Amount	As a percentage of the operating income (%)	
Total Operating Income	84,310	100	57,882	100	45.66
By industry					
Steel rolling and processing industry	84,000	99.63	57,742	99.76	45.47
Others	310	0.37	140	0.24	121.43
By products					
Steel products	77,693	92.15	53,396	92.25	45.50
Others	6,617	7.85	4,486	7.75	47.50
By geographical locations					
China	77,837	92.32	52,435	90.59	48.44
Export sales	6,473	7.68	5,447	9.41	18.84

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	84,000	72,428	13.78	45.47	44.70	0.47
By products						
Hot-rolled sheets products	23,322	19,409	16.78	30.01	27.81	1.44
Cold-rolled sheets products	30,579	25,186	17.64	46.82	44.71	1.20
Medium and thick plates	12,263	11,380	7.20	56.74	57.60	-0.51
By geographical locations						
China	77,527	66,370	14.39	48.25	47.56	0.40
Export Sales	6,473	6,058	6.41	18.84	19.35	-0.40

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	2017	2016	Year-on-year
				increase/ decrease (%)
Steel rolling and processing industry	Sales volume (0'000 tons)	2,077.86	1,994.25	4.19
	Production volume (0'000 tons)	2,068.01	1,985.72	4.14
	Stock volume (0'000 tons)	99.13	101.93	-2.75

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	2017	As a	2016	As a	Year-on-year
		Amount	percentage of operating costs	Amount	percentage of operating costs	increase/decrease in operating costs
			(%)		(%)	(percentage point)
Steel rolling and processing industry	Raw materials and fuel	58,500	80.77	36,575	73.07	7.7
	Others	13,928	19.23	13,480	26.93	-7.7
	Total	72,428	100	50,055	100	-

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

The number of subsidiaries of the Company decreased by one in the year: Changchun Welded Plate, a subsidiary of the Company, was deregistered this year after it was merged by TKAS-SSC, another subsidiary of the Company.

As at 31 December 2017, 18 subsidiaries of the Company in total were included in the scope of consolidation.

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

☐ Applicable ☒ Not applicable

Discussion and Analysis of Operations (Continued)

I. ANALYSIS OF PRINCIPAL BUSINESSES (CONTINUED)

2. Income and Cost (Continued)

(8) Major customers and suppliers

Sales to major customers of the Company

Total sales amount of the top five customers (<i>RMB million</i>)	19,992
Proportion of total sales amount of the top five customers over total sales amount for the year (%)	23.80
Proportion of sales to related parties of total sales amount of the top five customers over total sales amount for the year (%)	20.56

Top five customers of the Company

No.	Customer name	Sales amount (<i>RMB million</i>)	Proportion of sales amount over total sales amount for the year (%)
1	Customer A	5,214	6.21
2	Customer B	4,620	5.50
3	Customer C	4,346	5.17
4	Customer D	3,094	3.68
5	Customer E	2,718	3.24
Total		19,992	23.80

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 (RMB million)	30,438
Proportion of total purchase amount of the top five suppliers over total purchase amount for the year (%)	49.54
Proportion of procurement from related parties of total purchase amount of the top five suppliers over total purchase amount for the year (%)	38.02

Top five suppliers of the Company

No.	Supplier name	Purchase amount (excluding tax) (RMB million)	Proportion of purchase amount over total purchase amount for the year (%)
1	Supplier A	14,086	22.93
2	Supplier B	6,060	9.86
3	Supplier C	3,562	5.80
4	Supplier D	3,216	5.23
5	Supplier E	3,514	5.72
Total		30,438	49.54

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	2017	2016	Increase/ decrease in the Reporting Period as compared with the corresponding period of the previous year (%)	Explanations on material changes
Marketing expenses	2,334	1,928	21.06	–
Administrative expenses	1,807	1,626	11.13	–
Financial expenses	1,174	1,286	-8.71	–
Income tax expenses	-132	5	-2,740.00	The decrease in income tax expenses was due to recognition of deferred income tax assets including the losses not being covered in previous years, assets impairment and severance benefit.

Discussion and Analysis of Operations (Continued)

I. ANALYSIS OF PRINCIPAL BUSINESSES (CONTINUED)

4. R&D expenditure

The Company follows the green development trend featuring short flow, high efficiency, light weight, energy saving, cleanliness, high performance, and multi-functionality in steel materials production. The Company aims to meet the personalized needs of customers in terms of product varieties, center on the research and development of green technology and equipment, large-scale production capacity, precise control methods, digital design and development, and reliable operation of equipment, and focus on the full coverage of technology, technique innovation and products. In particular, the Company will promote the full range of coverage and development of major products in the automobiles, railways, marine engineering, ships, and energy sectors, and continuously meet the new demands of downstream users, striving to build itself into a green manufacturer advocating resource conservation, environmental friendliness, and sustainable development.

Through operation of open topic projects, appointment of visiting professors in specialized fields, construction of joint laboratory, joint establishment of fund projects with colleges and universities, and organization of academic exchange activities, the construction of national key laboratory for metallic materials of marine equipment and its application (海洋裝備用金屬材料及其應用國家重點實驗室) was strengthened and the Industrial Technology Innovation Alliance of Corrosion Resistant Steel (耐蝕鋼產業技術創新聯盟) has been successfully elevated to a pilot alliance of China Iron and Steel Industry Association; meanwhile, through promoting the upgrading of important basic testing laboratories such as automotive steel laboratories, the Company comprehensively improved the level and capability of testing and experiment equipment; by strengthening awards in intellectual property, the Company enhanced control over the core, cutting-edge and unique technologies. All these measures will greatly promote the Company to develop high-quality and high added value products with strong market leading function, significantly improve technique quality, achieve full coverage of downstream industries, and be equipped with the frontier, key, material, core and leading technologies featuring energy saving and emission reduction as well as green manufacturing.

Discussion and Analysis of Operations (Continued)

I. ANALYSIS OF PRINCIPAL BUSINESSES (CONTINUED)

4. R&D expenditure (Continued)

Item	2017	2016	Year-on year increase/ decrease (%)
Number of R&D staff (<i>person</i>)	1,555	1,789	-13.08
Percentage of the number of R&D staff in the Company (%)	5.39	5.86	Decreased by 0.47 percentage point
Amount of R&D expenditure (<i>RMB million</i>)	1,366	1,002	+36.33
Percentage of R&D expenditure in operating income (%)	1.62	1.73	Decreased by 0.11 percentage point
Amount of capitalization of R&D expenditure (<i>RMB million</i>)	—	—	
Percentage of capitalization of R&D expenditure in the R&D expenditure (%)	—	—	

Reasons for the significant change in the proportion of total R&D expenditure in 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	2017	2016	Year-on year increase/ decrease (%)
Sub-total of cash inflow from operating activities	71,460	52,114	37.12
Sub-total of cash outflow from operating activities	65,192	47,765	36.48
Net cash flow from operating activities	6,268	4,349	44.13
Sub-total of cash inflow from investing activities	609	913	-33.30
Sub-total of cash outflow from investing activities	1,954	1,463	33.56
Net cash flow from investing activities	-1,345	-550	-144.55
Sub-total of cash inflow from financing activities	21,005	26,945	-22.04
Sub-total of cash outflow from financing activities	25,459	32,358	-21.32
Net cash flow from financing activities	-4,454	-5,413	17.72
Net increase of cash and cash equivalents	469	-1,633	128.72

Explanations of the main factors for significant year-on-year changes 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 RMB6,268 million, representing an increase of RMB1,919 million as compared with the corresponding period of the previous year, mainly due to:
- ① Net profit for the year amounted to RMB5,612 million, representing an increase of RMB3,997 million as compared with the corresponding period of the previous year.
 - ② Inventories increased by RMB1,378 million as compared with the beginning of the year, as compared to an increase of RMB2,716 million for the corresponding period of the previous year. The cash flow increased by RMB1,338 million year-on-year.
 - ③ Operating receivables increased by RMB1,138 million, while an increase of RMB1,605 million was recorded in the same period last year. Accordingly, cash flow recorded a year-on-year increase of RMB467 million during the two years.
 - ④ Operating payables decreased by RMB1,242 million, while an increase of RMB2,731 million was recorded in the same period last year. Accordingly, cash flow recorded a year-on-year decrease of RMB3,973 million during the two years.
 - ⑤ The cash flow from other items increased by RMB90 million.
- (2) The decrease of RMB795 million in net cash flow from investing activities for the year as compared to the previous year was mainly due to (i) the decrease of RMB304 million in net cash received from disposal of fixed assets, intangible assets and other long-term assets and income from test run as compared to the previous year; and (ii) the increase of RMB475 million in cash payment for the purchase and construction of fixed assets and construction in progress as compared to the previous year.

Discussion and Analysis of Operations (Continued)

I. ANALYSIS OF PRINCIPAL BUSINESSES (CONTINUED)

5. Cash flow (Continued)

- (3) The increase of RMB2,102 million in net cash flow for the year as compared with the previous year was mainly due to (i) the increase of RMB1,919 million in net cash from operating activities as compared with the previous year; (ii) the decrease of RMB795 million in net cash flow from investing activities as compared with the previous year; (iii) the increase of RMB959 million in net cash flow from financing activities; and (iv) the increase of RMB19 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

6. Liquidity and financial resources

As at 31 December 2017, the Group had long-term loans (exclusive of loans due within one year) of RMB2,905 million with interest rates ranging from 2.65–4.9% per annum. The terms of such loans range from 2 to 5 years, and the loans will fall due during the period from 2019 to 2022. The loans are mainly used for replenishing the working capital. The Group's long-term loans due within one year amounted to RMB437 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.

In 2017, 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 2017, 19 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 2017, cash and bank balances of the Group denominated in foreign currencies was nil (31 December 2016: nil).

Discussion and Analysis of Operations (Continued)

I. ANALYSIS OF PRINCIPAL BUSINESSES (CONTINUED)

6. Liquidity and financial resources (Continued)

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

Unit: RMB million

	31 December 2017	31 December 2016
RMB	2,437	1,968
US dollars	—	—
HK dollars	—	—
Others	—	—
Total	2,437	1,968

As at 31 December 2017, the Group had a total capital commitment of RMB1,139 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.

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 2017, the total contribution to the basic pension scheme amounted to RMB701 million (including the employer's contribution of RMB522 million and the employees' contribution of RMB179 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 contribution in 2017 and the total compensation to the employees for their years of service prior to the establishment of the corporate annuity scheme amounted to RMB41 million.

Discussion and Analysis of Operations (Continued)

I. ANALYSIS OF PRINCIPAL BUSINESSES (CONTINUED)

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.

II. ANALYSIS OF NON-PRINCIPAL BUSINESSES

Unit: RMB million

Item	Amount	As a percentage of total profit (%)	Reasons for the changes	Sustainable or not
Investment income	432	7.88	Investment income from long-term equity investments accounted by equity method and financial assets at fair value through profit or loss	Yes
Gains or losses arising from changes in fair value	-6	-0.11	Financial assets and financial liabilities at fair value through profit or loss	Yes
Impairment losses on asset	328	5.99	Mainly included losses on inventory falling price, provision for bad debts and impairment losses on available-for-sale financial assets	No
Other gains	72	1.31	Mainly included government grants	Yes
Non-operating income	17	0.31	Mainly included gains on disposal of non-current assets	Yes
Non-operating expenses	63	1.15	Mainly included losses on disposal of non-current assets	Yes

Discussion and Analysis of Operations (Continued)

III. ANALYSIS OF ASSETS AND LIABILITY

1. Significant changes in composition of assets

Unit: RMB million

Item	End of 2017		End of 2016		Increase/ Decrease (percentage point)	Explanation for significant change
	Amount	As a percentage of total assets (%)	Amount	As a percentage of total assets (%)		
Monetary capital	2,437	2.73	1,968	2.23	0.50	–
Account receivables	2,463	2.76	1,942	2.20	0.56	–
Inventories	11,644	13.05	10,466	11.84	1.21	–
Long-term equity investments	2,949	3.31	2,968	3.36	-0.05	–
Fixed assets	48,006	53.82	49,065	55.52	-1.70	–
Construction in progress	1,040	1.17	2,232	2.53	-1.36	–
Short-term loans	14,500	16.25	18,995	21.49	-5.24	–
Long-term loans	2,905	3.26	1,296	1.47	1.79	–

Discussion and Analysis of Operations (Continued)

III. 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	0	7	-	-	-	-	7
3. Available-for-sale financial assets	52	-	1	-	-	-	39
Sub-total of financial assets	52	7	1	-	-	-	46
Investment properties	-	-	-	-	-	-	-
Productive biological assets	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-
Total	52	7	1	-	-	-	46
Financial liabilities	0	13	-	-	-	-	13

Material changes in measurement of major assets during the Reporting Period

☐ Yes ☒ No

Discussion and Analysis of Operations (Continued)

III. ANALYSIS OF ASSETS AND LIABILITY (CONTINUED)

3. Gearing ratio

As at 31 December 2017 and 31 December 2016, the Group's ratio of equity to liability was 1.30 times and 1.05 times, respectively.

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

The Group pledged notes receivable with carrying amount of RMB239 million to the bank to obtain short-term loans of RMB200 million.

5. Contingent liabilities

As at 31 December 2017, the Group had no contingent liabilities.

IV. ANALYSIS ON THE CORE COMPETITIVENESS

1. Secured supply of resources

The surrounding areas of Anshan have abundant reserves of iron ore. Presently subsidiary mining companies of Angang has iron ore resources of approximately 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 firmly secured the supply of resources for the sustainable development of the Company.

2. Technical and equipment capacity

The principal production techniques and technology in the Company's Anshan production base have reached national advanced level, and the main equipment are also modern and of 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 possesses advanced technological equipment and techniques with a compact layout. It has a sound foundation for green development with leading key indicators for technology in the PRC.

Discussion and Analysis of Operations (Continued)

IV. ANALYSIS ON THE CORE COMPETITIVENESS (CONTINUED)

3. Technological innovation and product development capability

The Company's products are rich in variety and complete in specifications, with certain advantages in respect of differentiation. In addition, with well-known and reputable brand, it has strong superiority in aspect of providing ancillary services to users.

The Company is relatively strong in plate products, and its sheets for automobiles, home appliances and containers are industry leading. Moreover, the Company is capable of steadily manufacturing high-grade surface cold-rolled and galvanized sheets used for covering external parts of automobiles.

In terms of comprehensive strength, the Company's R&D ranks the top in the steel industry.

4. Leadership in technology

The Company's intellectual property strength ranks 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 stipulation and revision of national and industry standards. In 2017, the Company strengthened its work in respect of key patents comprehensively. On the basis of its research and analysis on "the production technology of medium-thick duplex stainless steel plates (中厚雙相不銹鋼板生產工藝)", it applied for 42 patents in technological areas including "technology of rotary injection of molten steel and iron (鋼鐵水旋轉噴吹工藝)", "coal compaction technique (煤壓實工藝)", "manufacturing technology and application of complex deoxidizer (複合脫氧劑的製造工藝及其應用)", "hot rolled composite plate" and "galvanized hot formed steel plate (鋅系鍍層熱成形鋼板)". As a result, a patent portfolio has been successfully built in key technological fields, laying a foundation for optimizing the Company's portfolio of key patented technologies, providing basis for formulating and implementing patent strategy and giving powerful support for improving the effectiveness of scientific research. 14 projects (22 subjects) organized by the Company were selected as key special projects for technological upgrading and industrialization of key basic materials under the 2017 National Key Research and Development Program. The Company took the lead for 10 sub-subjects including "steel for high strength piping in low temperature and high pressure conditions (低溫高壓服役條件下高強度管線用鋼)" and "critical manufacturing and application technology of steel for high strength corrosion resistant auto body and bogie structure of high speed trains (高強耐蝕車體和高鐵轉向架構架用鋼關鍵製造與應用技術)".

Discussion and Analysis of Operations (Continued)

IV. ANALYSIS ON THE CORE COMPETITIVENESS (CONTINUED)

4. Leadership in technology (Continued)

The “new-generation controlled rolling and controlled cooling technology and its application (新一代控軋控冷技術及應用)” won the second prize of National Scientific and Technological Progress Award (國家科技進步二等獎). Four achievements related to the “innovation and application of whole-process key technology for steels used in ultra-large container ships (超大型集裝箱船用鋼全流程關鍵技術創新及應用)” were awarded the Metallurgy Science Technology Award (冶金科學技術獎). Seven achievements related to the “key technology in the production of high alloy clean steel in converters and its integration and industrialization (轉爐流程生產高合金潔淨鋼關鍵技術及集成和產業化)” were granted the Scientific and Technological Progress Award in Liaoning Province (遼寧省科技進步獎) in 2017. 18 achievements related to the “study and application of the integrated metallurgical technology on the recycling and clean utilization of metallurgical dust of Angang (鞍鋼冶金粉塵再資源化清潔利用集成冶煉技術研究與應用)” obtained the Scientific and Technological Progress Award in Anshan City (鞍山市科技進步獎). Among four technological achievements related to the “innovation and application of the whole-process key technology on corrosion-resistant steel for the new-generation railway vehicles (新一代鐵路車輛用耐蝕鋼全流程關鍵技術創新及應用)”, two were certified as the internationally leading level and two were certified as the internationally advanced level.

5. Advantages in corporate culture

The Company abounds in heroic figures like Meng Tai, Lei Feng, Wang Chonglun as well as advanced models in the new period including Guo Mingyi and Li Chao, and they have become role models for the public. In the long history of development, 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 generations of Angang people and is instrumental for the solidarity and cohesion of the Company. With rich connotation and broad denotation, its corporate culture demonstrates the Chinese traditional virtues and the fine work styles of the working class in the PRC. In the new period, it has been complemented with new elements to facilitate the innovative development of the transformation and upgrading of the Company with distinctive culture of advantage, innovation, competition, and harmony.

Discussion and Analysis of Operations (Continued)

V. 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>
516	50	932

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

Discussion and Analysis of Operations (Continued)

V. ANALYSIS OF INVESTMENTS OF THE COMPANY (CONTINUED)

4. Financial asset investments

(1) Securities investments

Stock type	Stock code	Abbreviation	Initial Investment	Accounting measurements	Book value at the beginning of the period	Profit or loss on fair value change		Changes in fair value reported in equity	Purchase amount for the current period	Disposal amount for the current period	Profit or loss during the Reporting Period		Book value at the end of the period	Accounting item	Source of funds
			(RMB million)		(RMB million)			(RMB million)		(RMB million)	(RMB million)	(RMB million)	(RMB million)		
Shares	600961	Zhuye Group (株冶集團)	81	Measured at fair value	52	-		1	-	-	-	-	39	Available for sale financial assets	Self-owned funds

(2) Derivatives investments

Unit: RMB million

Name of the derivatives investment operator	Relationship with the Group	Related party transaction or not	Type of derivatives investment	Initial investment		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 at the end of the Reporting Period		Actual profit or loss during the Reporting Period
				amount of derivatives	Date of commencement								the end of the Reporting Period		
Angang Steel	None	No	Futures investment	1	29 April 2015	-		147	5,766	5,516	-	231	0.46%		67
Total				1	-	-		147	5,766	5,516	-	231	0.46%		67

Discussion and Analysis of Operations (Continued)

V. ANALYSIS OF INVESTMENTS OF THE COMPANY (CONTINUED)

4. Financial asset investments (Continued)

(2) Derivatives 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 28 March 2017, the resolution in relation to the Company's 2017 Annual Hedging Business Amount was approved at the 10th meeting of the Seventh Session of the Board.
Date of the announcement disclosing the approval of derivatives investment at shareholders' meeting	None
Risk analysis on positions in derivatives during the Reporting Period and explanations of risk control measures (including but not limited to market risk, liquidity risk, credit risk, operation risk, legal risk, etc.)	<p>(1) Market risk exists when the position held by the Company is related to the steel products industry, which is 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.</p> <p>(2) As the category of position held has a sufficient liquidity, there is no liquidity risk.</p> <p>(3) The Futures Exchange provides credit guarantee for the category of position held, thus the credit risk is minimal</p> <p>(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.</p> <p>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.</p>

Discussion and Analysis of Operations (Continued)

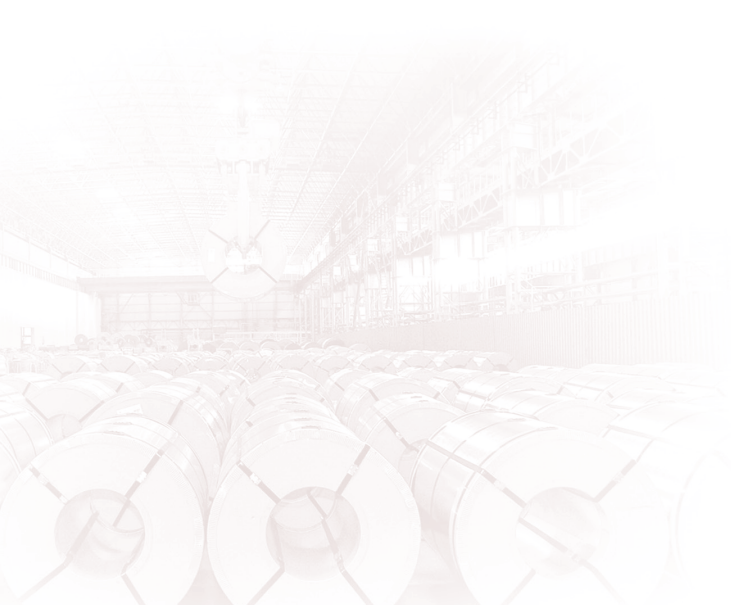
V. ANALYSIS OF INVESTMENTS OF THE COMPANY (CONTINUED)

4. Financial asset investments (Continued)

(2) Derivatives 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

Deformed bar, hot-rolled coil, copper and nickel quoted on the Shanghai Futures Exchange; iron ore, coking coal and coke quoted on the Dalian Commodity Exchange; thermal coal on Zhengzhou Commodity Exchange; on 3 January 2017, the settlement prices of deformed bar, hot-rolled coil, copper, nickel, iron ore, coking coal, coke and thermal coal were RMB2,914/ton, RMB3,353/ton, RMB46,040/ton, RMB86,410/ton, RMB550.5/ton, RMB1,159/ton, RMB1,520/ton and RMB495.6/ton, respectively; on 29 December 2017, the settlement prices of deformed bar, hotrolled coil, copper, nickel, iron ore, coking coal, coke and thermal coal were RMB3,794/ton, RMB3,861/ton, RMB55,600/ton, RMB96,880/ton, RMB530/ton, RMB1,314.5/ton, RMB1,988/ton and RMB609.8/ton, respectively. The fair values of deformed bar, hotrolled coil, copper, nickel, iron ore, coking coal, coke and thermal coal were +RMB880/ton, +RMB508/ton, +RMB9,560/ton, +RMB10,470/ton, -RMB20.5/ton, +RMB155.5/ton, +RMB468/ton and +RMB114.2/ton, respectively.



Discussion and Analysis of Operations (Continued)

V. ANALYSIS OF INVESTMENTS OF THE COMPANY (CONTINUED)

4. Financial asset investments (Continued)

(2) Derivatives investments (Continued)

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

N/A

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

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

Discussion and Analysis of Operations (Continued)

V. ANALYSIS OF INVESTMENTS OF THE COMPANY (CONTINUED)

5. Use of proceeds

☐ Applicable ☒ Not applicable

VI. DISPOSAL OF SIGNIFICANT ASSETS AND EQUITY INTERESTS

1. Disposal of significant assets

☐ Applicable ☒ Not applicable

2. Disposal of significant equity interests

☐ Applicable ☒ Not applicable

VII. ANALYSIS OF MAJOR SUBSIDIARIES AND INVESTEEES

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

There were no major subsidiaries and investees accounting for over 10% of the net profit of the Company during the Reporting Period.

2. Acquisition and disposal of subsidiaries during the Reporting Period

Name of companies	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
Changchun Welded Plate	To improve management efficiency, reduce operation cost and strengthen market competitiveness	Consolidation by merger	None

Discussion and Analysis of Operations (Continued)

VIII. POSSIBLE RISK EXPOSURES

2018 is a critical year for the Company to implement the development strategy and the industrial distribution in an all-round way. 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 2018, and formulated the risk response measures. Based on the evaluation, the Company may expose to the following material risk exposures in 2018:

1. Marketing risks

(1) Details of the risks

With no fundamental changes in the steel and iron overcapacity, the domestic supply-demand imbalance remains outstanding. As there are limited increase in market demands, the market competition will be increasingly intensified and the steel price is unlikely to hike due to the low industrial concentration and the high product homogenization.

As foreign mining are highly monopolized, the prices of imported iron ores, coal and other bulk commodities are unlikely to decline. As the costs in energy conservation, environmental protection and fundraising keep rising, steel companies may be still trapped in a situation with high cost and low profits.

With international trade protectionism rising, steel companies will face more international trade disputes, which will have adverse impacts on steel exports.

(2) Risk management solutions

The Company will strengthen the analysis on various environmental factors affecting its marketing activities, monitor and follow development trends and adjust marketing strategies to adapt to changes of the environment and establish an operation mechanism with quick response.

Discussion and Analysis of Operations (Continued)

VIII. POSSIBLE RISK EXPOSURES (CONTINUED)

1. Marketing risks (Continued)

(2) Risk management solutions (Continued)

It will deepen marketing reform, optimize the separation of management and operation, focus on strengthening industry and regional marketing and improve the “1+3+N” sale model. It will advance coordinated marketing, professional marketing, operation marketing and precision appraisal and establish an effective marketing mechanism and improve the market expansion capability. It will also consolidate and boost the “leading” position in the core sales area in Northeastern China and enhance the leadership in regional markets.

It will reinforce customer services and improve customers’ satisfaction. It will stick to “quality orientation with excellent brands”, take innovation as the primary driver in leading development, establish and improve a customer-oriented scientific research, quality and marketing management mechanism to solve difficulties of customers, strengthen the cohesiveness of customers and consistently improve the profitability.

It will closely follow the “One Belt and One Road” strategy, boost export and quality improvement of steel materials, fully develop segment markets and customers’ demands and vigorously explore the international market.

2. 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 higher procurement cost on raw materials and fuel. It is expected that it will be more likely to see a downward trend in the iron ore prices due to their greater fluctuation in 2018. Hence, it may result in inventory shortage or backlog and cause production suspension or lower efficiency in capital utilization.

Due to years of mining decreases, the profits of suppliers have been significantly lowered. Some suppliers are less willing to participate in tenders. The proportion of unsuccessful tenders and withdrawal of tenders will increase.

Discussion and Analysis of Operations (Continued)

VIII. POSSIBLE RISK EXPOSURES (CONTINUED)

2. Procurement risks (Continued)

(2) Risk management solutions

It will flexibly adjust the procurement strategy based on market conditions and dynamics to consistently improve the procurement operation and control ability under new circumstances. Based on the overall hiking trend of the domestic macro economy and the steel & iron market amid fluctuation in 2018, it will continue to foster channels for the procurement of ores, waste steel and coal. It will consolidate the partnership with existing strategic suppliers and seek partnership with new influential suppliers. Meanwhile, it will strengthen control over payment of capital to guarantee the efficient, stable and reliable operation of the raw materials and fuel procurement.

It will give play to the scale advantage of centralized procurements and conduct strategic cooperation to reduce the procurement cost. It will conducted effective combination of long-term, spot, self-produced, local and futures trade resources to effectively reduce the procurement cost. Based on the conditions of the steel market, it will promote the use of cost-effective materials to resist procurement risks.

It will take full advantage of market disclosure and price discovery functions of bidding and tendering platforms and instruments to conduct selective procurements by seizing favorable opportunities. It will also increase procurements through open tendering.

3. 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.

Discussion and Analysis of Operations (Continued)

VIII. POSSIBLE RISK EXPOSURES (CONTINUED)

3. Environmental protection risks (Continued)

(2) Risk management solutions

It will implement the fundamental national policies on resources conservation and environmental protection. Centering on transforming back-end pollution treatment into front-end green production, it will focus on promoting the implementation of desulphurization and denitration for coke ovens, fuel gas treatment for ironstone powder pellets and other projects. It will promote the construction of green factories with afforesting plants, clearing road network and controlling dust as the core to reach advanced level in industry in 2018. 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.

4. Investment risks

(1) Details of the risks

The complicated and changeable domestic and overseas economic situations brought significant uncertainties to the implementation of investment decisions of enterprises. If the due diligence and feasibility argumentation on investment projects are incomplete, not in-depth or insufficient, it may result in low-quality investment decisions or decision-making mistakes. If the regulation is improper or the risk monitoring and alarming mechanism is defective during the implementation of investment projects, it may not deal with project risks in time and cause failure to achieve expected returns or investment losses.



Discussion and Analysis of Operations (Continued)

VIII. POSSIBLE RISK EXPOSURES (CONTINUED)

4. Investment risks (Continued)

(2) Risk management solutions

Based on the overall strategic planning of the Company, it will reasonably follow the investment orientation, properly master strategic opportunities and expand investments in resources occupation, market layout and other projects to boost investment returns. It will understand and analyze relevant national industrial policies, the macro economic situation and the changes in the industry market in time to provide basis for investment decision-making. It will strengthen examinations on annual investment plans and determine the implementation order based on the project benefits and the prospects of products and will prudently arrange investment. It will firstly support strategic layout, quality improvement, energy conservation and cost reduction, process improvement, environmental protection and emission reduction, relevant industries as well as informatization and intelligentization projects, focusing on solving bottlenecks in production and operation. It will enhance the argumentation of investment plans and the management of implementation process. It will standardize the due diligence and risk appraisal mechanism before the implementation of projects and monitor the risk changes and make dynamic adjustments and response during the implementation to ensure that investment projects can meet the expected targets.

Significant Events

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

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

☐ Appropriate ☒ Non-appropriate

2. Proposals or 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 2017

Net profit attributable to shareholders of the Company amounted to RMB5,605 million for the year of 2017, while profits distributable to shareholders of the Company amounted to RMB7,604 million at the end of 2017, 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 RMB1,682 million of distributable profits to all the shareholders of the Company for 2017 by way of cash dividends, accounting for 30% of the net profits attributable to shareholders of the Company. Accordingly, the cash dividend is expected to be RMB0.232 per share (tax inclusive) for the year of 2017, on the basis of the total share capital of 7,234,807,847 shares. In the case of any change in the total share capital of the Company as at the record date of the dividend distribution, the total amount of distributable profits to all shareholders of the Company will remain unchanged, while the cash dividend per share will be adjusted based on the total share capital of the Company as at the record date of the dividend distribution. Upon the implementation of such proposal, the balance of distributable profits will be RMB5,922 million. This proposal shall be subject to consideration and approval at the 2017 annual general meeting.

(2) The profit distribution proposal of the Company for 2016

The Company distributed 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.

Significant Events (Continued)

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

2. Proposals or plans of profit distribution of the Company for the last three years (including the Reporting Period): (Continued)

- (3) 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. Distribution of cash dividends of the Company for the last three years

Unit: RMB million

Year	Amounts of cash dividends (tax inclusive)	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 (%)
2017	1,682	5,605	30
2016	485	1,616	30
2015	0	-4,593	0

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)	2.32
Conversion per 10 shares (share(s))	—
Share base of the distribution proposal (shares)	7,234,807,847
Total cash dividend (RMB million) (tax inclusive)	1,682
Distributable profits (RMB million)	7,604
Percentage of cash dividend to total profits distribution (%)	100

Significant Events (Continued)

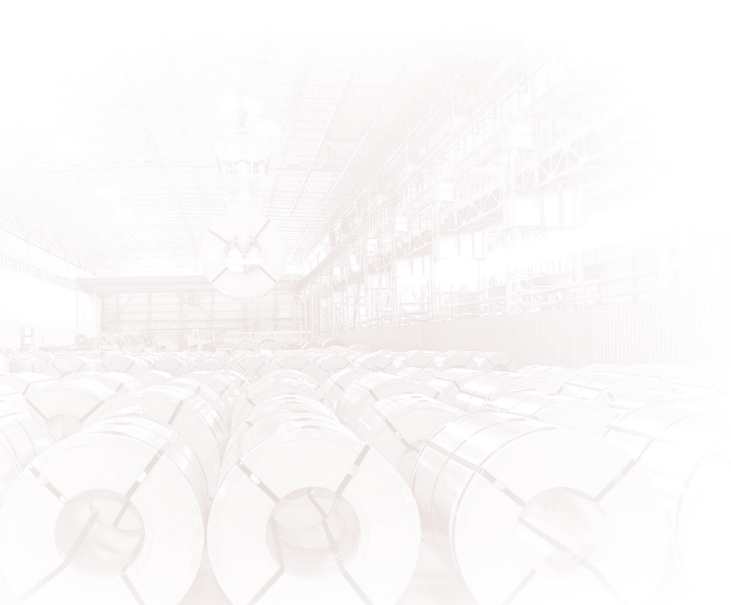
II. PROPOSALS OF PROFIT DISTRIBUTION AND TRANSFER OF RESERVE TO SHARE CAPITAL DURING THE REPORTING PERIOD (CONTINUED)

Cash dividend for this year

The Board recommended distributing RMB1,682 million of distributable profits to all shareholders of the Company by way of cash dividend, representing 30% of the net profit attributable to shareholders of the Company in 2017. Accordingly, the cash dividend per share for 2017 is expected to be RMB0.232 (tax inclusive) on the basis of the total share capital of 7,234,807,847 shares. If there is any change in the Company's total share capital as of the record date for dividend distribution in 2017, the total amount of distributable profits to all shareholders of the Company will remain unchanged, and the cash dividend per share will be adjusted on the basis of the Company's total share capital on the record date for dividend distribution.

Particulars of profit distribution and capitalization of capital reserves plan

The Board recommended distributing RMB1,682 million of distributable profits to all shareholders of the Company by way of cash dividend, representing 30% of the net profit attributable to shareholders of the Company in 2017. Accordingly, the cash dividend per share for 2017 is expected to be RMB0.232 (tax inclusive) on the basis of the total share capital of 7,234,807,847 shares. If there is any change in the Company's total share capital as of the record date for dividend distribution in 2017, the total amount of distributable profits to all shareholders of the Company will remain unchanged, and the cash dividend per share will be adjusted on the basis of the Company's total share capital on the record date for dividend distribution.



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:

Reason for Undertaking	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	<p>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》:</p> <p>(1) Angang Holding and its wholly-owned and holding subsidiaries have complied with relevant requirements of the state on the noncompetition.</p> <p>(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.</p> <p>(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.</p> <p>(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 preemptive rights for such capital contribution, shares or equity interests.</p>	20 May 2007	Indefinite	There was no breach of such undertaking

Significant Events (Continued)

III. PERFORMANCE OF UNDERTAKING (CONTINUED)

Reason for Undertaking	Undertaking Party	Type of Undertaking	Contents of Undertaking	Date of Undertaking	Period of Undertaking	Performance of Undertaking
			(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.			
			(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.			
			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.			
			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.			



Significant Events (Continued)

III. PERFORMANCE OF UNDERTAKING (CONTINUED)

Reason for Undertaking	Undertaking Party	Type of Undertaking	Contents of Undertaking	Date of Undertaking	Period of Undertaking	Performance of Undertaking
			<p>(7) Other effective measures to avoid and eliminate horizontal competition.</p> <p>The above undertakings do not limit the business of Angang Holding and its wholly-owned and holding subsidiaries which do not compete with the Company, especially the business of provision of required materials or services necessary for the operation of the Company.</p> <p>All the undertakings made by Angang Holding are based on the national requirements and subject to the adjustments according to the national requirements. Angang Holding is eligible for engaging in business not prohibited by the state.</p> <p>Such undertakings became effective from the date of issuance, and shall be terminated once one of following conditions occurs:</p> <p>(1) Angang Holding ceases to be the controlling shareholder of the Company.</p> <p>(2) The shares of the Company cease to be listed on any stock exchanges (except for temporary suspension of the shares of the Company due to any reason).</p> <p>(3) When the state does not require the contents of certain undertakings, relevant section shall be terminated automatically.</p> <p>Considering that Angang Holding does not have any iron and steel production projects in production which compete with the Company, therefore, the undertakings made in the undertaking letter shall prevail if any inconsistencies occur between such undertakings and all the undertakings made by Angang Holding concerning the competitions with the Company before the date of the issuance of the undertaking letter.</p>			
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

☐ Appropriate ☒ Non-appropriate

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

☒ Appropriate ☐ Non-appropriate

(1) Changes in accounting policies

- ① Changes in accounting policies due to the adoption of the new Accounting Standards for Business Enterprises.

On 10 May 2017, the Ministry of Finance issued the Accounting Standards for Business Enterprises No. 16 – Government Grants (2017 Revision) (《企業會計準則第16號－政府補助(2017年修訂)》) (Cai Kuai [2017] No. 15), which came into effect on 12 June 2017. The Group adopted the accounting standards at the time as required by the Ministry of Finance.

Prior to the implementation of the Accounting Standards for Business Enterprises No. 16 – Government Grants (2017 Revision), the government grants received by the Company were included in non-operating revenue; and the government grants relevant to assets were recognized as deferred income that will be equally amortized through current profit and loss over the useful life of relevant assets. Following the implementation of the Accounting Standards for Business Enterprises No. 16 – Government Grants (2017 Revision), the government grants relevant to daily operation activities received subsequent to 1 January 2017 will be credit to other income; while those irrelevant to daily operation activities will be recorded as non-operating revenue.

The adoption of the accounting standards by the Group during the Reporting Period has no significant impact on its financial position or the operating results.

Significant Events (Continued)

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 (CONTINUED)

(1) Changes in accounting policies (Continued)

② Changes in other policies

In accordance with the Regulations for Accounting Treatment of VAT (《增值税會計處理規定》) issued by the Ministry of Finance on 3 December 2016, the Group reclassified the debit balance of the breakdown items including “VAT payable”, “Outstanding VAT”, “Credit tax available for deduction”, “Credit tax pending verification” and “Outstanding VAT credit” under the entry “Tax payable” as at the beginning and the end of the period into the items of “other current assets” and “other non-current assets” based on liquidity.

The change in the policy of the Group has no significant impact on its financial position and operating results.

(2) There was no change in accounting estimates of the Group during the Reporting Period.

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

☐ Appropriate ☒ Non-appropriate

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

The number of subsidiaries of the Company decreased by one in the year: Changchun Welded Plate, a subsidiary of the Company, was deregistered this year after it was merged by TKAS-SSC, another subsidiary of the Company.

As at 31 December 2017, 18 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	5 years
Continued term of service of certified public accountants of the PRC accounting firm	Cao Bin: 4 years, Deng Li: 3 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

☒ Appropriate ☐ Non-appropriate

The Company engaged Ruihua Certified Public Accountants (Special General Partnership) as the internal control and auditing firm of the Company for 2017 and the remuneration was RMB0.88 million.

IX. MATERIAL LITIGATION AND ARBITRATION

The Company has no material litigation and arbitration during the Reporting Period.

X. PENALTY AND RECTIFICATIONS

The Company has not been subject to any penalty and rectification during the Reporting Period.

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

☐ Appropriate ☒ Non-appropriate

Significant Events (Continued)

XII. IMPLEMENTATION OF THE SHARE-BASED INCENTIVES, EMPLOYEE STOCK OWNERSHIP SCHEME AND OTHER EMPLOYEE INCENTIVE MEASURES OF THE COMPANY

The Company had no share-based incentives, employee stock ownership scheme or other employee incentive measures and relevant implementation thereof during the Reporting Period.

XIII. MAJOR CONNECTED TRANSACTIONS

The connected transactions set out below fall within the definition relating to “Connected Transaction” or “Continuing Connected Transaction” under Chapter 14A of the Hong Kong Listing Rules. Relevant connected transactions have complied with the disclosure requirements under Chapter 14A of the Hong Kong Listing Rules.

Significant Events (Continued)

XIII. MAJOR CONNECTED TRANSACTIONS (CONTINUED)

1. 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

	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.	623/ton	6,987	52.28	-	-	571/ton ^{note1}
	Pellet	Market price	705/ton	4,283	97.55	-	-	737/ton ^{note1}
	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.	688/ton	2,139	100.00	-	-	-

Significant Events (Continued)

XIII. MAJOR CONNECTED TRANSACTIONS (CONTINUED)

1. Connected transactions related to daily operations (Continued)

A. Connected party: Angang Group (Continued)

	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)
	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>	630/ton	1,096	100.00	–	–	595/ton ^{note1}
	Scrap steel	Market price	–	191	9.03	–	–	–
	Billets		–	249	95.06	–	–	–
	Alloy and non-ferrous metal		–	31	0.75	–	–	–
	Sub-total		–	14,976	54.65	19,800	No	–

Significant Events (Continued)

XIII. MAJOR CONNECTED TRANSACTIONS (CONTINUED)

1. Connected transactions related to daily operations (Continued)

A. Connected party: Angang Group (Continued)

	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 energy and power from the connected party	Electricity	State price	0.43/kwh	1,637	57.09	-	-	0.43/kwh
	Water	State price	2.10/ton	43	44.57	-	-	2.10/ton
	Steam	Cost of production plus gross profit margin of 5%	52/GJ	1	100.00	-	-	52/GJ
	Sub-total	-	-	1,681	56.68	2,805	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	164	75.90	-	-	-
	Lime powder		407/ton	659	94.09	-	-	-
	Refractory materials		-	638	44.30	-	-	-
	Coke		-	17	1.09	-	-	-
	Other ancillary materials		-	307	15.01	-	-	-
	Spare parts and tools		-	278	12.75	-	-	-
	Sub-total	-	-	2,063	25.21	2,915	No	-

Significant Events (Continued)

XIII. MAJOR CONNECTED TRANSACTIONS (CONTINUED)

1. Connected transactions related to daily operations (Continued)

A. Connected party: Angang Group (Continued)

	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)
Purchase of support services from the connected party	Railway transportation service	State price	-	555	57.64	-	-	-
	Road transportation service	Market price	-	677	93.24	-	-	-
	Pipeline transportation service		-	54	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)	-	117	100.00	-	-	-
	Repair and maintenance of equipment and service	Market price	-	632	28.45	-	-	-
	Design and engineering services	Market price	-	263	72.34	-	-	-
	Educational facilities, education for occupational skills, on- the- job training and translation	Market price	-	7	65.29	-	-	-
	Newspaper and other publications	State price	-	3	69.60	-	-	-
	Telecommunication business and services and information system	State price or the sum of depreciation expenses and maintenance fees	-	61	82.79	-	-	-
	Production assistance and maintenance	Costs of labor and materials and management fees as paid based on market prices	-	859	59.37	-	-	-

Significant Events (Continued)

XIII. MAJOR CONNECTED TRANSACTIONS (CONTINUED)

1. Connected transactions related to daily operations (Continued)

A. Connected party: Angang Group (Continued)

	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)
	Welfare assistance and maintenance	Costs of labor and materials and management fees as paid based on market prices	-	218	85.62	-	-	-
	Company vehicle services	Market price	-	-	-	-	-	-
	Environmental protection and security inspection services	State price	-	26	96.05	-	-	-
	Business reception and meeting expenses	Market price	-	2	28.76	-	-	-
	Supply of heating fee	State price	-	-	-	-	-	-
	Greening services	Costs of labor and materials and management fees as paid based on market prices	-	45	100.00	-	-	-
	Security services	Costs of labor and materials and management fees as paid based on market prices	-	0.003	0.05	-	-	-
	Port agent services	Market price	-	231	0.05	-	-	-
	Sub-total	-	-	3,751	58.63	6,000	No	-
Buyout of steel product from connected party	Steel products	Determined based on the price offered by Angang Steel to third parties deducting a commission of RMB20-35/ton	-	0	0	550	No	-

Significant Events (Continued)

XIII. MAJOR CONNECTED TRANSACTIONS (CONTINUED)

1. Connected transactions related to daily operations (Continued)

A. Connected party: Angang Group (Continued)

	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)
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	3,519/ton	1,102	1.43	-	-	-
	Molten iron		2,280/ton	107	100.00	-	-	-
	Billets		-	-	-	-	-	-
	Coke		867/ton	44	85.71	-	-	-
	Chemical byproducts		-	89	4.62	-	-	-
	Sub-total	-	-	1,343	1.70	5,050	No	-
Sale of scrap steel and abandoned material to the connected party	Scrap steel	Market price	-	277	57.81	-	-	-
	Abandoned material		-	5	48.18	-	-	-
	Obsolete assets or idle assets	Market price or appraised price	-	0.6	100.00	-	-	-
	Sub-total	-	-	282	57.66	305	No	-

Significant Events (Continued)

XIII. MAJOR CONNECTED TRANSACTIONS (CONTINUED)

1. Connected transactions related to daily operations (Continued)

A. Connected party: Angang Group (Continued)

	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)
Sale of comprehensive services to the connected party	Fresh water	State price	3.19/ton	34	88.71	-	-	3.19/ton
	Clean recycled water	Market price or production cost plus a gross profit margin of not lower than 5%	0.74/ton	12	47.77	-	-	-
	Soft water		-	-	-	-	-	-
	Gas		45/GJ	562	85.87	-	-	-
	Blast furnace gas		20/GJ	314	99.65	-	-	-
	Steam		52/GJ	16	71.05	-	-	52/GJ
	Nitrogen		200/km ³	2	39.88	-	-	-
	Oxygen		503/km ³	2	84.36	-	-	-
	Argon		1,000/km ³	0.7	91.51	-	-	-
	Compressed air		106/km ³	0.4	27.18	-	-	-
	Hydrogen		2,535/km ³	0.1	19.28	-	-	-
	Used hot water		28/GJ	44	48.77	-	-	28/GJ

Significant Events (Continued)

XIII. MAJOR CONNECTED TRANSACTIONS (CONTINUED)

1. Connected transactions related to daily operations (Continued)

A. Connected party: Angang Group (Continued)

	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)
	Liquid nitrogen		590/ton	12	100.00	–	–	590/ton
	Liquid oxygen		520/ton	20	100.00	–	–	520/ton
	Liquid argon		1,091/ton	7	88.17	–	–	1,091/ton
	Product testing service	Market price	–	4	67.55	–	–	–
	Transportation service		–	0.2	100.00	–	–	–
	Lease of production line		–	2	67.58	–	–	–
	Entrusted asset management		–	2	100.00	–	–	–
	Sub-total	–	–	1,034	52.52	1,450	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 year of 2017 was based on the content and estimated caps of transactions set out in the Continuing Connected Transaction Agreements approved at the 2015 general meeting of the Company. The total amount of Continuing Connected Transactions of the Company in 2017 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 karara magnetite were derived from average purchase prices of domestically made iron concentrate (grade of 63.31%), pellet (grade of 60.42%) and sinter ore (grade of 61.74%) in 2017 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. 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	-	14	35.10	50	No
	Maximum daily balance of deposit (including accrued interests)	-	-	1,995	-	2,000	No
	Credit interest rates	Not higher than the interest rate obtained by the Group from commercial banks during the same period	-	3	0.26	150	No
	Interest on entrusted loans		-	-	-	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 year of 2017 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 2017 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 2017 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. Connected transactions related to daily operations (Continued)

B. Connected party: Angang Financial Company (Continued)

	<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>
Relevant explanation on connected transactions	<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>

Significant Events (Continued)

XIII. MAJOR CONNECTED TRANSACTIONS (CONTINUED)

1. 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	-	-	-	-	-	-
	Alloy	Market price	-	169	4.18	-	-	-
	Total	-	-	169	4.18	1,890	No	-

Significant Events (Continued)

XIII. MAJOR CONNECTED TRANSACTIONS (CONTINUED)

1. 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 year of 2017 was based on the content and estimated caps of transactions set out in the Continuing Connected Transaction Agreements approved at the 2015 general meeting of the Company. The total amount of Continuing Connected Transactions of the Company in 2017 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		-
Relevant explanation on connected transactions	A subsidiary of Pangang Vanadium & Titanium is engaged in the sales of alloy and one of the suppliers of alloy materials of the Company.	

Significant Events (Continued)

XIII. MAJOR CONNECTED TRANSACTIONS (CONTINUED)

1. 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 2017 were carried out in the ordinary and usual course of business of the Company;(2) the Continuing Connected Transactions of the Company in 2017 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 2017 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 2017 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 affect or prejudice the interests of non-controlling shareholders and the Company.

The auditors of the Company have reviewed the above non-exempt Continuing 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. 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: (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 transactions in relation to asset or equity acquisition or disposal

There was no connected transaction in relation to asset or equity acquisition and disposal during the Reporting Period.

3. Connected transactions in relation to joint external investments

There was no connected transaction in relation to joint external investment during the Reporting Period.

Significant Events (Continued)

XIII. MAJOR CONNECTED TRANSACTIONS (CONTINUED)

4. Connected party credit and debt transaction

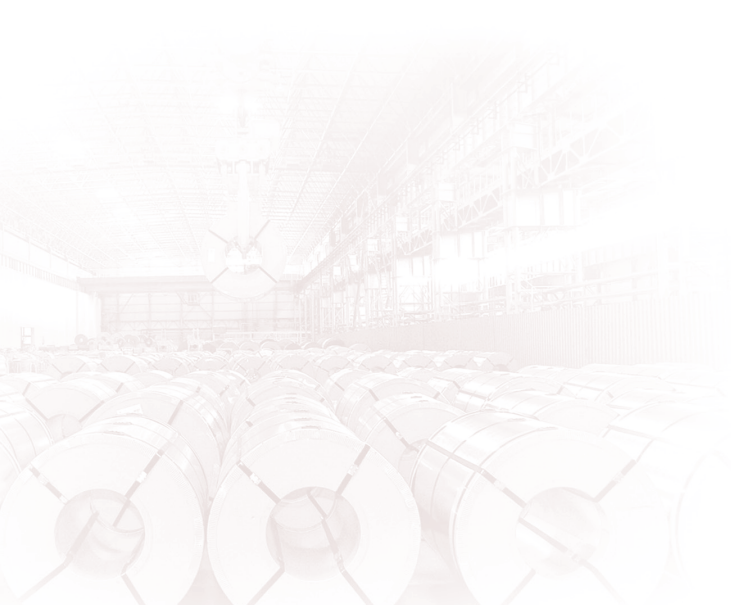
As at 31 December 2017, bank borrowings of RMB20 million were guaranteed by Angang Holding whereas bank borrowings of RMB1,000 million were guaranteed by Angang.

5. Other major connected transactions

On 25 July 2017, the Resolution on Entering into the First Batch of the Energy Management Contracts between the Company and Angang Energy Conservation in 2017 was approved at the fourteenth meeting of the seventh session of the Board of the Company.

On 20 October 2017, the Resolution on Entering into the Second Batch of the Energy Management Contracts between the Company and Angang Energy Conservation in 2017 was approved at the eighteenth meeting of the seventh session of the Board of the Company.

On 23 November 2017, the Resolution on Sales of Coal to Angang Holding by the Company was approved at the twenty-first meeting of the seventh session of the Board of the Company.



Significant Events (Continued)

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 Holding 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 Holding 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.

(3) Lease arrangement

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

Significant Events (Continued)

XIV. MATERIAL CONTRACTS AND THEIR IMPLEMENTATION (CONTINUED)

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.

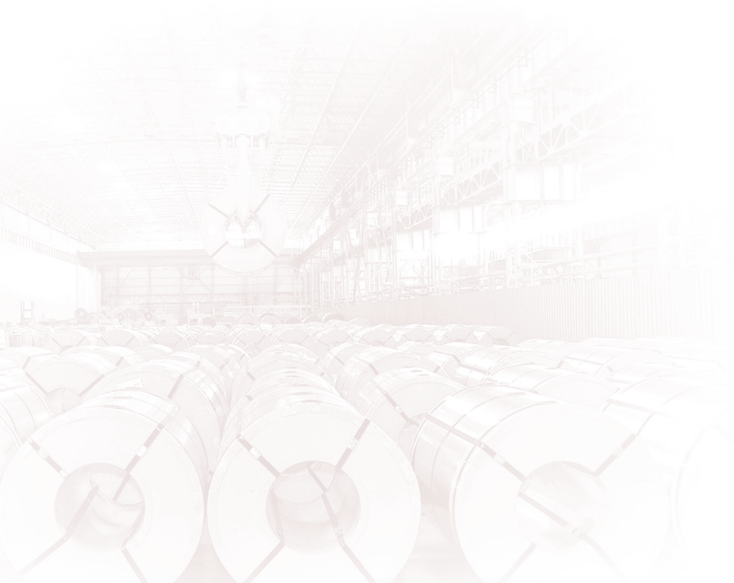
3. Entrusted cash assets management

(1) Entrusted wealth management

During the Reporting Period, the Company did not have entrusted wealth management.

(2) Entrusted loans

During the Reporting Period, the Company did not have entrusted loan.



Significant Events (Continued)

XV. SOCIAL RESPONSIBILITIES

1. Assumption of social responsibilities

The Company proactively assumed its social responsibilities. For details, please refer to the “2017 Corporate Social Responsibility Report of Angang Steel Company Limited”.

2. Performance of Social Responsibility in Respect of Targeted Poverty Alleviation

(1) Targeted poverty alleviation plans

According to the poverty alleviation work arrangements at city, provincial and national levels, Angang Group (in Anshan area) undertook targeted poverty alleviation tasks at Tajik Autonomous County of Taxkorgan, Xinjiang, Jianchang county, Huludao, Liaoning, Shangtao village, Taohuatu Town, Shuangta District, Chaoyang City as well as Xiuyan County and Shihuiyao Town and Shihuiyao Village of Xiuyan County, Anshan City. In accordance with the poverty alleviation plan of Angang Group, the Company carried out donations and poverty alleviation work targeted at improving people's livelihood, upgrading infrastructure and developing collective economy in rural areas based on the actual needs of the impoverished areas assigned to the Company after taking into account its own corporate specialties. As a result, the Company helped the assigned impoverished areas accomplish the poverty relief tasks as scheduled and fulfilled its obligations as a corporate citizen, thus enhancing the social image of the Company.

(2) Summary of annual targeted poverty alleviation

The Notice on Carrying on with Supporting Jianchang County for its Post-disaster Production and Construction Work issued by Liaoning Provincial Committee of C.P.C. provided that the units directly affiliated to the province or the central government with targeted supporting tasks shall fulfill their supporting responsibilities and help Jianchang County resume production and rebuild the homeland as soon as possible at full stretch so as to solve travelling difficulties and inconvenient traffic problems for the villagers and satisfy the actual demands of Jianchang County in the construction of livelihood projects. In 2017, the Company contributed 180 tonnes of deformed steel bars worth of RMB861,300 to Jianchang County for the construction of the Road and Bridge Livelihood Projects in Jianchang Country.

Significant Events (Continued)

XV. SOCIAL RESPONSIBILITIES (CONTINUED)

2. Performance of Social Responsibility in Respect of Targeted Poverty Alleviation (Continued)

(3) Results of targeted poverty alleviation

Indicator	Unit	Number/ progress
I. Overview	—	—
Including: 1. Capital	RMB'0,000	—
2. Supplies converted into cash	RMB'0,000	86.13
3. Number of archive impoverished population casting off poverty	Person	—
II. Subentry	—	86.13
1. Poverty alleviation through industrial development	—	—
Including : 1.1 Type of industrial development projects for poverty alleviation	—	—
1.2 Number of industrial development projects for poverty alleviation	Item	—
1.3 Capital invested in industrial development projects for poverty alleviation	RMB'0,000	—
1.4 Number of archive impoverished population casting off poverty	Person	—

Significant Events (Continued)

XV. SOCIAL RESPONSIBILITIES (CONTINUED)

2. Performance of Social Responsibility in Respect of Targeted Poverty Alleviation (Continued)

(3) Results of targeted poverty alleviation (Continued)

Indicator	Unit	Number/ progress
2. Poverty alleviation through allopatric employment	—	—
Including : 2.1 Capital invested in occupational skill trainings	RMB'0,000	—
2.2 People attending occupational skill trainings	Person-time	—
2.3 Employment of archive impoverished population	Person	—
3. Poverty alleviation through resettlement	—	—
Including: Employment of relocated households	Person	—
4. Poverty alleviation through education	—	—
Including: 4.1 Capital contributed for aiding impoverished students	RMB'0,000	—
4.2 Number of students receiving financial aid	Person	—
4.3 Capital contributed for improving educational resources in poverty-stricken areas	RMB'0,000	—
5. Poverty alleviation from the perspective of hygiene	—	—
Including: 5.1 capital invested in medical and health resources in poverty-stricken areas	RMB'0,000	—
6. Poverty alleviation from the perspective of ecological protection	—	—
Including : 6.1 Type of project	—	—
6.2 Capital contributed	RMB'0,000	—

Significant Events (Continued)

XV. SOCIAL RESPONSIBILITIES (CONTINUED)

2. Performance of Social Responsibility in Respect of Targeted Poverty Alleviation (Continued)

(3) Results of targeted poverty alleviation (Continued)

Indicator	Unit	Number/ progress
7. Bottomlined guarantee	—	—
Including: 7.1 Capital for “stay-behind” children, elderly and women	RMB’0,000	—
7.2 Number of “stay-behind” children, elderly and women getting help	Person	—
7.3 Capital for the disabled in difficulties	RMB’0,000	—
7.4 Number of the disabled in difficulties getting help	Person	—
8. Social poverty alleviation	—	—
Including: 8.1 Capital contributed for collaborative poverty alleviation in eastern and western regions	RMB’0,000	—
8.2 Capital for targeted poverty alleviation work	RMB’0,000	86.13
8.3 Capital donated to poverty alleviation-related charity funds	RMB’0,000	—
9. Others	—	—
Including: 9.1 Number of projects	Item	—
9.2 Capital contributed	RMB’0,000	—
9.3 Number of archive impoverished population casting off poverty	Person	—
III. Awards (nature and class)	—	—

Significant Events (Continued)

XV. SOCIAL RESPONSIBILITIES (CONTINUED)

2. Performance of Social Responsibility in Respect of Targeted Poverty Alleviation (Continued)

(4) Follow-on targeted poverty alleviation plan

The Company will follow through the national targeted poverty alleviation requirements and focus on the joining points that gear enterprises to the areas to press ahead targeted poverty alleviation and targeted poverty removal in an orderly manner by emphasizing aspects such as supporting leading enterprises, developing collective economies and improving livelihood and infrastructure after taking into account the actual situation of enterprises and the assigned aiding areas. Besides, it will assume its corporate social responsibilities and allow the needy villagers to enjoy more achievements of the reform and development on a fairer basis.

3. Matters regarding environmental protection

(1) Pollutant discharge

Company or subsidiary	Major pollutant and particular pollutant	Discharge manner	Discharge outlet	Location of discharge outlets	Emission concentration (mg/m ³)	Pollutant discharge standard adopted (tonnes)	Total discharge amount (ton)	Total discharge amount approved	Excess discharge
Angang Steel Company Limited	Chemical oxygen demand	Standard discharge	1	Plant area of Angang	<50	50	278.8	not assessed by the government	Nil
Angang Steel Company Limited	Ammoniacal nitrogen	Standard discharge	1	Plant area of Angang	<5	5	61.1	not assessed by the government	Nil
Angang Steel Company Limited	Particulate matters	Standard discharge	244	Plant area of Angang	<20	20	10,832.9	not assessed by the government	Nil
Angang Steel Company Limited	Sulphuric dioxide	Standard discharge	76	Plant area of Angang	<50	50	11,685.7	not assessed by the government	Nil
Angang Steel Company Limited	Nitrogen oxides	Standard discharge	76	Plant area of Angang	<100	100	22,058	not assessed by the government	Nil

Significant Events (Continued)

XV. SOCIAL RESPONSIBILITIES (CONTINUED)

3. Matters regarding environmental protection (Continued)

(2) Construction and operation of anti-pollution facilities

The environmental protection facilities of the Company were under stable operation and the pollutants generated were discharged in compliance with the standards. Meanwhile, the Company also carried out treatment over exhausts, abnormal odors and noises. Environmental investment of the Company amounted to RMB620 million. Besides, the Company approved 14 key environmental renovation projects including the modification on the one-off soot removal for the converter and the upgrade on desulphurization of sintered activated carbon in Bayuquan.

(3) Environmental impact assessment on construction projects and administrative permits concerning environmental protection

In 2017, environmental impact assessment was carried out for all construction projects approved by the Company according to laws and all such projects were completely in line with the environmental “three simultaneities” principle.

(4) Emergency plan for environmental contingency

In 2017, the Company made amendments to Emergency Plan for Environmental Contingency and prepared the Emergency Plan for Heavily Polluted Weather Conditions as required by Anshan Municipal Government.

(5) Voluntary environmental monitoring plan

The Company has established and has been consummating the comprehensive environmental information management platform, having substantially improved the information-based management over environmental protection matters. In 2017, the Company newly installed 8 automated noise monitoring devices and 20 dustfall collection tanks and planed to install 51 additional automated dust and gaseous pollutant monitoring devices in 2018. As a result, the monitoring scope was further extended and environmental management performance was improved significantly. In 2017, the Company formulated and implemented the monitoring plan in accordance with laws and regulations and recorded 100% monitoring coverage throughout the year.

Significant Events (Continued)

XVI. SUBSEQUENT EVENTS

1. On 30 January 2018, the Resolution on Entering into the First Batch of the Energy Management Contract between the Company and Angang Energy Conservation was considered and approved at the 26th meeting of the seventh session of the Board of the Company, pursuant to which, the Company intended to construct a 180MW gas-steam combined cycle power generation unit (the “180MW CCPP Energy Contract Project”) with Angang Energy Conservation. In other words, Angang Energy Conservation will contribute to the construction of 180MW CCPP Energy Contract Project. During the benefit sharing period of 40 months, the energy efficiency revenue shall be shared by both parties thereof, and will be paid by the Company to Angang Energy Conservation proportionally. Relevant assets formed in the project shall be vested in the Company upon expiry of the Contract. The planned investment for the first batch of 2018 Energy Management Contract amounts to approximately RMB700,000,000 (exclusive of customs duties for imported equipment, value added tax and interests accrued during the construction period). It is estimated that the net energy-saving benefit paid to Angang Energy Conservation by the Company will not exceed RMB1,470,000,000 (tax inclusive) during the benefit sharing period.
2. On 9 February 2018, the Resolution on Entering into Land Lease Contracts between each of the Company, Angang Holding and Angang Naihuo was considered and approved at the 27th meeting of the seventh session of the Board of the Company, pursuant to which, the lease terms shall commence from 9 February 2018 to 8 January 2019, the rental for lease of land use rights of Angang Holding and Angang Naihuo shall be RMB74,680,000 and RMB4,360,000 with respective land area of 8,427,508.80 square metres and 320,148.10 square metres.

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	Shares Transferred from accumulated fund	Others	Sub-total	Number	Percentage (%)
I. Shares subject to trading moratorium	13,237	0.00	-	-	-	+2,500	+2,500	15,737	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	13,237	0.00	-	-	-	+2,500	+2,500	15,737	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	7,234,794,610	100.00	-	-	-	-2,500	-2,500	7,234,792,110	100.00
1. Renminbi ordinary shares	6,148,994,610	84.99	-	-	-	-2,500	-2,500	6,148,992,110	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

Movement in Share Capital and Shareholders' Profile (Continued)

I. MOVEMENT IN SHARE CAPITAL (Continued)

1. Movement in Share Capital (Continued)

Reasons for movement in shares:

During the Reporting Period, there were changes in Directors, Supervisors and senior management. Certain Directors of the Company had resigned for less than six months and all shares held by them were subject to trading moratorium, which resulted in 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.

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 during the period	Shares subject to trading moratorium at the end of the period	Reason for the trading moratorium	Date of release of the trading moratorium
Yao Lin	7,500	2,500	-	10,000	All shares held by certain directors are locked within six months upon their resignation	23 May 2018
Total	7,500	2,500	-	10,000	-	-

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	107,225 of which 525 were holders of H shares	The total number of ordinary shareholders of the Company as at 28 February 2018	100,964
--	---	---	---------

Name of shareholder	Nature of shareholder	Percentage of shareholding (%)	Details of shareholders with more than 5% of shares					Number of shares pledged or frozen	
			Number of shares held 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		
			Period	Period	to trading moratorium	to trading moratorium	shares	Amount	
Anshan Iron & Steel Group Co. Ltd.	State-owned legal person	58.31	4,218,547,330	-650,000,000	-	4,218,547,330	-	-	
HKSCC (Nominees) Limited	Overseas legal person	14.86	1,075,122,283	+862,627	-	1,074,259,656	-	-	
China National Petroleum Corporation	State-owned legal person	8.98	650,000,000	+650,000,000	-	650,000,000	-	-	
Central Huijin Asset Management Ltd.	State-owned legal person	1.00	72,575,900	0	-	72,575,900	-	-	
Hong Kong Securities Clearing Company Limited	Overseas legal person	0.97	70,136,495	+64,568,220	-	70,136,495	-	-	
Abu Dhabi Investment Authority (阿布達比投資局)	Overseas legal person	0.34	24,755,900	+2,028,900	-	24,755,900	-	-	

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				Number of shares pledged or frozen	
			Number of shares held 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	Amount
# He Zhiming	Domestic natural person	0.20	14,548,700	–	–	14,548,700	–	–
Portfolio 107 of The National Social Security Fund (全國社保基金一零七組合)	Others	0.18	13,085,301	–	–	13,085,301	–	–
China Life Insurance Company Limited – Traditional – Ordinary insurance products – 005L-CT001 Shenzhen (中國人壽保險股份有限公司 – 傳統 – 普通保險產品-005L-CT001深)	Others	0.17	12,558,925	–	–	12,558,925	–	–
ICBC – Guangfa Strategic Prime Mixed Security Investment Fund (中國工商銀行-廣發策略優選混合型證券投資基金)	Others	0.17	12,138,996	–	–	12,138,996	–	–

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
Anshan Iron & Steel Group Co. Ltd.	4,218,547,330	Renminbi ordinary shares	4,218,547,330
HKSCC (Nominees) Limited	1,075,122,283	Overseas listed foreign shares	1,075,122,283
China National Petroleum Corporation	650,000,000	Renminbi ordinary shares	650,000,000
Central Huijin Asset Management Ltd.	72,575,900	Renminbi ordinary shares	72,575,900
Hong Kong Securities Clearing Company Limited	70,136,495	Renminbi ordinary shares	70,136,495
Abu Dhabi Investment Authority (阿布達比投資局)	24,755,900	Renminbi ordinary shares	24,755,900
# He Zhiming	14,548,700	Renminbi ordinary shares	14,548,700
Portfolio 107 of The National Social Security Fund (全國社保基金一零七組合)	13,085,301	Renminbi ordinary shares	13,085,301

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	Number of shares held not subject to trading moratorium at the end of the Year	Type of share	Amount
China Life Insurance Company Limited – Traditional – Ordinary insurance products – 005L-CT001 Shenzhen (中國人壽保險股份有限公司 – 傳統 – 普通保險產品-005L-CT001深)	12,558,925	Renminbi ordinary shares	12,558,925
ICBC – Guangfa Strategic Prime Mixed Security Investment Fund (中國工商銀行-廣發策略優選混合型證券投資基金)	12,138,996	Renminbi ordinary shares	12,138,996

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.

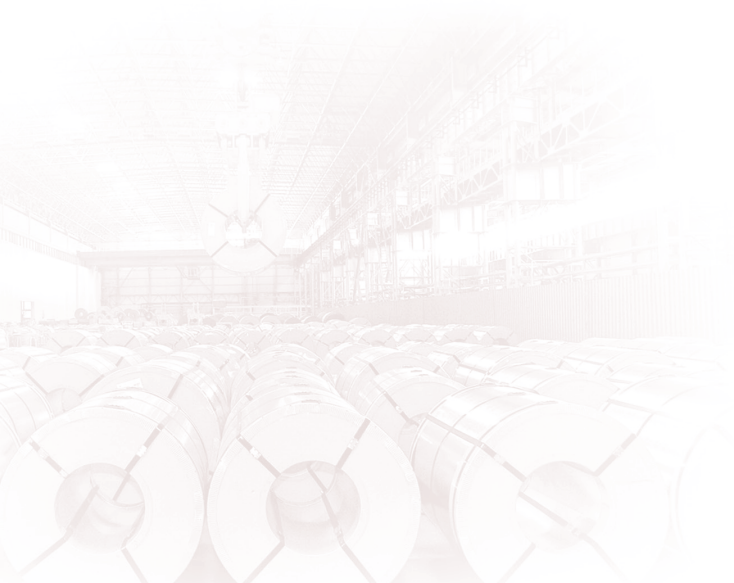
The top ten holders of ordinary shares and the top ten holders of ordinary shares not subject to trading moratorium of the Company did not make any agreed repurchase transactions during the Reporting Period.

Movement in Share Capital and Shareholders' Profile (Continued)

III. SHAREHOLDERS AND DE FACTO CONTROLLER (CONTINUED)

2. Details of the controlling shareholder of the Company

Name of Controlling Shareholder	Legal representative	Date of incorporation	Organization code	Registered capital	Principal scope of operation
Angang Holding	Wang Yidong	9 July 1949	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 rolling 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, survey and design, 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	928,946,141	10.8146
600705	AVIC Capital	1,900,704	0.021
601989	China Shipbuilding Industry	14,420,000	0.076
601939	China Construction Bank	6,584,300	0.003
601988	Bank of China	103,611,387	0.035
600432	*ST JIEN	21,690,200	1.352

3. Details of de facto controller of the Company



Movement in Share Capital and Shareholders' Profile (Continued)

III. SHAREHOLDERS AND DE FACTO CONTROLLER (CONTINUED)

3. Details of de facto controller of the Company (Continued)

Name of de facto controller	Person-in- charge	Date of incorporation	Organization code	Registered Capital	Principal scope of operation
Anshan Iron & Steel Group Co. Ltd	Yao Lin	28 July 2010	91210000558190456G	RMB50 billion	Manufacture of steel, iron, vanadium, titanium, stainless steel and special steel, manufacture of non-ferrous metal, steel rolling and processing, mining and integrated utilization of steel, vanadium, titanium, other non-ferrous metal and non-metallic mineral, ancillary industry of mines, power generation with clean energy, sales of coal and related products, production and sales of chemical products, gas (exclusive of dangerous chemicals) and refractory materials, construction of industrial and mining projects as well as metallurgical project, engineering technological service, equipment manufacturing, information service for IOT, technological service for energy saving and environmental protection, R&D of new type of materials, development of recyclable resources, machinery processing, technological development, transfer and related services, service in communication and transportation, real estate development, energy supply of urban area, software and information technological service, intelligent manufacturing and service, domestic and overseas trading, accounting management, tendering services, medical nursing services, occupational skills training, economic information consultation, corporate management, hotel and catering services, operation of other state-owned assets and investment within the scope of authority by the SASAC. The following businesses operated by the branches of the Company include: publication of newspaper and magazine, publication printing, packaging decoration and printing of other presswork. (for projects subject to approval according to laws, business activities may only be carried out after obtaining approval from relevant authorities).

Movement in Share Capital and Shareholders' Profile (Continued)

III. SHAREHOLDERS AND DE FACTO CONTROLLER (CONTINUED)

3. Details of de facto controller of the Company (Continued)

During the Reporting Period, details of direct shareholding of other domestic and overseas listed foreign shares by Angang, the de facto controller of the Company, are as follows:

Stock Code	Name of Shares	Number of shares held (share)	Percentage of total share capital (%)
601857	A shares of China Petroleum	440,000,000	0.24

There was no change in de facto controller of the Company during the Reporting Period.

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 2017, 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

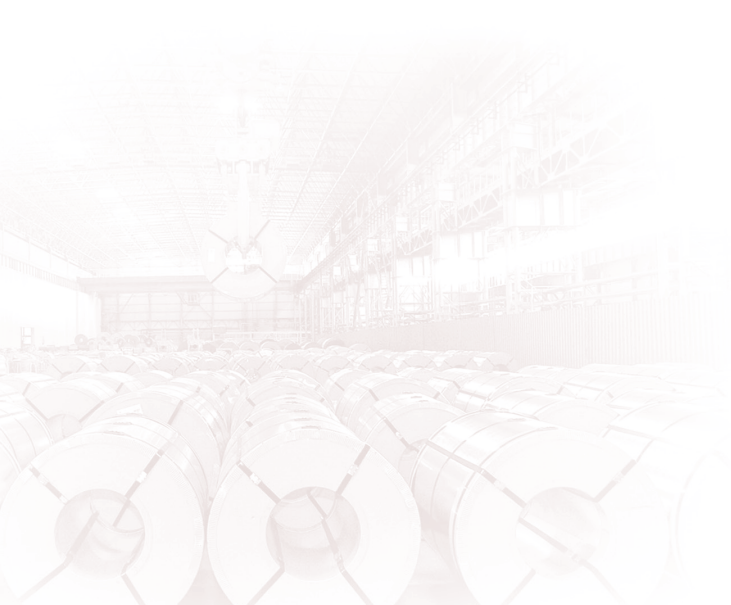
Name of shareholders	Number and class of shares held	Percentage of total share capital	Percentage of total H Shares in issue	Percentage of total domestic shares in issue	Capacity
Anshan Iron & Steel Group Co. Ltd.	4,218,547,330 State shares	58.31%	–	68.61%	Beneficial owner
HKSCC Nominees Limited	1,075,122,283 H Shares	14.86%	99.02%	–	Nominee

Movement in Share Capital and Shareholders' Profile (Continued)

III. SHAREHOLDERS AND DE FACTO CONTROLLER (CONTINUED)

5. **Restrictions on reduction of shares for the controlling shareholder, de facto controller, party to restructuring and other commitment entity**

☐ Applicable ☒ Not applicable



Information on Directors, Supervisors, Senior Management and Employees

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

Name	Position	Status of Position	Gender	Age	Date of Commencement of Term	Date of Termination of Term	No. of Shares Held at the Beginning of the Reporting Period (shares)	No. of Shares Increased in the Reporting Period (shares)	No. of Shares Reduced in the Reporting Period (shares)	No. of Shares Held at the End of the Reporting Period (shares)
Wang Yidong	Chairman	In office	Male	49	2017.11.23	–	7,650	–	–	7,650
	Executive Director	In office			2013.07.08	–				
	General Manager	Resigned			2013.07.08	2017.11.23				
Li Zhongwu	Former executive Director	Resigned	Male	55	2016.06.08	2018.3.5	0	–	–	0
	Former Deputy General Manager	Resigned			2016.03.30	2018.1.10				
Zhang Jingfan	Former executive Director	Resigned	Male	53	2015.08.21	2018.3.5	0	–	–	0
	Former Joint Company Secretary	Resigned			2015.11.24	2018.1.10				
	Former Chief Accountant	Resigned			2015.06.03	2018.1.10				
Wu Dajun	Independent non-executive Director	In office	Male	61	2016.06.08	–	0	–	–	0
Ma Weiguo	Independent non-executive Director	In office	Male	48	2016.06.08	–	0	–	–	0
Luo Yucheng	Independent non-executive Director	In office	Male	52	2016.06.08	–	0	–	–	0
Lin Daqing	Chairman of the Supervisory Committee	In office	Male	52	2015.08.21	–	0	–	–	0
Liu Xiaohui	Supervisor	In office	Female	49	2016.06.08	–	0	–	–	0
Yuan Peng	Supervisor	In office	Male	50	2016.06.08	–	0	–	–	0
Xu Shishuai	Deputy General Manager	In office	Male	44	2016.03.30	–	0	–	–	0
Meng Jinsong	Deputy General Manager	In office	Male	48	2016.03.30	–	0	–	–	0
Li Zhen	Deputy General Manager (in charge)	In office	Male	47	2018.1.10	–	0	–	–	0
	Executive Director	In office			2018.3.5	–				

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

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

Name	Position	Status of Position	Gender	Age	Date of Commencement of Term	Date of Termination of Term	No. of Shares Held at the Beginning of the Reporting Period	No. of Shares Increased in the Reporting Period	No. of Shares Reduced in the Reporting Period	No. of Shares Held at the End of the Reporting Period
							(shares)	(shares)	(shares)	(shares)
Ma Lianyong	Deputy General Manager, Chief Accountant, Joint Company Secretary (i.e. Company secretary)	In office	Male	55	2018.1.10	-	0	-	-	0
	Executive Director	In office			2018.3.5	-				
Xie Junyong	Deputy General Manager	In office	Male	52	2018.1.10	-	0	-	-	0
	Executive Director	In office			2018.3.5	-				
Chen Chun	Joint Company Secretary (i.e. Company secretary)	In office	Female	30	2017.10.20	-	0	-	-	0
Yao Lin	Former Chairman	Resigned	Male	52	2015.06.03	2017.11.23	10,000	-	-	10,000
Kwok Siu Man	Former Joint Company Secretary (i.e. Company secretary)	Resigned	Male	59	2015.11.24	2017.10.20	0	-	-	0
Liu Baoshan	Former Deputy General Manager	Resigned	Male	56	2017.8.24	2017.11.23	-	-	-	-

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.

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 2017, 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.

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

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. Wang Yidong is the Chairman, an Executive Director of the Company and a senior engineer. He concurrently serves as the chairman of Angang Holding. 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 Angang Group 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, manager of Baiyuquan Steel Branch Company (鮫魚圈鋼鐵分公司) of the Company, the Deputy General Manager and General Manager of the Company.

Mr. Li Zhen is an Executive Director, Deputy General Manager (in charge) of the Company. He is a professor-level senior engineer. Mr. Li graduated from Northeastern University* (東北大學) with a bachelor's degree of engineering, majoring in ferrous metallurgy and a master's degree and a doctoral degree in metallurgy engineering. Mr. Li joined Angang Group in 1991 and has held various positions including the plant manager of the Second Steel Making Plant and of the Main Steel Making Plant under the Company, general manager and director of Pangang Group Chengdu Steel Vanadium Co., Ltd.* (攀鋼集團成都鋼鈮有限公司) and Pangang Group Chengdu Steel & Iron Co., Ltd. (攀鋼集團成都鋼鐵有限公司), director and deputy chairman of Pangang Group Chengdu Investment Management Company Limited (攀鋼集團成都投資管理有限公司) and deputy chairman and chairman of Angang Guangzhou Lianzhong Stainless Steel Co., Ltd. (鞍鋼聯眾(廣州)不銹鋼有限公司) and Angang Guangzhou Hanyang Iron & Steel Company Limited (鞍鋼瀚陽(廣州)鋼鐵有限公司).

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

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. Ma Lianyong is an Executive Director, Deputy General Manager, the Chief Accountant, a Joint Secretary to the Board (Joint Company Secretary) and a professor-level senior accountant. Mr. Ma received a master degree in engineering, majoring in financial management from Northeastern University (東北大學) and a master degree in engineering, majoring in industrial foreign trade from Beihang University (北京航空航天大學). He has been working for Angang Group for over 30 years and has held various positions including head of the financial planning department, chief accountant and secretary to the board, chief accountant of Pangang Group Company (攀鋼集團有限公司), external director of Angang Group Finance Co., Ltd. (鞍鋼集團財務有限責任公司), director of Pangang Vanadium & Titanium, and external director of Hoin Real Estate Co., Ltd.* (合誼地產有限公司).

Mr. Xie Junyong is an Executive Director, Deputy General Manager of the Company and a senior engineer. Mr. Xie graduated from Beijing Institute of Iron and Steel Technology (北京鋼鐵學院) with a bachelor's degree of engineering, majoring in ferrous metallurgy. He joined Panzhihua Iron & Steel (Group) Corporation (攀枝華鋼鐵集團公司) in 1987 and sequentially served, for nearly 30 years, as plant manager of the Iron Smelting Plant, deputy general manager, general manager as well as executive director (legal representative) of Pangang Vanadium & Titanium, Deputy General Manager of Pangang Group Company Limited (攀鋼集團有限公司), vice chairman of the board of Chengdu West Wulian Group Co., Ltd. (成都西部物聯集團有限公司), and vice chairman of the board of Pangang Group Chengdu Investment Management Company Limited (攀鋼集團成都投資管理有限公司).

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

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 an independent non-Executive Director of the Company. He currently serves as 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 an independent non-Executive Director of the Company and a Chinese certified public accountant. He currently serves as the chairman of Shanghai Yichen Investment Management Co., Ltd (上海億宸投資管理公司). 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, and as the partner and the Managing Director of Shenzhen Cowin Asset Management Co., Ltd.

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

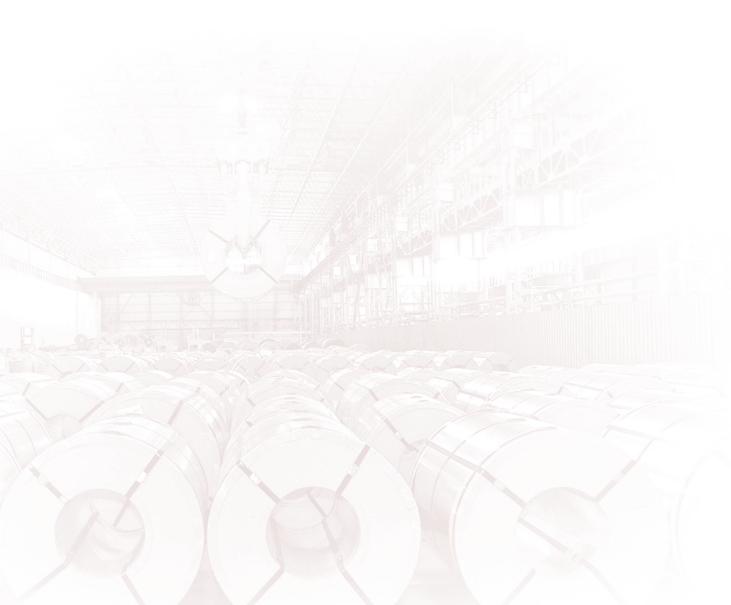
II. EMPLOYMENT INFORMATION (CONTINUED)

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: (Continued)

Mr. Luo Yucheng is an independent non-Executive Director of the Company and 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.



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

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 and a Supervisor 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 Angang Holding, 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 Angang Group in 1988 and has previously served as an assistant to the factory manager of Cold-Rolling Plant (冷軋廠) of Angang; 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 ANSI; an assistant to the general manager of Angang Holding; a member of standing committee of the Communist Party Committee and deputy general manager cum secretary of the Committee for Discipline Inspection of Angang Holding.

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

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

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 of Directors (Continued)

Staff Representative Supervisor:

Mr. Yuan Peng, Supervisor of the Company, is a senior political affairs specialist and currently the deputy chairman of the labor union of the Company and Angang Holding. 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 Angang Group 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 Angang Holding, deputy director in charge of the office of the Communist Youth League of Angang Holding, and deputy director and director of the integrated office of the labor union of Angang Holding.

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 of engineering from Northeastern University majoring in material engineering. Mr. Xu joined Angang Group in 1996, and had previously held various positions including the director of Hot-strip Plant of the Company, deputy manager and manager of Bayuquan Iron & Steel 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 Angang Group 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 Iron & Steel Branch Company, vice director of the Technical Quality Control Department of Angang, director of Technology Development Department of Angang.

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

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)

Ms. Chen Chun, joint secretary to the Board (i.e. joint company secretary) of the Company, is currently a business development manager of SW Corporate Service Group Limited. Ms. Chen graduated from Shanghai Finance University with a bachelor degree in Economics. Ms. Chen is an associate member of The Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom. Ms. Chen is granted the qualification certificate for secretary to the board of directors by Shanghai Stock Exchange. Ms. Chen currently provides support and advisory services on listed companies' company secretarial work and compliance matters.

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 the term	Receipt of remuneration and allowance in the shareholder
Wang Yidong	Angang Holding	Chairman	2017.12	–	Yes
Lin Daqing	Angang Holding	Deputy Secretary of the Party Committee and chairman of the labor union	2013.12	–	Yes
Liu Xiaohui	Angang	Department Head of the Legal Department	2015.04	–	Yes
Yuan Peng	Angang Holding	Deputy Chairman of the Labor Union	2013.03	–	Yes
Details of the position held at the shareholder			–		

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

II. EMPLOYMENT INFORMATION (CONTINUED)

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 the 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	Shanghai Yichen Investment Management Co., Ltd. (上海億宸投資管理公司)	Chairman of the board of directors	2017.07	–	Yes
Luo Yucheng	ShineWing Certified Public Accountants	Partner and deputy general manager	1999.10	–	Yes
Chen Chun	SW Corporate Service Group Limited	Business development manager	2013.12	–	Yes
Details of the position held at other organizations			–		

Penalty imposed on incumbent Directors, Supervisors and senior management or those resigned during the Reporting Period by securities regulatory authorities for the last three years

☐ Applicable ☒ Not applicable

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

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
Wang Yidong	Executive Director and Chairman	Male	49	Incumbent	81.75	Yes
Li Zhongwu	Former executive Director, Former deputy general manager	Male	55	Resigned	56.60	No
Zhang Jingfan	Former executive Director, former chief accountant, former joint secretary to the Board	Male	53	Resigned	46.26	No
Wu Dajun	Independent non-executive Director	Male	61	Incumbent	12.00	No

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

III. REMUNERATION OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (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
Ma Weiguo	Independent non-executive Director	Male	48	Incumbent	12.00	No
Luo Yucheng	Independent non-executive Director	Male	52	Incumbent	12.00	No
Lin Daqing	Chairman of the Supervisory Committee	Male	52	Incumbent	0	Yes
Liu Xiaohui	Supervisor	Male	49	Incumbent	0	Yes
Yuan Peng	Supervisor	Male	50	Incumbent	32.98	Yes
Xu Shishuai	Deputy general manager	Male	44	Incumbent	56.86	No
Meng Jingsong	Deputy general manager	Male	48	Incumbent	57.77	No
Chen Chun	Joint secretary to the Board (i.e. company secretary)	Female	30	Incumbent	0	No
Yao Lin	Former Chairman	Male	52	Resigned	0	Yes
Kwok Siu Man	Former joint secretary to the Board (i.e. company secretary)	Male	59	Resigned	0	No
Liu Baoshan	Former deputy general manager	Male	56	Resigned	42.38	No (Received no remuneration from a corporate shareholder during her term of office)

Note: The above remuneration excludes the insurance, welfare fund, education surcharges and other costs of salary recorded by the Company.

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	Resigned	23 November 2017	Change of job
Wang Yidong	General manager	Resigned	23 November 2017	Change of job
	Chairman	Elected	23 November 2017	
Li Zhongwu	Executive Director	Resigned	5 March 2018	Change of job
	Deputy general manager	Resigned	10 January 2018	Change of job
Zhang Jingfan	Executive Director	Resigned	5 March 2018	Change of job
	Chief accountant, joint secretary to the Board (company secretary)	Resigned	10 January 2018	Change of job
Li Zhen	Deputy general manager (presiding)	Appointed	10 January 2018	
	Executive Director	Elected	5 March 2018	
Ma Lianying	Deputy general manager, chief accountant, joint secretary to the Board (i.e. company secretary)	Appointed	10 January 2018	
	Executive Director	Elected	5 March 2018	
Xie Junyong	Deputy general manager	Appointed	10 January 2018	
	Executive Director	Elected	5 March 2018	
Kwok Siu Man	Joint secretary to the Board (i.e. company secretary)	Resigned	20 October 2017	
Chen Chun	Joint secretary to the Board (i.e. company secretary)	Appointed	20 October 2017	
Liu Baoshan	Former deputy general manager	Appointed	24 August 2017	
	Former deputy general manager	Resigned	23 November 2017	

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 (<i>person</i>)	34,876
Number of current employees in major subsidiaries (<i>person</i>)	1,228
Total number of current employees (<i>person</i>)	36,104
Total number of employees receiving remuneration during the period (<i>person</i>)	36,104
Number of ex-employees or retired employees for which the Company and the major subsidiaries have obligations (<i>person</i>)	0

Specialty composition

Category of specialty composition	Number of people (<i>person</i>)
Production	25,085
Sales	328
Technical	2,366
Finance	272
Administration	2,006
Others	6,047
Total	36,104

Education level

Category of education level	Number of people (<i>person</i>)
Bachelor's degree and above	9,554
Post-secondary	9,763
Technical secondary school	15,419
Others	1,368
Total	36,104

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

V. EMPLOYEES OF THE COMPANY (CONTINUED)

2. Training programs

In 2017, by centering on the production and operation and transformation and upgrade of the Company, and taking personnel cultivation as the entry point, the Company conscientiously carried out the multi-level 2017 implementation plan of the education and training programs for employees by multiple means and via multiple channels. The education training programs for employees focused on deepening reform, serving for the overall targets, transformation and upgrading, law-based corporate governance and ensuring the sustainable and health development of the Company. Thanks to these efforts, the atmosphere for innovation-driven, personnel cultivation, technological advancement and employee's self-learning was enhanced remarkably; the business capability and comprehensive quality of the employees were further improved, providing sound talent backup and intellectual support to the objective of building up an iron & steel enterprise with the strongest comprehensive competitiveness.

The total training attendance of employees reached 17,960 in 2017. Among which, the attendance of the core leadership training for the senior management regarding political ideology and strategies and transformation was 1,737; the attendance of the trainings in managerial expertise and advanced iron and steel R&D technology for management officers and professional technician was 8,355; the attendance of the trainings (including micro-classes) in improving innovation abilities for high-tech talents was 4,082; the attendance of the trainings concerning the safety qualification of special operation was 8,881, the attendance of the rotating trainings for the secretaries of the Party branches was 348 and the attendance of the special trainings for shift monitors and team leaders was 4,701. 46 managerial officers and professional technician were dispatched for on-the-job trainings, and 68,048 primary employees received trainings for job knowledge and operational skills.

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

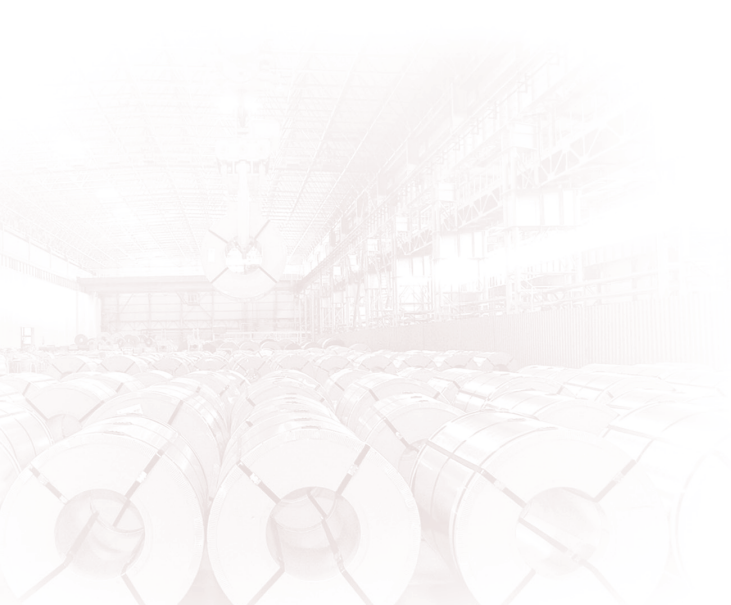
I. BASIC INFORMATION ON CORPORATE GOVERNANCE

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. General meeting during the Reporting Period

Session of Meeting	Type of Meeting	Proportion of investors involvement	Date of convening
2017 first extraordinary general meeting	Extraordinary general meeting	71.66%	15 February 2017
2016 annual general meeting	Annual general meeting	71.67%	8 June 2017

V. DUTY PERFORMANCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS DURING THE REPORTING PERIOD

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

Attendance of independent non-executive Directors at Board meetings

Name of independent non-executive Director	Required attendance at the Board meetings during the Reporting Period	Attendance in person	Attendance through communication	Attendance by proxy	Absence	Non-attendance in person for two consecutive times
Wu Dajun	15	4	11	0	0	No
Ma Weiguo	15	3	11	1	0	No
Luo Yucheng	15	3	11	1	0	No
Attendance of independent non-executive Directors at general meetings					1	

Corporate Governance (Continued)

V. DUTY PERFORMANCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS DURING THE REPORTING PERIOD (CONTINUED)

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 2017, 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 Hong Kong Listing Rules, the Rules Governing the Listing of Shares on the Shenzhen Stock Exchange, and other regulations, the Company has regulated its operations and established a comprehensive corporate governance system and an effective internal control system, and endeavored to reduce the legal risks for Directors. Therefore, no insurance arrangement was made in respect of the Directors.

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 Director

Throughout the Reporting Period, the Board of the Company had been in compliance with Rule 3.10(1) of the Hong Kong Listing Rules, which requires a company to maintain at least three independent non-executive directors, and with the Rule 3.10(2) of the Hong Kong Listing Rules, 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 Hong Kong Listing Rules in respect of their independence. The Company is of the opinion that all of the independent non-executive Directors are independent.



Corporate Governance (Continued)

VI. CORPORATE GOVERNANCE REPORT (CONTINUED)

4. The Board and Its Special Committees

(1) Composition of the Board

The Board of the Company comprises six members including one Chairman, two executive Directors and three independent non-executive Directors as at the end of the Reporting Period. The number of independent non-executive Directors of the Company represents over one-third of the members of the Board.

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 2017 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
Wang Yidong	Chairman	15(0)/100%	2/100%
Li Zhongwu	Former Executive Director	15(0)/100%	2/100%
Zhang Jingfan	Former Executive Director	15(0)/100%	2/100%
Wu Dajun	Independent non- executive Director	15(0)/100%	0/0%
Ma Weiguo	Independent non- executive Director	15(1)/100%	1/50%
Luo Yucheng	Independent non- executive Director	15(1)/100%	0/0%
Yao Lin	Former Chairman	12(0)/100%	2/100%

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 final accounts 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 2017, the Board of the Company held a total of 15 Board meetings.

(3) Remuneration and Appraisal Committee

In 2017, 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	100%
Wang Yidong	member	—
Wu Dajun	member	100%
Luo Yucheng	member	100%
Yao Lin	former member	100%
Li Zhongwu	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 Officer on the remuneration of other 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;

Corporate Governance (Continued)

VI. CORPORATE GOVERNANCE REPORT (CONTINUED)

4. The Board and Its Special Committees (Continued)

(3) Remuneration and Appraisal Committee (Continued)

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

In 2017, 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 2016 and reviewed their remunerations for 2016, and submitted the same to the Board for consideration.

(4) Nomination Committee

In 2017, 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	100%
Wang Yidong	member	—
Ma Weiguo	member	100%
Luo Yucheng	member	100%
Yao Lin	former member	100%
Zhang Jingfan	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 reappointment of Directors and succession plan for Directors, in particular, the Chairman and the General Manager.

In 2017, the Nomination Committee of the Company held two meetings to nominate to the Board the candidates of deputy general manager, candidates of secretary 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 2017, 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%

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 (i.e. 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;

Corporate Governance (Continued)

VI. CORPORATE GOVERNANCE REPORT (CONTINUED)

4. The Board and Its Special Committees (Continued)

(5) Audit Committee (Continued)

- (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
- (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 2017, the Audit Committee of the Company held a total of five 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, and nominated auditor of the Company for 2017, 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 2017.

Corporate Governance (Continued)

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 2017

The Company's financial report for 2017 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 2017

Ruihua Certified Public Accountants (Special General Partnership) performed their duties during the auditing of the Company's financial statements for 2017 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.

Corporate Governance (Continued)

VI. CORPORATE GOVERNANCE REPORT (CONTINUED)

4. The Board and Its Special Committees (Continued)

(5) Audit Committee (Continued)

- Opinions on 2017 Self-evaluation Report on Internal Control

During the Reporting Period,, the Company established an internal control system for businesses and matters covered by the assessment scope of 2017 Self-evaluation Report on Internal Control and effectively implemented the system, hence achieving the Company's internal control objectives. No cases of material and significant defects were found in the system. Accountants of the Company have obtained certificate of accounting professional and received post-trainings each year according to the Administrative Procedures for Education and Training (《教育培訓管理辦法》) under adequate training budget.

(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 Directors, namely: Yao Lin, Wang Yidong, Li Zhongwu, Zhang Jingfan, Wu Dajun, Ma Weiguo, Luo Yucheng.

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.

Corporate Governance (Continued)

VI. CORPORATE GOVERNANCE REPORT (CONTINUED)

5. Chairman and General Manager (Continued)

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.

Corporate Governance (Continued)

VI. CORPORATE GOVERNANCE REPORT (CONTINUED)

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

In accordance with the requirements as set out in the Certain Opinions on Upholding the Party's Leadership and Strengthening the Party Construction in Deepening the Reform of State-owned Enterprises (《關於在深化國有企業改革中堅持黨的領導加強黨的建設的若干意見》) issued by the CPC Central Committee and the Guidelines for Articles of Association of Listed Companies (《上市公司章程指引》) issued by CSRC and based on the actual situation of the Company, the Company made amendments to the Articles of Association. In addition, Anshan Iron & Steel Group Complex (鞍山鋼鐵集團公司) therein shall be amended as Anshan Iron & Steel Group Co. Ltd. (鞍山鋼鐵集團有限公司) as Anshan Iron & Steel Group Complex (鞍山鋼鐵集團公司), the controlling shareholder of the Company, was renamed as Anshan Iron & Steel Group Co. Ltd. (鞍山鋼鐵集團有限公司) with details listed as follows:

Comparison Table Of The Articles Of Association Before And After The Amendments

	Existing Articles	Amended Articles
Article 1	Article 1: The Company is a joint-stock limited company established under "The Company Law of the People's Republic of China" (the "Company Law"), "State Council's Special Regulations on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies" (the "Regulations"), and other relevant laws and regulations of the People's Republic of China ("PRC").	Article 1: The Company is a joint-stock limited company established under "The Company Law of the People's Republic of China" (the "Company Law"), "State Council's Special Regulations on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies" (the "Regulations"), and other relevant laws and regulations of the People's Republic of China ("PRC").

Corporate Governance (Continued)

VI. CORPORATE GOVERNANCE REPORT (CONTINUED)

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

Comparison Table Of The Articles Of Association Before And After The Amendments

Existing Articles	Amended Articles
<p>The Company, having been approved by the State Commission for Restructuring the Economic System of the PRC (Ti Gai Sheng [1997] No. 62) and established by way of the promoter method on 7 May 1997, was registered with the State Administration for Industry and commerce on 8 May, 1997 with a business license obtained. The business license number of the Company is 210000400006026.</p> <p>The promoter of the Company is Anshan Iron & Steel Group Complex.</p>	<p>The Company, having been approved by the State Commission for Restructuring the Economic System of the PRC (Ti Gai Sheng [1997] No. 62) and established by way of the promoter method on 7 May 1997, was registered with the State Administration for Industry and commerce on 8 May 1997 with a business license obtained. The business license number of the Company is 912100002426694799.</p> <p>The promoter of the Company is Anshan Iron & Steel Group Co. Ltd.</p>
<p>An article is to be added after Article 10 of Chapter 1</p>	<p>Article 11:</p> <p>In accordance with the relevant provisions under the Constitution of the Communist Party of China, the Company shall establish an organization of the Communist Party of China. The Party committee shall perform the core leading and political functions, control the directions, manage the situation and ensure the implementation. The Company shall set up a working agency for the Party, allocate sufficient personnel to handle Party affairs and guarantee working funds for the Party organization.</p>

Corporate Governance (Continued)

VI. CORPORATE GOVERNANCE REPORT (CONTINUED)

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

Comparison Table Of The Articles Of Association Before And After The Amendments

	Existing Articles	Amended Articles
Original Article 11 is amended as Article 12	<p>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.</p> <p>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.</p>	<p>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.</p> <p>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 Co. Ltd.</p>

Corporate Governance (Continued)

VI. CORPORATE GOVERNANCE REPORT (CONTINUED)

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

Comparison Table Of The Articles Of Association Before And After The Amendments

	Existing Articles	Amended Articles
Article 20	<p>At the time of the Company's establishment, the promoter was issued 1,319,000,000 shares and representing 100% of the share capital of the Company.</p> <p>The Company shall make an increase of capital after its establishment by issuing 890,000,000 (not including the shares that may be additionally issued pursuant to the exercise of an over-allotment option) overseas listed foreign invested shares in the form of H shares and 300,000,000 domestic invested shares in the form of A Shares. Upon the increase of capital by issuing overseas listed foreign invested shares and domestic invested shares as referred to in the preceding paragraph, the share structure of the Company shall be as follows: a total of 2,509,000,000 shares, of which 1,319,000,000 shares are held by Anshan Iron & Steel Group Complex in the form of state legal person shares, representing 52.6% of the total share capital of the Company; 890,000,000 shares are held by holders of overseas listed foreign invested shares in the form of H shares, representing 35.4% of the total share capital of the Company and 300,000,000 shares are held by holders of domestic invested shares representing 12% of the total share capital of the Company.</p>	<p>At the time of the Company's establishment, the promoter was issued 1,319,000,000 shares and representing 100% of the share capital of the Company.</p> <p>The Company shall make an increase of capital after its establishment by issuing 890,000,000 (not including the shares that may be additionally issued pursuant to the exercise of an over-allotment option) overseas listed foreign invested shares in the form of H shares and 300,000,000 domestic invested shares in the form of A Shares. Upon the increase of capital by issuing overseas listed foreign invested shares and domestic invested shares as referred to in the preceding paragraph, the share structure of the Company shall be as follows: a total of 2,509,000,000 shares, of which 1,319,000,000 shares are held by Anshan Iron & Steel Group Co. Ltd. in the form of state legal person shares, representing 52.6% of the total share capital of the Company; 890,000,000 shares are held by holders of overseas listed foreign invested shares in the form of H shares, representing 35.4% of the total share capital of the Company and 300,000,000 shares are held by holders of domestic invested shares representing 12% of the total share capital of the Company.</p>

Corporate Governance (Continued)

VI. CORPORATE GOVERNANCE REPORT (CONTINUED)

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

Comparison Table Of The Articles Of Association Before And After The Amendments

Existing Articles	Amended Articles
<p>After the conversion of stock A of the Company to the bond, the share structure of the Company shall be as follows: a total of 2,962,985,697 shares, of which 1,319,000,000 shares are held by Anshan Iron & Steel Group Complex in the form of State shares, representing 44.5% of the total share capital of the Company; 890,000,000 shares are held by holders of overseas listed foreign invested shares in the form of H shares, representing 30.0% of the total share capital of the Company and 753,985,697 shares are held by holders of domestic invested shares, representing 25.5% of the total share capital of the Company.</p>	<p>After the conversion of stock A of the Company to the bond, the share structure of the Company shall be as follows: a total of 2,962,985,697 shares, of which 1,319,000,000 shares are held by Anshan Iron & Steel Group Co. Ltd. in the form of State shares, representing 44.5% of the total share capital of the Company; 890,000,000 shares are held by holders of overseas listed foreign invested shares in the form of H shares, representing 30.0% of the total share capital of the Company and 753,985,697 shares are held by holders of domestic invested shares, representing 25.5% of the total share capital of the Company.</p>
<p>Following the completion of the non-tradable shares reform, the share structure of the Company shall be as follows: a total of 2,962,985,697 ordinary shares, of which 1,130,503,576 domestic invested shares are held by Anshan Iron & Steel Group Complex in the form of State shares, representing 38.2% of the total share capital of the Company; 942,482,121 shares are held by other holders of domestic invested shares, representing 31.8% of the total share capital of the Company and 890,000,000 shares are held by holders of overseas invested shares in the form of H shares, representing 30.0% of the total share capital of the Company.</p>	<p>Following the completion of the non-tradable shares reform, the share structure of the Company shall be as follows: a total of 2,962,985,697 ordinary shares, of which 1,130,503,576 domestic invested shares are held by Anshan Iron & Steel Group Co. Ltd. in the form of State shares, representing 38.2% of the total share capital of the Company; 942,482,121 shares are held by other holders of domestic invested shares, representing 31.8% of the total share capital of the Company and 890,000,000 shares are held by holders of overseas invested shares in the form of H shares, representing 30.0% of the total share capital of the Company.</p>

Corporate Governance (Continued)

VI. CORPORATE GOVERNANCE REPORT (CONTINUED)

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

Comparison Table Of The Articles Of Association Before And After The Amendments

Existing Articles	Amended Articles
<p>Following the completion of the issue of new shares in 2006, the share structure of the Company shall be as follows: a total of 5,932,985,697 ordinary shares, of which 4,100,503,576 domestic invested shares are held by Anshan Iron & Steel Group Complex in the form of State shares, representing 69.1% of the share capital of the Company; 942,482,121 shares are held by other holders of domestic invested shares, representing 15.9% of the total share capital of the Company and 890,000,000 shares are held by holders of overseas invested shares in the form of H shares, representing 15.0% of the share capital of the Company.</p>	<p>Following the completion of the issue of new shares in 2006, the share structure of the Company shall be as follows: a total of 5,932,985,697 ordinary shares, of which 4,100,503,576 domestic invested shares are held by Anshan Iron & Steel Group Co. Ltd. in the form of State shares, representing 69.1% of the share capital of the Company; 942,482,121 shares are held by other holders of domestic invested shares, representing 15.9% of the total share capital of the Company and 890,000,000 shares are held by holders of overseas invested shares in the form of H shares, representing 15.0% of the share capital of the Company.</p>
<p>Upon the exercise of the warrant granted by Anshan Iron & Steel Group Complex to the Domestic Shareholders under the non-tradable share reforms, the shareholding structure of the Company shall be as follows: a total of 5,932,985,697 shares, of which 3,989,901,910 domestic invested shares are held by Anshan Iron & Steel Group Complex in the form of State shares, representing 67.25% of the total share capital of the Company; 1,053,083,787 shares are held by other holders of domestic invested shares, representing 17.75% of the total share capital of the Company and 890,000,000 shares are held by holders of overseas invested shares in the form of H shares, representing 15.0% of the total share capital of the Company.</p>	<p>Upon the exercise of the warrant granted by Anshan Iron & Steel Group Co. Ltd. to the Domestic Shareholders under the non-tradable share reforms, the shareholding structure of the Company shall be as follows: a total of 5,932,985,697 shares, of which 3,989,901,910 domestic invested shares are held by Anshan Iron & Steel Group Co. Ltd. in the form of State shares, representing 67.25% of the total share capital of the Company; 1,053,083,787 shares are held by other holders of domestic invested shares, representing 17.75% of the total share capital of the Company and 890,000,000 shares are held by holders of overseas invested shares in the form of H shares, representing 15.0% of the total share capital of the Company.</p>

Corporate Governance (Continued)

VI. CORPORATE GOVERNANCE REPORT (CONTINUED)

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

Comparison Table Of The Articles Of Association Before And After The Amendments

	Existing Articles	Amended Articles
	<p>In 2007, upon the completion of the pro rata issue of Rights Shares to all of the Shareholders, the shareholding structure of the Company shall be as follows: a total of 7,234,807,847 shares, of which 4,868,547,330 domestic invested shares are held by Anshan Iron & Steel Group Complex in the form of State shares, representing 67.29% of the share capital of the Company; 1,280,460,517 shares are held by other holders of domestic invested shares, representing 17.7% of the total share capital of the Company and 1,085,800,000 shares are held by holders of overseas invested shares in the form of H shares, representing 15.01% of the total share capital of the Company.</p>	<p>In 2007, upon the completion of the pro rata issue of Rights Shares to all of the Shareholders, the shareholding structure of the Company shall be as follows: a total of 7,234,807,847 shares, of which 4,868,547,330 domestic invested shares are held by Anshan Iron & Steel Group Co. Ltd. in the form of State shares, representing 67.29% of the share capital of the Company; 1,280,460,517 shares are held by other holders of domestic invested shares, representing 17.7% of the total share capital of the Company and 1,085,800,000 shares are held by holders of overseas invested shares in the form of H shares, representing 15.01% of the total share capital of the Company.</p>
Original Article 82 is amended as Article 83	<p>Article 82:</p> <p>The Board, the Supervisory Committee and the shareholder(s) individually or aggregately holding more than 3% of the shares of the Company may put forward proposals to the shareholders' annual general meeting.</p> <p>The contents of such proposals shall be within the scope of the shareholders' general meeting and such proposals shall have clear and specific topics to be resolved and comply with the relevant provisions of the laws, administrative regulations and the Articles.</p>	<p>Article 83:</p> <p>The Board, the Supervisory Committee and the shareholder(s) individually or aggregately holding more than 3% of the shares of the Company may put forward proposals to the shareholders' general meeting.</p> <p>The contents of such proposals shall be within the scope of the shareholders' general meeting and such proposals shall have clear and specific topics to be resolved and comply with the relevant provisions of the laws, administrative regulations and the Articles.</p>

Corporate Governance (Continued)

VI. CORPORATE GOVERNANCE REPORT (CONTINUED)

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

Comparison Table Of The Articles Of Association Before And After The Amendments

Existing Articles	Amended Articles
The shareholder(s) individually or aggregately holding more than 3% of the shares of the company may put forward written additional proposals to the person convening shareholders' annual general meeting 10 days before the date of such meeting. The person convening such meeting shall give a supplemental notice of the shareholders' general meeting for announcement of the contents of the extraordinary proposals within 2 days upon receipt of the same.	The shareholder(s) individually or aggregately holding more than 3% of the shares of the Company may put forward written additional proposals to the person convening shareholders' general meeting 10 days before the date of such meeting. The person convening such meeting shall give a supplemental notice of the shareholders' general meeting for announcement of the contents of the extraordinary proposals within 2 days upon receipt of the same.
Save for in the circumstances mentioned in the preceding paragraphs, no amendment to the proposals listed in the notice of the shareholders' general meeting or additional proposals shall be made after the notice of the shareholders' general meeting is issued by the convener.	Save for in the circumstances mentioned in the preceding paragraphs, no amendment to the proposals listed in the notice of the shareholders' general meeting or additional proposals shall be made after the notice of the shareholders' general meeting is issued by the convener.
Any proposal which are not being set out in the notice of the shareholders' general meeting or which are not in compliance with the requirement under the second paragraph of this Article shall not be voted and resolved at the general meeting.	Any proposal which are not being set out in the notice of the shareholders' general meeting or which are not in compliance with the requirement under the second paragraph of this Article shall not be voted and resolved at the general meeting.

Corporate Governance (Continued)

VI. CORPORATE GOVERNANCE REPORT (CONTINUED)

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

Comparison Table Of The Articles Of Association Before And After The Amendments

	Existing Articles	Amended Articles
Original Article 105 is amended as Article 106	<p>Article 105:</p> <p>Shareholders (including proxies) who vote at the shareholders' general meeting shall exercise their voting rights in relation to the amount of voting shares they represent. Each share shall carry the right to one vote</p> <p>The Company holding the shares of the Company shall not have any voting rights. And such shares shall not be counted as part of the total number of shares with voting rights for attending the shareholders' general meeting.</p> <p>The Board, independent directors and the shareholders who have met certain conditions may collect the voting rights of shareholders.</p>	<p>Article 106:</p> <p>Shareholders (including proxies) who vote at the shareholders' general meeting shall exercise their voting rights in relation to the amount of voting shares they represent. Each share shall carry the right to one vote.</p> <p>When the shareholders' general meeting considers matters that could materially affect the interest of medium and small investors, the votes by medium and small investors shall be counted separately, and the results of such separate vote counting shall be disclosed promptly.</p> <p>The Company holding the shares of the Company shall not have any voting rights. And such shares shall not be counted as part of the total number of shares with voting rights for attending the shareholders' general meeting.</p>

Corporate Governance (Continued)

VI. CORPORATE GOVERNANCE REPORT (CONTINUED)

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

Comparison Table Of The Articles Of Association Before And After The Amendments

Existing Articles	Amended Articles
When the shareholders' general meeting reviews matters in relation to connected transaction, the connected shareholders shall not participate in voting of the resolution. The number of shares with voting rights as represented by such shareholders shall not be counted as part of the total number of valid voting shares. The public announcement of the resolution of the shareholders' general meeting shall fully disclose the votes of non-connected shareholders."	<p>The Board of the Company, independent directors, and shareholders who meet the relevant requirements may collect voting rights from other shareholders openly. Information including the specific voting intention shall be fully disclosed to the shareholders from whom voting rights are being collected. Consideration or de facto consideration for collecting shareholders' voting rights is prohibited. The Company shall not impose any minimum shareholding limitation for collecting voting rights.</p> <p>When the shareholders' general meeting reviews matters in relation to connected transaction, the connected shareholders shall not participate in voting of the resolution. The number of shares with voting rights as represented by such shareholders shall not be counted as part of the total number of valid voting shares. The public announcement of the resolution of the shareholders' general meeting shall fully disclose the votes of non-connected shareholders.</p>

Corporate Governance (Continued)

VI. CORPORATE GOVERNANCE REPORT (CONTINUED)

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

Comparison Table Of The Articles Of Association Before And After The Amendments

Existing Articles	Amended Articles
A chapter of "Party Committee of the Company" is added after the existing Chapter 9	<p>Chapter 10 PARTY COMMITTEE OF THE COMPANY</p> <p>Article 142:</p> <p>The Party committee of the Company is comprised of one secretary and several members. The positions of Chairman and the Party secretary shall be assumed by the same individual in principle and a full-time deputy Party secretary shall be appointed to take charge of matters relating to the Party construction of the Company. The deputy Party secretary and the members shall be elected or appointed according to the Constitution of the Communist Party of China and other relevant regulations. Eligible members of the Party committee are entitled to be admitted to the Board, Supervisory Committee, and the management according to legal provisions and procedures and eligible Party members from the Board, Supervisory Committee, and the management are entitled to be admitted to the Party committee according to legal provisions and procedures.</p> <p>Meanwhile, the Company shall also set up a Commission for Discipline Inspection. The secretary, deputy secretary and members of the Commission for Discipline Inspection shall be elected or appointed according to the Constitution of the Communist Party of China and other relevant regulations.</p>

Corporate Governance (Continued)

VI. CORPORATE GOVERNANCE REPORT (CONTINUED)

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

Comparison Table Of The Articles Of Association Before And After The Amendments

Existing Articles	Amended Articles
	Article 143: The Company shall include the establishment of Party organization and staffing of Party members into the Company's management organization and staffing, and include the Party organization's work funding into the Company's budget which is charged to the Company's management costs.
	Article 144 : The Party committee of the Company shall discharge its following duties in accordance with the Constitution of the Communist Party of China as well as other intra-Party laws and regulations: (I) To guarantee and supervise the implementation of policies and guidelines of the Party and state in the Company, implement material strategic decisions of the Party Central Committee and the State Council and make deployment for the relevant material works of the Party committee of the SASAC and the superior Party organization.

Corporate Governance (Continued)

VI. CORPORATE GOVERNANCE REPORT (CONTINUED)

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

Comparison Table Of The Articles Of Association Before And After The Amendments

Existing Articles	Amended Articles
	(II) To insist on the combination of the principles of management of cadres by the Party and the selection of operation managers by the Board according to laws and execution of the right of employment by the operation managers. The Party committee shall consider and propose opinions and suggestions on the candidates as nominated by the Board or general manager, or nominate candidates to the Board or general manager; and, together with the Board, conduct investigation on the candidates to be appointed and collective research to raise opinions and suggestions.
	(III) To study and discuss reform, development and stability, material operation and management issues and other material issues involving staff's immediate interests of the Company, and propose opinions and suggestions thereon.

Corporate Governance (Continued)

VI. CORPORATE GOVERNANCE REPORT (CONTINUED)

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

Comparison Table Of The Articles Of Association Before And After The Amendments

Existing Articles	Amended Articles
	(IV) To shoulder the main responsibility for the overall strictness in administering the Party, lead the Company in terms of ideological and political work, united front work, spiritual civilization construction, enterprise cultural construction and the work of labor union, the Communist Youth League and others, and lead the construction of the Party conduct and of an honest and clean government and support the Commission for Discipline Inspection in practical performance of oversight responsibility.
	Article 145: Work of the Party organization and construction of the Party shall be carried out in accordance with the Constitution of the Communist Party of China as well as other relevant provisions.

Corporate Governance (Continued)

VI. CORPORATE GOVERNANCE REPORT (CONTINUED)

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

Comparison Table Of The Articles Of Association Before And After The Amendments

Existing Articles	Amended Articles
An article is added after the existing Article 164	Article 170 : The Board shall exercise its functions and powers in combination with the role of core leadership and political nucleus of the Party committee of the Company and solicit opinions from the Party committee of the Company before making decisions on material matters of the Company.
An article is added after the existing Article 186	Article 193: The Board shall exercise its functions and powers in combination with the role of core leadership and political nucleus of the Party committee of the Company and solicit opinions from the Party committee of the Company before making decisions on material matters of the Company."

After making the above amendments to the Articles of Association, the number of other chapters and articles involved therein will be renumbered accordingly due to the newly-added Article 11, Chapter 10, Article 142, Article 143, Article 144, Article 145, Article 170 and Article 193.

Corporate Governance (Continued)

VI. CORPORATE GOVERNANCE REPORT (CONTINUED)

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 under the Hong Kong Listing Rules 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;
- (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 2017, 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.

Corporate Governance (Continued)

VI. CORPORATE GOVERNANCE REPORT (CONTINUED)

10. Joint Company Secretaries

Mr. Ma Lianyong and Ms. Chen Chun, the current joint secretaries of the Company, were respectively appointed by the Board on 10 January 2018 and 20 October 2017. Their biographies are set out in the section of “Information on Directors, Supervisors, Senior Management and Employees” in this annual report. Ms. Chen Chun is nominated as the joint company secretary of the Company by SW Corporate Service Group Limited (“**SW Group**”). SW Group has provided certain corporate secretarial services to the Company pursuant to the engagement letter entered into between the Company and SW Group. Mr. Ma Lianyong is the major contact person of Ms. Chen and the Company in relation to corporate secretarial matters. Mr. Ma is also a deputy general manager, chief accountant, joint secretary to the Board and joint company secretary of the Company.

Before the appointment of Mr. Ma Lianyong and Ms. Chen Chun as the joint company secretaries of the Company, Mr. Zhang Jingfan and Mr. Kwok Siu Man took the position as joint company secretaries during the Reporting Period. The joint company secretaries of the Company are in compliance with Rule 3.29 of the Hong Kong Listing Rules during the Reporting Period.

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. INTERNAL CONTROL

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

☐

Yes

☒

No

Corporate Governance (Continued)

VIII. INTERNAL CONTROL (CONTINUED)

2. Self-evaluation Report on Internal Control

Date of disclosure of full text of the evaluation report on internal control	27 March 2018
Reference of disclosure of full text of the evaluation 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	97.50%
The proportion of the unit operating income under the scope of evaluation to the operating income of the consolidated financial statements of the Company	97.93%

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 internal control of daily operations: 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 certain consideration for its recovery in a certain period.

Corporate Governance (Continued)

VIII. INTERNAL CONTROL (CONTINUED)

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

Defect identification standards (Continued)

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 for rectification 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>

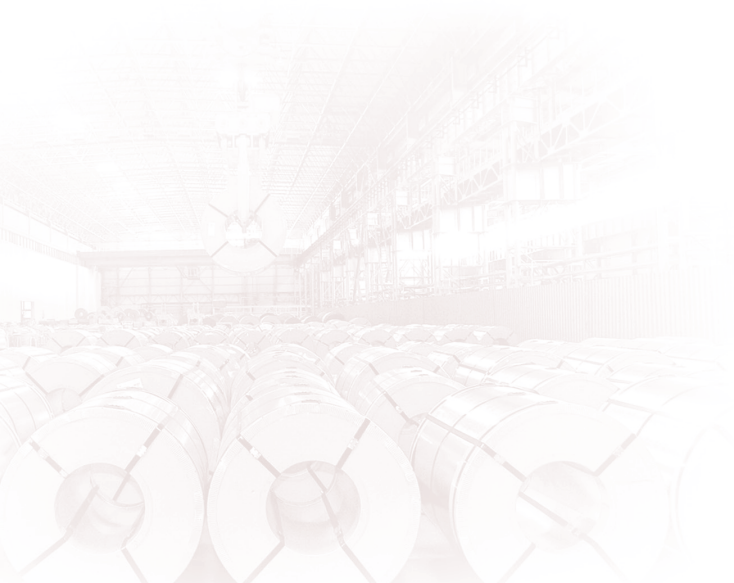
Corporate Governance (Continued)

VIII. INTERNAL CONTROL (CONTINUED)

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

Defect identification standards (Continued)

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 level III). ③ General defect: mid-level impact on the environment; the occurrence of general environmental incident (National level IV).</p>



Corporate Governance (Continued)

VIII. INTERNAL CONTROL (CONTINUED)

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

Defect identification standards (Continued)

Type	Financial report	Non-financial report
Qualitative identification standard	<ol style="list-style-type: none">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.2. Major defect: larger effect on liquidity (0.5 times \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.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.	

Corporate Governance (Continued)

VIII. INTERNAL CONTROL (CONTINUED)

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

Defect identification standards (Continued)

Type	Financial report	Non-financial report
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

IX. 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 2017.

Disclosure of the audit report on internal control	Disclosed
Date of disclosure of full text of the audit report on internal control	27 March 2018
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 2017 annual general meeting of the Company will be held on Tuesday, 5 June 2018, details of which and the proposed resolutions are set out in the accompanying notice of annual general meeting of the Company.



Audit Report



通讯地址：北京市东城区永定门西滨河路8号院7号楼中海地产广场西塔5-11层

Postal Address: 5-11/F, West Tower of China Overseas Property Plaza, Building 7, NO. 8, Yongdingmen Xibinhe Road, Dongcheng District, Beijing

邮政编码 (Post Code) : 100077

电话 (Tel) : +86 (10) 88095588 传真 (Fax) : +86 (10) 88091199

RuiHua Audit [2018] No. 01490004

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, 2017, 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 2017.

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 2017 and of its consolidated and company operating results and cash flows for 2017.

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.

1. Provision for impairment of available-for-sale financial assets

(1) Details

Since the investee company Tianjin Angang Tiantie Cold-rolled Sheet Co., Ltd (hereinafter as "Tianjin Tiantie"). has suffered losses year after year, the management of Angang has conducted an impairment test after judging the signs of impairment of its equity investment, and the balance of receivables of Tiantie Company is lower than the book value. For the provision for impairment of equity investments, as indicated in Note 6(9), impairment loss of available-for-sale financial assets was RMB155 million in this year.

(2) Application for auditing

Our audit procedures for the impairment loss of Angang Steel Company's equity investment mainly include (but not limited to):

- (1) We obtained and reviewed the data on which the management of Angang Steel Co., Ltd. evaluated the existence of signs of impairment of equity investment, and considered the appropriateness and completeness of management's assessment of the existence of signs of impairment.
- (2) We used the work of external evaluation experts to evaluate the rationality of the discount rate used by Angang's management for calculating the recoverable amount and the model for calculating the present value of the future cash flow of equity investment.
- (3) We reviewed the key assumptions and important parameters adopted by the management of Angang's for cash flow forecasting, and checked the accuracy of the calculation of the recoverable amount.
- (4) We discussed with the management and governance the basis and results of the provision for impairment.
- (5) We examined the presentation and disclosure of information related to asset impairment in the financial statements.

Audit Report (Continued)

III. KEY AUDIT MATTERS (Continued)

2. Deferred income tax assets related to deductible loss

(1) Details

As at 31 December 2017 the deferred income tax assets in the notes to the consolidated financial statements of Angang Steel Company amounted to RMB1,713 million, of which the deferred income tax assets of RMB1,071 million 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

When auditing the relevant taxations, we implemented the auditing procedures mainly including:

- (1) we assessed the design and execution of the internal control of Angang Steel Company relating to taxation;
- (2) We communicate with Angang Steel Company's tax experts to determine the basis for the amount of deductible losses and the calculation results, and verified the calculation of the deductible losses with the assistance of our tax experts.;
- (3) 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;
- (4) 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 Angang Steel 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.

Audit Report (Continued)

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 26, 2018

Cao Bin
Deng Li

Consolidated Balance Sheet

As of December 31, 2017 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

Items	Notes	December 31, 2017	December 31, 2016
Current assets:			
Cash at bank and on hand	6(1)	2,437	1,968
Financial assets at fair value through profit or loss	6(2)	7	
Notes receivable	6(3)	9,693	8,352
Accounts receivable	6(4)	2,463	1,942
Prepayments	6(5)	1,772	2,586
Dividends receivable			
Other receivables	6(6)	261	362
Inventories	6(7)	11,643	10,466
Non-current assets due within 1 year			
Other current assets	6(8)	300	304
Total current assets		28,576	25,980
Non-current assets:			
Available-for-sale financial assets	6(9)	719	839
Long-term equity investments	6(10)	2,949	2,968
Investment properties			
Fixed assets	6(11)	48,006	49,065
Construction in progress	6(12)	1,040	2,232
Construction material	6(13)	2	9
Intangible assets	6(14)	6,199	5,755
Long-term deferred expenses			
Deferred income tax assets	6(15)	1,713	1,525
Other non-current assets			
Total non-current assets		60,628	62,393
Total assets		89,204	88,373

Legal representative:
Wang Yidong

Chief Accountant:
Ma Lianyong

Controller:
Che Chengwei

Consolidated Balance Sheet (Continued)

As of December 31, 2017 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

Items	Notes	December 31, 2017	December 31, 2016
Current liabilities:			
Short-term loans	6(16)	14,500	18,995
Financial liabilities at fair value through profit or loss	6(17)	13	
Notes payable	6(18)	240	1,766
Accounts payable	6(19)	8,436	10,055
Advances from customers	6(20)	5,581	4,065
Employee benefits payable	6(21)	347	124
Tax payable	6(22)	407	173
Interests payable	6(23)	93	76
Other payables	6(24)	1,544	1,678
Non-current liabilities due within 1 year	6(25)	437	161
Other current liabilities	6(26)	1,500	
Total current liabilities		33,098	37,093
Non-current liabilities:			
Long-term loans	6(27)	2,905	1,296
Bonds payable	6(28)	2,004	3,944
Long-term employee benefits payable	6(29)	123	
Deferred income	6(31)	682	739
Deferred income tax liabilities	6(15)	6	13
Other non-current liabilities			
Total non-current liabilities		5,720	5,992
Total liabilities		38,818	43,085

Consolidated Balance Sheet (Continued)

As of December 31, 2017 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

Items	Notes	December 31, 2017	December 31, 2016
Shareholders' equity:			
Share capital	6(32)	7,235	7,235
Capital reserve	6(33)	31,519	31,519
Other comprehensive income	6(34)	(3)	12
Special reserve	6(35)	38	52
Surplus reserve	6(36)	3,580	3,580
Undistributed profit	6(37)	7,604	2,484
Differences from translation of foreign currency			
Subtotal of Shareholders' equity attributable to shareholders of parent company		49,973	44,882
Minority interests		413	406
Total shareholders' equity		50,386	45,288
Total liabilities and shareholders' equity		89,204	88,373

The notes to the financial statements of page 194 to 326 are the components of the annual financial report.

Financial statements from 176 to 193 pages are signed by the following:

Legal representative:
Wang Yidong

Chief Accountant:
Ma Lianrong

Controller:
Che Chengwei

Consolidated Income Statement

For the year ended December 31, 2017 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

Items	Notes	2017	2016
1. Operating income		84,310	57,882
Including: operating income	6(38)	84,310	57,882
2. Operating costs		79,282	56,718
Less: Operating costs	6(38)	72,743	50,186
Tax and surcharges	6(39)	896	271
Marketing expenses	6(40)	2,334	1,928
Administrative expenses	6(41)	1,807	1,626
Financial expenses	6(42)	1,174	1,286
Impairment losses on assets	6(43)	328	1,421
Add: gains/losses from fair value variation ("-" for losses)	6(44)	(6)	
Investment income ("-" for losses)	6(45)	432	427
Including: Income from investment in jointly ventures and associates		351	335
Asset disposal income ("-" for losses)			
Other income	6(46)	72	
3. Operating profit ("-" for losses)		5,526	1,591
Add: Non-operating income	6(47)	17	61
Less: Non-operating expenses	6(48)	63	32
Including: The loss on destroy or scrap of non-current assets		55	23
4. Profit before income tax ("-" for losses)		5,480	1,620
Less: Income tax expenses	6(49)	(132)	5

Consolidated Income Statement (Continued)

For the year ended December 31, 2017 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

Items	Notes	2017	2016
5. Net profit for the period (“-” for losses)		5,612	1,615
(1) Classification according to the continuity of operation			
Continuous operating net profit		5,612	1,615
Termination of net profit			
(2) Classification according to ownership			
The net profit belongs to the owners of the company		5,605	1,616
Minority interest income		7	(1)
6. The net amount after tax of other comprehensive income	6(34)	(15)	(6)
(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(34)	(15)	(6)
a. The shares of the other comprehensive income which can be reclassified in profit or loss of the invested company in equity method	6(34)	(5)	1
b. The profit or loss from the change at fair value of available-for-sale financial assets	6(34)	(10)	(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, 2017 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

Items	Notes	2017	2016
7. Earnings per share			
(1) Basic earnings per share (RMB/share)	19(2)	0.775	0.223
(2) Diluted earnings per share (RMB/share)	19(2)	0.775	0.223
8. Total comprehensive income		5,597	1,609
The other comprehensive income belongs to the owners of the company		5,590	1,610
The other comprehensive income belongs to the minority		7	(1)

The notes to the financial statements of page 194 to 326 are the components of the annual financial report.

Financial statements from 176 to 193 pages are signed by the following:

Legal representative:
Wang Yidong

Chief Accountant:
Ma Lianyong

Controller:
Che Chengwei

Consolidated Cash Flow Statement

For the year ended December 31, 2017 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

Items	Notes	2017	2016
1. Cash flows from operating activities:			
Cash received from selling of goods or rendering of services		71,391	52,004
Refund of tax and fare		35	16
Other cash received from operating activities	6(50)	34	94
Sub-total of cash inflows		71,460	52,114
Cash paid for goods and services		55,205	38,797
Cash paid to and for the employees		4,039	4,098
Cash paid for all types of taxes		2,838	2,402
Other cash paid for operating activities	6(50)	3,110	2,468
Sub-total of cash outflows		65,192	47,765
Net cash flow from operating activities	6(51)	6,268	4,349
2. Cash flows from investing activities			
Cash received from return of investments			
Cash received from investment income		363	396
Net cash received from disposal of fixed assets, intangible assets and other non-current assets		1	148
Net cash received from disposal of subsidiaries and other operating units			
Other cash received from investment activities	6(50)	245	369
Sub-total of cash inflows		609	913
Cash paid for acquisition of fixed assets, intangible assets and other non-current assets		1,868	1,393
Cash paid for acquisition of investments		46	
Net cash paid for acquisition of subsidiaries and other operating units			
Other cash paid for investment activities	6(50)	40	70
Sub-total of cash outflows		1,954	1,463
Net cash flow from investing activities		(1,345)	(550)

Consolidated Cash Flow Statement (Continued)

For the year ended December 31, 2017 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

Items	Notes	2017	2016
3. Cash flows from financing activities			
Cash received from absorbing investments			
Including: received of subsidiary from minority shareholders			
Cash received from borrowings		20,918	26,945
Other cash received from financing activities	6(50)	87	
Sub-total of cash inflows		21,005	26,945
Cash paid for settling of debts		23,923	31,052
Cash paid for distribution of dividends or profit and repayment of interests		1,531	1,303
Including: dividends or profit paid to minority shareholders			
Other cash paid for financing activities	6(50)	5	3
Sub-total of cash outflows		25,459	32,358
Net cash inflow from financing activities		(4,454)	(5,413)
4. Effect of changes in foreign exchange rate on cash and cash equivalents			(19)
5. Net increase in cash and cash equivalents	6(51)	469	(1,633)
Add: Cash and cash equivalents brought forward	6(51)	1,968	3,601
6. Cash and cash equivalents carried forward	6(51)	2,437	1,968

The notes to the financial statements of page 194 to 326 are the components of the annual financial report.

Financial statements from 176 to 193 pages are signed by the following:

Legal representative:
Wang Yidong

Chief Accountant:
Ma Lianying

Controller:
Che Chengwei

Consolidated Statement of Changes in Shareholders' Equity

As of 31 December 2017 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

2017											
Items	Shareholders' equity attributable to shareholders of the parent company										Total of shareholders' equity
	Share capital	Capital reserve	Less:		Special reserve	Surplus reserve	General risk reserve	Undistributed profit	Others	Minority interests	
			treasury stock	Other comprehensive income							
1. Balance as of 31 Dec. 2016	7,235	31,519		12	52	3,580		2,484		406	45,288
Add: Changes of accounting policy											
Correction of prior year errors											
Others											
2. Balance as of 1 Jan. 2017	7,235	31,519		12	52	3,580		2,484		406	45,288
3. Increase/decrease in 2017 ("—" represents loss)				(15)	(14)			5,120		7	5,098
(1) total amount comprehensive income				(15)				5,605		7	5,597
(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								(485)			(485)
i. Transfer to surplus reserve											
ii. Transfer to general risk reserve											
iii. Distribution to shareholders								(485)			(485)
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					(14)						(14)
i. Extracts of this period					58						58
ii. Usage of this period					(72)						(72)
(6) Others											
4. Balance as of 31 Dec. 2017	7,235	31,519		(3)	38	3,580		7,604		413	50,386

The notes to the financial statements of page 194 to 326 are the components of the annual financial report.

Financial statements from 176 to 193 pages are signed by the following:

Legal representative:
Wang Yidong

Chief Accountant:
Ma Lianying

Controller:
Che Chengwei

Consolidated Statement of Changes in Shareholders' Equity (Continued)

As of 31 December 2017 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

2016											
Items	Shareholders' equity attributable to shareholders of the parent company										Total of shareholders' equity
	Share capital	Capital reserve	Less:		Special reserve	Surplus reserve	General risk reserve	Undistributed profit	Others	Minority interests	
			treasury stock	Other comprehensive income							
1. Balance as of 31 Dec. 2015	7,235	31,519		18	54	3,580		868		407	43,681
Add: Changes of accounting policy											
Correction of prior year errors											
Others											
2. Balance as of 1 Jan. 2016	7,235	31,519		18	54	3,580		868		407	43,681
3. Increase/decrease in 2016 ("-" represents loss)				(6)	(2)			1,616		(1)	1,607
(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 31 Dec. 2016	7,235	31,519		12	52	3,580		2,484		406	45,288

The notes to the financial statements of page 194 to 326 are the components of the annual financial report.

Financial statements from 176 to 193 pages are signed by the following:

Legal representative:
Wang Yidong

Chief Accountant:
Ma Lianyong

Controller:
Che Chengwei

Balance Sheet

As of December 31, 2017 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

Assets	Notes	December 31, 2017	December 31, 2016
Current assets:			
Cash at banks and on hand		1,785	1,228
Financial assets at fair value through profit or loss		7	
Notes receivable		9,632	8,280
Accounts receivable	16(1)	3,121	3,263
Prepayments		1,698	2,488
Dividends receivable			
Other receivables	16(2)	258	360
Inventories		9,864	9,075
Non-current assets due within 1 year			
Other current assets			
Total current assets		26,365	24,694
Non-current assets:			
Available-for-sale financial assets		719	839
Long-term equity investments	16(3)	4,984	4,533
Investment property			
Fixed assets		46,290	48,233
Construction in progress		947	1,268
Construction materials		2	3
Intangible assets		6,016	5,568
Long-term deferred expenses			
Deferred income tax assets		1,648	1,425
Other non-current assets			
Total non-current assets		60,606	61,869
Total assets		86,971	86,563

Legal representative:
Wang Yidong

Chief Accountant:
Ma Lianyong

Controller:
Che Chengwei

Balance Sheet (Continued)

As of December 31, 2017 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

Liabilities and shareholders' equity	Notes	December 31, 2017	December 31, 2016
Current liabilities:			
Short-term loans		14,430	18,995
Financial liabilities at fair value through profit or loss		13	
Notes payable		240	1,766
Accounts payable		8,271	9,889
Advances from customers		4,869	3,622
Employee benefits payable		346	124
Tax and surcharges payable		388	157
Interests payables		85	67
Other payables		1,393	1,524
Non-current liabilities due within 1 year		300	1
Other current liabilities		1,500	
Total current liabilities		31,835	36,145
Non-current liabilities:			
Long-term loans		2,545	800
Bonds payable		2,004	3,944
Long-term employee benefits payable		123	
Deferred income		543	597
Deferred income tax liabilities		6	13
Other non-current liabilities			
Total non-current liabilities		5,221	5,354
Total liabilities		37,056	41,499
Shareholders' equity:			
Share capital		7,235	7,235
Capital reserve		31,565	31,565
Other comprehensive income		(3)	12
Special reserve		38	52
Surplus reserves		3,570	3,570
Undistributed profits		7,510	2,630
Total shareholders' equity		49,915	45,064
Total liabilities and shareholders' equity		86,971	86,563

The notes to the financial statements of page 194 to 326 are the components of the annual financial report.

Financial statements from 176 to 193 pages are signed by the following:

Legal representative:
Wang Yidong

Chief Accountant:
Ma Lianyong

Controller:
Che Chengwei

Income Statement

For the year ended 31 December 2017 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

Items	Notes	2017	2016
1. Operating income	16(4)	82,562	57,534
Less: Operating costs	16(4)	71,545	49,889
Tax and surcharges		868	267
Marketing expenses		2,219	1,821
Administrative expenses		1,758	1,567
Financial expenses		1,168	1,279
Impairment losses on assets		327	1,425
Add: gains/losses from fair value variation		(6)	
Investment income	16(5)	448	410
Including: Income from investment in jointly ventures and associates		351	335
Asset disposal income ("-" for losses)			
Other income		67	
2. Operating profit		5,186	1,696
Add: Non-operating income		15	54
Less: Non-operating expenses		63	32
Including: The loss of the loss of the non current asset		55	23
3. Profit before income tax		5,138	1,718
Less: Income tax expenses		(227)	57
4. Net profit for the period ("-" for losses)		5,365	1,661
Continuous operating net profit ("-" for losses)		5,365	1,661
Termination of net profit ("-" for losses)			

Income Statement (Continued)

For the year ended 31 December 2017 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

Items	Notes	2017	2016
5. The net amount after tax of other comprehensive income		(15)	(6)
(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		(15)	(6)
a. The shares of the other comprehensive income which can be reclassified in profit or loss of the invested company in equity method		(5)	1
b. The profit or loss from the change of the fair value of available-for-sale financial assets		(10)	(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			
6. Total comprehensive income		5,350	1,655

The notes to the financial statements of page 194 to 326 are the components of the annual financial report.

Financial statements from 176 to 193 pages are signed by the following:

Legal representative:
Wang Yidong

Chief Accountant:
Ma Lianyong

Controller:
Che Chengwei

Cash Flow Statement

For the year ended 31 December 2017 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

Items	Notes	2017	2016
1. Cash flows from operating activities:			
Cash received from selling of goods or rendering of services		70,224	51,029
Refund of tax and fare		34	16
Other cash received from operating activities		35	93
Sub-total of cash inflows		70,293	51,138
Cash paid for goods and services		53,903	38,047
Cash paid to and for employees		3,915	3,992
Cash paid for all types of taxes		2,689	2,321
Other cash paid for operating activities		3,125	2,401
Sub-total of cash outflows		63,632	46,761
Net cash flow from operating activities		6,661	4,377
2. Cash flows from investing activities			
Cash received from return of investments			
Cash received from investment income		379	396
Net cash received from disposal of fixed assets, intangible assets and other non-current assets		1	148
Other cash received from investment activities		240	301
Sub-total of cash inflows		620	845
Cash paid for acquisition of fixed assets, intangible assets and other non-current assets		1,815	1,197
Cash paid for acquisition of investments		516	50
Other cash paid for investment activities		40	70
Sub-total of cash outflows		2,371	1,317
Net cash flow from investing activities		(1,751)	(472)

Cash Flow Statement (Continued)

For the year ended 31 December 2017 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

Items	Notes	2017	2016
3. Cash flows from financing activities			
Cash received from absorbing investments			
Cash received from borrowings		20,848	26,344
Other cash received from financing activities		87	40
Sub-total of cash inflows		20,935	26,384
Cash paid for settling of debts		23,765	30,452
Cash paid for distribution of dividends or profit and repayment of interests		1,503	1,252
Other cash paid for financing activities		20	112
Sub-total of cash outflows		25,288	31,816
Net cash inflow from financing activities		(4,353)	(5,432)
4. Effect of changes in foreign exchange rate on cash and cash equivalents			(19)
5. Net increase in cash and cash equivalents		557	(1,546)
Add: Cash and cash equivalents brought forward		1,228	2,774
6. Cash and cash equivalents carried forward		1,785	1,228

The notes to the financial statements of page 194 to 326 are the components of the annual financial report.

Financial statements from 176 to 193 pages are signed by the following:

Legal representative:
Wang Yidong

Chief Accountant:
Ma Lianyong

Controller:
Che Chengwei

Statement of Changes in Shareholders' Equity

As of 31 December 2017 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

Items	2017							
	Share capital	Capital reserve	Less: treasury stock	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Total of undistributed profit shareholders' equity
1. Balance as of 31 Dec. 2016	7,235	31,565		12	52	3,570		2,630 45,064
Add: Changes of accounting policy								
Correction of prior year errors								
Others								
2. Balance as of 1 Jan. 2017	7,235	31,565		12	52	3,570		2,630 45,064
3. Increase/decrease in 2017 ("—" represents loss)				(15)	(14)			4,880 4,851
(1) total amount comprehensive income				(15)				5,365 5,350
(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								(485) (485)
i. Transfer to surplus reserve								
ii. Transfer to general risk reserve								
iii. Distribution to shareholders								(485) (485)
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					(14)			(14)
i. Extracts of this period					58			58
ii. Usage of this period					(72)			(72)
(6) Others								
4. Balance as of 31 Dec. 2017	7,235	31,565		(3)	38	3,570		7,510 49,915

The notes to the financial statements of page 194 to 326 are the components of the annual financial report.

Financial statements from 176 to 193 pages are signed by the following:

Legal representative:
Wang Yidong

Chief Accountant:
Ma Lianyong

Controller:
Che Chengwei

Statement of Changes in Shareholders' Equity (Continued)

As of 31 December 2017 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	Total of undistributed profit shareholders' equity
1. Balance as of 31 Dec. 2015	7,235	31,565		18	54	3,570		969 43,411
Add: Changes of accounting policy								
Correction of prior year errors								
Others								
2. Balance as of 1 Jan. 2016	7,235	31,565		18	54	3,570		969 43,411
3. Increase/decrease in 2016 ("—" represents loss)				(6)	(2)			1,661 1,653
(1) total amount comprehensive income				(6)				1,661 1,655
(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 31 Dec. 2016	7,235	31,565		12	52	3,570		2,630 45,064

The notes to the financial statements of page 194 to 326 are the components of the annual financial report.

Financial statements from 176 to 193 pages are signed by the following:

Legal representative:
Wang Yidong

Chief Accountant:
Ma Lianyong

Controller:
Che Chengwei

Notes to the Financial Statements

For the year 2017 (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 26 March, 2018.

There are 18 subsidiaries within the scope of the consolidation, please refer to Note 8 interests in other entities, 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 42 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, 2017, the financial performance and cash flow of t 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 2017 (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 2017 (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 2017 (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 2017 (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.

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

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

(b) Preparation of consolidated financial statements (Continued)

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

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

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

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.

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

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

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.

(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.

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

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

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

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.

(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.

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) Financial instruments (Continued)

(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.

(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.

Notes to the Financial Statements (Continued)

For the year 2017 (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)

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.

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.

Notes to the Financial Statements (Continued)

For the year 2017 (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

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

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

The effective interest rate method refers to the method to calculate the amortized costs and the interest incomes or interest expenses at the end of each period with an effective interest rate of financial assets or financial liabilities (including a set of financial assets or financial liabilities). The effective interest rate refers to the interest rate adopted in discounting the future cash flow generated by a financial asset or financial liability within the predicted term of existence or a shorter designed term into the current carrying value of the financial asset or financial liability.

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

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) Financial instruments (Continued)

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

(iii) Loans and receivables

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

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

(iv) Available-for-sale financial assets

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

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

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.

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(9) Financial instruments (Continued)

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

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

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

(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 2017 (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.

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 will be impaired. The difference between the book value of this equity instrument investment or derivative financial asset and the present value determined by discounting the future cash flow based on the current market yield of similar financial assets shall be recognized as impairment loss and recorded in the current profit or loss.

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 2017 (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 2017 (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 2017 (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 2017 (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 2017 (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.

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(11) Inventories (Continued)

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

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

(12) Long-term equity investment

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

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

- (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 2017 (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

The Long-term equity investments with joint control or significant influence over invested entities shall be accounted by equity method(except the co-operator). Besides, a long-term equity investment is measured in cost method if the Group is able to control the invested entity.

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

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

Notes to the Financial Statements (Continued)

For the year 2017 (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

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.

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.

Notes to the Financial Statements (Continued)

For the year 2017 (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)

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.

- (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.

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(12) Long-term equity investment (Continued)

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

(iv) Disposal of long-term equity investments

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.

Notes to the Financial Statements (Continued)

For the year 2017 (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	17–24 years	3–5	3.958–5.706
Other fixed assets	5–12 years	3–5	7.917–19.40

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

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(13) Fixed assets (Continued)

- (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".

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

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

- (e) Other explanations

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

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

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

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(14) Construction in progress

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

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

(15) Borrowing costs

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

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

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.

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(15) Borrowing costs (Continued)

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

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

(16) Intangible assets

(a) Intangible assets

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

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

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.

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(16) Intangible assets (Continued)

(a) Intangible assets (Continued)

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.

(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.

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.

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(16) Intangible assets (Continued)

- (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"

(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 2017 (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 2017 (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.

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(19) Revenue (Continued)

(d) Interest revenue

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

(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:

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(20) Government grants (Continued)

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

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

The government grants related to the daily activities are included in other income according to the essence of the economic business. Government grants not related to the daily activities are included in the non-operating income and expenditure.

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.

Notes to the Financial Statements (Continued)

For the year 2017 (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

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

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

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

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

Notes to the Financial Statements (Continued)

For the year 2017 (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)

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.

(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.

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(22) Leases (Continued)

(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.

(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.

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(22) Leases (Continued)

(d) Finance lease as a lessor (Continued)

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.

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.

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(24) Changes of significant accounting policies and estimates

(a) Changes of accounting policies

- ① Changes in accounting policies resulting from the implementation of the new Accounting Standards

On May 10, 2017, the Ministry of Finance issued the Accounting Standard for Business Enterprises No. 16 – Government Subsidies (Revised in 2017) by Finance Department [2017] No. 15, which came into effect on June 12, 2017. The company commenced the implementation of the accounting standards in accordance with the requirements of the Ministry of Finance.

Before the implementation of the Accounting Standards for Business Enterprises No. 16 – Government Subsidies (Revised in 2017), the government grants received by the Company are included in the non-operating income. The government grants related to the assets are recognized as deferred income and amortization is recognized in profit or loss and within the useful life of the assets. After the implementation of the Accounting Standards for Business Enterprises No. 16 – Government Subsidies (Revised by 2017), government grants related to daily activities occurring after 1 January 2017 are included in other income; government grants unrelated to daily activities are included in non-operating income and expenditure.

The company's current use of the accounting standards does not have a significant impact on its financial position and results of operations.

- ② Changes of others accounting policies

According to the "Value Added Tax ('VAT') Accounting Treatment Regulations" issued by the Ministry of Finance on December 3, 2016, the Group reclassifies the debit balance at the beginning and the end of the detailed account ("VAT payable", "VAT not paid", "VAT to be deducted", "VAT to be certified", and "VAT credit to be taxed" etc.) under the "tax payable" account to "other current assets" and "other non-current assets" accounts on the basis of liquidity.

The company's current use of the accounting standards does not have a significant impact on its financial position and results of operations.

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(24) Changes of significant accounting policies and estimates (Continued)

(b) There is no changes in estimates for the current year.

(25) Corrections of prior year errors

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

(26) Critical accounting judgments and estimates

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

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

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

(a) Provision for bad debts

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

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(26) Critical accounting judgments and estimates (Continued)

(b) Write-down of inventories

Inventories are measured by lower of historical cost or net realizable value method according to the accounting policies of inventories; for obsolete and unsalable inventories or whose historical costs are higher than the net realizable, provision for write-down of inventories shall be incurred. The carrying value of inventory shall be written down to the net realizable value on the basis of the salability of inventories and the net realizable value. Inventory write-down shall be incurred in consideration of solid evidence and the purpose of holding inventories and the effect of subsequent events and etc. The difference between the actual outcome and the previously estimated outcome will influence the carrying value of inventories and accrual or reversal of provision for write-down of inventories during the period accounting estimates are changed.

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

To available-for-sale financial asset, whether impairment loss shall be recognized in income statement significantly depends on the judgments and assumptions of the management, while making judgments and assumptions, it shall be take into consideration that how much the fair value of the investment is lower than the cost, the financial position and short-term business projection, including industry conditions, technological innovation, the credit ratings, probability of violation, and counterparts' risks.

(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.

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(26) Critical accounting judgments and estimates (Continued)

(d) Impairment of non-current assets (Continued)

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.

(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.

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

4. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (Continued)

(26) Critical accounting judgments and estimates (Continued)

(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.

(i) Projected liabilities

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

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

5. TAXATION

Main taxes and tax rates

Type of tax	Tax rates and base
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
City construction and Education surtax	Paid circulating tax: 7%, 3%, 2%
Enterprise income tax	Taxable income: 25%
Custom duty	FOB: 5%-15%

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unless otherwise specified, the opening balance refers to the balance as of 1 Jan. 2017, and the closing balance refers to the balance as of 31 Dec. 2017, the current year refers to the year 2017, last year refers to the year 2016.

(1) Cash at bank and on hand

Items	Closing balance	Opening balance
Cash	1	1
Bank deposits	2,205	1,801
Other cash balance	231	166
Total	2,437	1,968

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

Items	Closing balance	Opening balance
Derivative financial assets	7	
Total	7	

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Notes receivable

(a) Classification of notes receivable

Items	Closing balance	Opening balance
Bank Acceptance Notes	8,711	7,231
Commercial Acceptance Notes	982	1,121
Total	9,693	8,352

(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	239
Total	239

Note: The group has pledged notes receivable which values RMB239 million to the bank to gain the short-term loan of RMB200 million, of which the pledge deadline is from May. 26.2017 to May. 26..2020.

(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	16,794	
Commercial Acceptance Notes	9	
Total	16,803	

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) Notes receivable (Continued)

- (d) No notes receivable were transferred to accounts receivable due to insolvency of the issuer as of Dec. 31, 2017.

(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	2,173	86	66	99
Accounts receivable with amounts that are individually insignificant and subject to separate assessment for bad debts provision	357	14	1	1
Total	2,530	100	67	100

Type	Opening balance			
	Book value		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)
Accounts receivable with amounts that are individually significant and subject to separate assessment for bad debts provision	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

Notes to the Financial Statements (Continued)

For the year 2017 (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	2,422	96	66	99
1 to 2 years	17	1		
2 to 3 years	18	1		
Over 3 years	73	2	1	1
Total	2,530	100	67	100

Aging	Opening 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

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) Accounts receivable (Continued)

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

accounts receivable (By company)	Closing balance			reason
	accounts receivable	Bad debt provision	Percentage (%)	
Anshan Zhongyou Tianbao Steel Tube Co., Ltd.	67	66	99	Business is in trouble. It does not have repayment ability
Total	67	66		

- (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 RMB1,313 million, which accounted for 52% 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	1,558	88	2,275	88
1 to 2 years	133	8	140	5
2 to 3 years	43	2	125	5
Over 3 years	38	2	46	2
Total	1,772	100	2,586	100

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

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(5) Prepayments (Continued)

- (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 RMB1,421 million in total, accounting for 80.21% of the prepayment balance at the end of the year.

(6) 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	233	89		
Other receivables with amounts that are individually insignificant and subject to separate assessment for bad debts provision	28	11		
Total	261	100		

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) 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	334	92		
Other receivables with amounts that are individually insignificant and subject to separate assessment for bad debts provision	28	8		
Total	362	100		

(b) Classification of other receivable according to the nature

Other accounts receivable	Closing book value	Opening book value
Petty cash	18	21
Guangzhou automobile Steel loans	213	300
Export tax rebate	21	34
Other	9	7
Total	261	362

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(6) Other receivables (Continued)

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

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

(7) Inventory

- (a) Classification of Inventory

Items	Closing balance		
	Book value	Inventory falling price reserves	Carrying value
Raw materials	3,087	69	3,018
Work in progress	3,271	409	2,862
Finished goods	3,673	202	3,471
send out the goods	23		23
Revolving materials	801		801
Spare parts	1,210	55	1,155
Materials in transit	285		285
Work in progress—outsourced	28		28
Total	12,378	735	11,643

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(7) Inventory (Continued)

(a) Classification of Inventory (Continued)

Items	Opening 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
send out the goods			
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

(b) Changes in Inventory falling price reserves

Items	Opening balance	Increment of the year	Decrement of the year		Closing balance
			Written back	Written off	
Raw materials	176	92		199	69
Work in progress	244	197		32	409
Finished goods	196	148		142	202
Spare parts	12	43			55
Total	628	480		373	735

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(7) Inventory (Continued)

(c) Analysis of Inventory falling price reserves

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. Meanwhile, due to market price recovery or product cost decline, part of inventory's net realized value is higher than its book value, therefore, the provision is reversed within the amount of its original provision.

(8) Other current assets

Item	Closing value	Opening value
The amount of input tax to be deducted and certified	116	81
Input tax retained	184	223
Total	300	304

(9) Available-for-sale financial assets

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

Item	Closing value	Opening value
Listed investment	39	52
including: Hong Kong		
Mainland	39	52
Non-listed investment	680	787
Total	719	839

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(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:	874	155	719	839		839
Measured at fair value	39		39	52		52
Measured at cost	835	155	680	787		787
Total	874	155	719	839		839

(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	39
Changes in fair value amounts accumulated through other comprehensive income	1
Provision for impairment	

Notes to the Financial Statements (Continued)

For the year 2017 (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 Engineering & Research Incorporation Limited Company ("WISDRI")	114	21	135
Tianjin Tiantie	185		185
Heilongjiang Longmay Mining Group Co., Ltd.(hereinafter referred to as "Longmay Group")	220	25	245
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
Shanghai Ouye Chemical Po Electronic Commerce Co., Ltd. (hereinafter referred to as "Shanghai Ouye")		2	2
Total	787	48	835

Notes to the Financial Statements (Continued)

For the year 2017 (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	13
Tianjin Tiantie		155		155	5	
Longmay Group					1	
Falan Packing					15	
Dalian Shipyard					15	
China Shipbuilding					10	
Dalian Steel					15	
Guoqi Lightweight					7	
Changsha steel					14	1
Shanghai Ouye					10	
Total		155		155		14

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(10) Long-term equity investment

Details of long-term equity investments

The invested entity	Opening value	Increase/Decrease		Investment income under The equity method	Other comprehensive income adjustment
		Increase	Decrease		
a. Jointly venture					
TKAS Auto Steel Company Limited ("ANSC-TKS")	735			241	
The iron and Steel shares – Dalian ship heavy industry steel processing Distribution Co. Ltd. ("ANSC – Dachuan")	228				
Changchun FAM Steel Processing and Distribution Group Limited ("Changchun FAM")	91			7	
Guangzhou automobile Steel	341			(27)	
minor total	1,395			221	
b. Associated venture					
Angang Group Finance Co., Ltd ("Angang Finance")	1,357			120	(5)
Guangzhou Nansha Steel Logistical Co., Ltd. ("Nansha Logistical")	58				
Anshan Iron and steel solid gold (Hangzhou) metal materials Co., Ltd. ("AISSG")	96			2	
Shanghai chemical Po Ecommerce Ltd ("Shanghai chemical")	1				
Guangzhou Bao Steel Processing Co. ("Guangzhou steel")	61			8	
Anshan Anshan Iron Oxide Powder Co., Ltd. (hereinafter referred to as "iron oxide powder company")					
minor total	1,573			130	(5)
Total	2,968			351	(5)

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(10) Long-term equity investment (Continued)

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		
1. Cooperative enterprise					
ANSC-TKS	(226)			737	
ANSC – Dachuan				228	
Changchun FAM				98	
Guangzhou automobile Steel				(2)	312
minor total	(226)			(15)	1,375
2. Associated enterprise					
Angang Finance	(119)			1,353	
Nansha Logistical				58	
AISSG				98	
Shanghai chemical				(1)	
Guangzhou steel	(4)				65
iron oxide powder company					
minor total	(123)			(1)	1,574
Total	(349)			(16)	2,949

Notes to the Financial Statements (Continued)

For the year 2017 (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	28,363	70,996	5,193	104,552
Increase:	670	1,547	121	2,338
Purchase		20	2	22
Transform from projects under construction	674	1,533	119	2,326
others	(4)	(6)		(10)
Decrease:	30	176	14	220
Dispose or scrap	30	176	14	220
The balance at the end of the year	29,003	72,367	5,300	106,670
② Accumulated depreciation				
The balance at the beginning of the year	9,529	41,635	4,291	55,455
Increase:	667	2,456	208	3,331
Count for depreciation	667	2,456	208	3,331
Decrease:	17	124	12	153
Dispose or scrap	17	124	12	153
The balance at the end of the year	10,179	43,967	4,487	58,633
③ Provision for impairment				
The balance at the beginning of the year	5	26	1	32
Increase				
Decrease:		1		1
Dispose or scrap		1		1
The balance at the end of the year	5	25	1	31
④ Book value				
The closing book value	18,819	28,375	812	48,006
The opening book value	18,829	29,335	901	49,065

Notes to the Financial Statements (Continued)

For the year 2017 (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					
Machineries and Equipment	44	31	5	8	
Transportation Equipment					
Others	1	1			
Total	45	32	5	8	

(c) The Group had no financial leased-in fixed asset as of 31 Dec. 2017.

(d) Fixed assets held under financial leases

Items	Closing carrying value	Opening carrying value
Buildings and Plants	22	23
Machineries and Equipment	7	8
Total	29	31

Notes to the Financial Statements (Continued)

For the year 2017 (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	Book value	Provision for impairment
		Carrying value		Carrying value
Oriented silicon steel laser scribe production line project	30	30	28	28
The three area of the converter workshop environmental renovation project	109	109	108	108
4300 thick plate line new pre straightening machine and cold straightening machine project	229	229	187	187
60 thousand m3/h oxygen generating unit project	167	167	140	140
Cold rolled high strength steel and auxiliary reconstruction project	2	2	272	272
Ball flat steel development guarantee project	40	40	30	30
Heavy Plate Plant Thick Plate High – strength Steel Plate Heat Treatment Line Reconstruction Project			46	46
Bayuquan Project	181	181	248	248
Cool rolling project			869	869
Zhengzhou project	70	70	66	66
Guangzhou Project	8	8	8	8
Dalian Project			21	21
Others	204	204	209	209
Total	1,040	1,040	2,232	2,232

Notes to the Financial Statements (Continued)

For the year 2017 (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 into fixed assets	Other decrease	Closing balance
Oriented silicon steel laser scribe production line project	90	28	2			30
The three area of the converter workshop environmental renovation project	1,000	108	1			109
4300 thick plate line new pre straightening machine and cold straightening machine project	325	187	42			229
60 thousand m3/h oxygen generating unit project	387	140	191	164		167
Cold rolled high strength steel and auxiliary reconstruction project	299	272	27	297		2
Ball flat steel development guarantee project	42	30	10			40
Heavy Plate Plant Thick Plate High – strength Steel Plate Heat Treatment Line Reconstruction Project	53	46	6	52		
Bayuquan Project	3,083	248	70	137		181
Cool rolling project	1,470	869	36	905		
Zhengzhou project	145	66	4			70
Guangzhou Project	130	8				8
Dalian Project	246	21	2	23		
Others	8,150	209	749	748	6	204
Total		2,232	1,140	2,326	6	1,040

Notes to the Financial Statements (Continued)

For the year 2017 (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
Oriented silicon steel laser scribe production line project	2			87	95	Self-financing
The three area of the converter workshop environmental renovation project	36			100	95	Self-financing
4300 thick plate line new pre straightening machine and cold straightening machine project				70	95	Self-financing finance appropriation
60 thousand m3/h oxygen generating unit project	21	4	4.21	80	90	Self-financing
Cold rolled high strength steel and auxiliary reconstruction project	27	11	4.21	91	90	Self-financing
Ball flat steel development guarantee project				95	95	Self-financing finance appropriation
Heavy Plate Plant Thick Plate High – strength Steel Plate Heat Treatment Line Reconstruction Project				99	100	Self-financing
Bayuquan Project	685			85	85	Self-financing
Cool rolling project	91	22	4.29	55	100	Self-financing
Zhengzhou project	1			81	81	Borrowings Self- financing
Guangzhou Project	3			83	83	Self-financing
Dalian Project				59	59	Self-financing
Others	239	1	4.21	69	69	Self-financing
Total	1,105	38				

- (c) As of 31 Dec. 2017, there was no construction in progress whose carrying value was higher than its realizable value.

(13) Construction materials

Items	Closing value	Opening value
Special material		6
Special equipment	2	3
Total	2	9

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(14) Intangible assets

Item	Land use right	Non- patented technology	Software	Trademark right	Total
1. Cost					
The balance at the beginning of the year	7,375	43	53	4	7,475
Increase:	599		6		605
(a) Purchase	599				599
(b) Internal R&D			6		6
(c) Enterprise merger					
Decrease:					
(a) Disposition					
(b) Enterprise merger					
The balance at the end of the year	7,974	43	59	4	8,080
2. Accumulative amortization					
The balance at the beginning of the year	1,624	43	49	4	1,720
Increase:	158		3		161
(a) Counting and Drawing	158		3		161
(b) Enterprise merger					
Decrease					
(a) Disposition					
(b) Enterprise merger					
The balance at the end of the year	1,782	43	52	4	1,881
3. Provision for impairment					
The balance at the beginning of the year					
Increase:					
(a) Counting and Drawing					
Decrease					
(a) disposition					
The balance at the end of the year					
4. Book value					
The closing book value	6,192		7		6,199
The opening book value	5,751		4		5,755

Notes to the Financial Statements (Continued)

For the year 2017 (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	247	988	165	661
Deductible loss	1,071	4,282	1,025	4,098
Unrealized inter-group profit	71	283	90	358
Accumulated depreciation of fixed assets	32	129	33	133
Salaries payable	47	189	50	199
Employee training expenses	13	54	9	38
Termination benefits	60	240		
Deferred income	136	543	149	597
Others	36	145	4	17
Total	1,713	6,853	1,525	6,101

(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				
Capitalized borrowing costs	6	24	10	38
Total	6	25	13	52

Notes to the Financial Statements (Continued)

For the year 2017 (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	5	6,443
Total	5	6,443

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

Items	Closing balance	Opening balance
2017		2,061
2018		
2019		
2020		4,382
2021		
2022	5	
Total	5	6,443

(16) Short-term loans

Items	Closing balance	Opening balance
Pledged loans	200	1,429
Guaranteed loans	1,000	1,000
Credit loans	13,300	16,566
Total	14,500	18,995

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

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(17) Financial liabilities at fair value through profit or loss

Item	Closing balance	Opening balance
Derivative financial liabilities	13	
Total	13	

(18) Notes payable

Types of notes	Closing balance	Opening balance
Bank acceptances	240	1,433
trade acceptances		333
Total	240	1,766

Note: There are no notes payable that have expired but have not been paid. at the end of the year.

(19) Account payables

(a) Classification of account payables by nature

Items	Closing balance	Opening balance
Operation expenses on supporting production	70	80
Account payables for purchasing	7,331	9,318
Construction payables	518	363
Freight	371	208
Others	146	86
Total	8,436	10,055

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(19) Account payables (Continued)

- (b) Significant account payables aging over 1 year

Creditor	Balance owed	Aging
Tangyuan Tianyu Coal & Coke Energy Co., Ltd.	61	2–3 year, More than 5 years
Total	61	

- (c) Aging of account payables

Aging	Closing balance		Opening balance	
	Balance	Percentage (%)	Balance	Percentage (%)
Within 1 year	8,346	99	9,971	99
1 to 2 years	9		24	
2 to 3 years	22		2	
Over 3 years	59	1	58	1
Total	8,436	100	10,055	100

(20) Advances from customers

- (a) Classification of advances from customers by nature

Items	Closing balance	Opening balance
Selling of products	5,578	4,063
Others	3	2
Total	5,581	4,065

- (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 2017 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(21) Employee benefits payable

(a) The situation about employee benefits payable

item	Opening value	increase	decrease	Closing value
A Short-term remuneration	124	3,263	3,283	104
B After-service benefits- Defined Contribution Plans		667	541	126
C Termination benefits		461	344	117
D Other benefits due within one year				
E others				
Total	124	4,391	4,168	347

(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	81	2,383	2,418	46
2. Staff welfare		265	265	
3. Social insurance		233	233	
Including: Medical insurance		181	181	
Staff and workers' injury insurance		50	50	
maternity insurance				
Others		2	2	
4. Housing fund		237	237	
5. Labor union fee and staff training fee	43	77	62	58
6. Short paid absences				
7. The short-term profit sharing plan				
8. Others		68	68	
Total	124	3,263	3,283	104

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(21) Employee benefits payable (Continued)

(c) Defined Contribution Plans

Items	Opening balance	Accrued during this period	Paid during this period	Closing balance
1. Basic pension insurance		484	484	
2. Unemployment insurance		16	16	
3. Occupational pension contribution		167	41	126
Total		667	541	126

(22) Taxes payable

Items	Closing balance	Opening balance
VAT	296	98
Business tax		
Resource tax	1	1
Corporate income tax	12	11
City maintenance and construction tax	22	3
Property tax	12	12
Land use tax	32	26
Individual income tax	10	14
Educational surcharges	16	2
Others	6	6
Total	407	173

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(23) Interests payable

Items	Closing balance	Opening balance
Staging interest maturity of long-term borrowings	8	9
Interest for corporate bonds	85	67
Total	93	76

(24) Other payables

(a) Classification of other payables by nature

Items	Closing balance	Opening balance
Quality assurance	435	463
The national special funds paid by Anshan Iron and Steel Group Company	328	328
Construction payables	232	339
Performance assurance	139	115
Deposit for steel shelves	44	61
Freight charges	12	7
Others	354	365
Total	1,544	1,678

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(24) Other payables (Continued)

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

Creditor	Closing balance	Reason	Whether paid after balance sheet date
Angang Group Engineering Technology Co., LTD	31	Project quality assurance	No
Acre Coking & Refractory (Dalian) Engineering Technology Corporation	27	Project quality assurance	No
Songjiang Harbin Electric Furnace Factory Co., Ltd.	14	Project quality assurance	No
China Sanye Group Co., LTD	22	Project quality assurance	No
Acre Coking & Refractory Engineering Technology Corporation	24	Project quality assurance	No
Anshan Iron and Steel Group Automation Company	21	Project quality assurance	No
MCC heavy industry equipment Co., Ltd.	10	Project quality assurance	No
Others	262	Project quality assurance	No
total	411		

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(25) Non-current liabilities due within 1 year

Items	Closing balance	Opening balance
Long-term loans due within 1 year (Note. 6.(27))	437	161
Total	437	161

(26) Other current liabilities

Items	Closing balance	Opening balance
Short-term financing bonds	1,500	
Total	1,500	

(27) Long-term loans

(a) Classification of Long-term loans

Items	Closing balance	Opening balance
Guaranteed loans	483	555
Credit loans	2,859	902
minor total	3,342	1,457
Less: long-term loans due within 1 year (Note: 6(25))	437	161
Total	2,905	1,296

Note: Guarantee loans of long – term loans, guaranteed by Ansteel Group Corporation Limited 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 2.65%~4.9%.

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(27) Long-term loans (Continued)

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

Items	Closing date	Opening date
Within 1 year	437	161
1 year to 2 year (include 2 year)	2,545	457
2 year to 3 year (include 3 year)		633
3 year to 5 year (include 5 year)	360	206
Total	3,342	1,457

(28) Bonds payable

(a) Bonds payable

Items	Closing date	Opening date
Medium term note	2,004	3,944
Total	2,004	3,944

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(28) 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					
16MTN001	1,000	27 July 2017	5. years	1,000	986
16MTN002	2,000	3 August 2017	5. years	2,000	1,972
16MTN003	1,000	31 August 2017	5. years	1,000	986
Total	4,000			4,000	3,944

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			13	900	99
MTN002			18	810	1,180
MTN003			9	270	725
Total			40	1,980	2,004

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(29) Long-term employee benefits payable

Items	Closing value	Opening value
Termination benefits	123	
Total	123	

(30) Government grants

- (a) The basic situation of government grants identified in the beginning of the year

Grants items	amounts	Deferred income	Assets related	Whether or not it is actually received
			Writing down the book value of assets	
The government grants related to environmental protection	3	3		yes
The government grants related to scientific research	10	10		yes
Others	2	2		yes
Total	15	15		

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(30) Government grants (Continued)

(b) Government grants included in the profit or loss

Grants items	And assets/ Income-related	Included in other income	Included in the non-operating income	Writing down the costs or expenses
The government grants related to environmental protection	Asset	39		
The government grants related to scientific research	Assets/ Income-related	25		
Others	Asset	8		
Total		72		

(31) Deferred income

Item	Opening date	Increase	Decrease	Closing date	Cause of formation
Government grants	739	15	72	682	
Total	739	15	72	682	

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(31) Deferred income (Continued)

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

Liabilities	Opening date	New grants	Belong to nonbusiness – income	Belong to Other income	Other Changes	Closing date	Associated with the asset/income
The government grants related to environmental protection	250	3		39		214	asset
The government grants related to scientific research	322	10		25		307	Assets/ Income-related
Others	167	2		8		161	Asset
Total	739	15		72		682	

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(32) Share capital

	Opening balance		Changes of the period (+,-)					Closing balance	
				Shares transferred from					
	Balance	Proportion	New shares issued	Bonus issue	reserves	Others	Subtotal	Balance	Proportion
2017									
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	
					Shares transferred from				
	Balance	Proportion	New shares issued	Bonus issue	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

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(33) Capital reserve

	Opening balance	Increase of the period	Decease of the period	Closing balance
2017				
Share premium	31,144			31,144
Other capital reserve	375			375
Total	31,519			31,519
	Opening balance	Increase of the period	Decease of the period	Closing balance
2016				
Share premium	31,144			31,144
Other capital reserve	375			375
Total	31,519			31,519

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(34) 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	11	18	1		12	18
Amount for the period before tax	(13)	(10)	(5)	1	(18)	(9)
Minus: transform into profit or loss from other comprehensive income						
Minus: income tax expenses	(3)	(3)			(3)	(3)
The after-tax amount attributed to the parent company	(10)	(7)	(5)	1	(15)	(6)
The after-tax amount attributed to minority shareholders						
The balance at the end of the period	1	11	(4)	1	(3)	12

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(35) Special reserve

2017	Opening balance	Increase of the period	Decease of the period	Closing balance
Safety production expenses	52	58	72	38
Total	52	58	72	38
2016	Opening balance	Increase of the year	Decease of the year	Closing balance
Safety production expenses	54	54	56	52
Total	54	54	56	52

(36) Surplus reserve

2017	Opening balance	Increase of the period	Decease of the period	Closing balance
Statutory surplus reserve	3,580			3,580
Total	3,580			3,580
2016	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 2017 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(37) Undistributed profits

Items	This period	Last period
Opening balance	2,484	868
Increase of the period	5,605	1,616
Including: Net profit transferred this period	5,605	1,616
Other adjustment factors		
Decrease of the period		
Including: Extraction of surplus reserve this period		
Extraction of general risk provisions this period		
Distribution of cash dividend this period	485	
Conversed capital		
Other decreases		
Closing balance	7,604	2,484

Note: On 26 March 2018, the Board has proposed for the Company to distribute cash dividend of RMB1,682 million. Based on the current total share capital of 7,235 million shares, a cash dividend of RMB0.232 per share (including tax) is expected for 2017. This proposal is subject to approval of the general meeting of the shareholders in 2017. The cash dividend proposed after the balance sheet date was not recognized as liabilities at the balance sheet date.

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(38) Operating revenue and operating cost

Items	This period		Last period	
	Revenue	cost	Revenue	cost
Prime operating	84,001	72,428	57,742	50,055
Other operating	309	315	140	131
Total	84,310	72,743	57,882	50,186

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

(39) Taxes and surcharges

Items	This period	Last period
City maintenance and construction tax	188	156
Educational surcharge and local educational surcharge	135	112
Land use tax	373	
Property tax	133	
stamp tax	64	
Resources tax	3	3
Total	896	271

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

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(40) Marketing expenses

Items	This period	Last period
Delivery expense	1,801	1,413
Packing expense	59	57
Sales and service expense	91	123
Employee benefits	163	122
Warehouse storage expense	46	46
Agency fee for commissioned sales	33	41
Insurance expense	8	5
Others	133	121
Total	2,334	1,928

(41) General and administrative expenses

Items	This period	Last period
Employee benefits	1,148	697
Research and development costs	323	62
Amortization of intangible assets	161	156
Depreciation	52	55
Computer maintenance expense	47	14
Repair and maintenance	37	18
Afforestation fees	24	8
Accountancy Fees	4	4
Taxes		506
others	11	106
Total	1,807	1626

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(42) Finance expenses

Items	This period	Last period
Interest expense	1,240	1,360
Including: It has to pay off all the interests from the bank loans and other loans	1,074	937
The financial charges during the financial lease period		
Other interest expenditures	166	423
Less: Interest income	43	43
Less: Capitalized interest expense	38	79
Exchange gain or loss	8	43
Less: Capitalized exchange gain or loss		
Others	7	5
Total	1,174	1,286

(43) Impairment losses

Items	This period	Last period
Provision for written-down of inventories	107	1,421
Provision for bad debts	66	
Impairment Provision for available for sale financial assets	155	
Total	328	1,421

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(44) Changes in fair value gains and losses

Sources	This period	Last period
Financial assets at fair value through profit or loss	7	
Including: Fair value gains arising from derivative financial instruments	7	
Financial liabilities at fair value through profit or loss	(13)	
Including: Fair value gains arising from derivative financial instruments	(13)	
Investment property at fair value through profit or loss		
Total	(6)	

(45) Investment income

Items	This period	Last period
Long-term equity investment income under the equity method	351	335
Investment income from disposal of long-term equity investments		17
Investment income at fair value through profit or loss	67	73
The investment income during the holding of available-for-sale financial assets	14	2
Investment income from disposal of available for sale financial assets		
Total	432	427

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(46) Other income

Items	This period	Last period	Recorded into extraordinary gains and losses
The government grants related to environment protection	39		39
The government grants related to scientific research	25		25
Others	8		8
Total	72		72

(47) Non-operating income

Items	This period	Last period	Recorded into extraordinary gains and losses
Total gains from Destroy or scrap of non-current assets	11	8	11
Government grant		40	
Others	6	13	6
Total	17	61	17

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(48) Non-operating expenses

Items	This period	Last period	Recorded into extraordinary gains and losses
Total loss on Destroy or scrap of non-current assets	55	23	55
Others	8	9	8
Total	63	32	63

(49) 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	60	27
Changes on deferred income tax expenses	(192)	(22)
Total	(132)	5

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(49) Income tax expenses (Continued)

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

Items	This period
Total profit	5,480
Income tax expenses calculated at statutory/applicable tax rates	1,370
Income tax expenses calculated at statutory/applicable tax rates	
Effect of adjustments for income tax for prior periods	(1)
Effect of income not subject to tax	(101)
Effect of additional deductible expenses	39
Effect of costs, expenses and loss not deductible for tax purposes	(1,426)
Effect of costs, expenses and loss not deductible for tax purposes	1
Effect of current unrecognised deductible temporary difference or deductible loss arising from deferred tax income assets	
Others	(14)
Income tax expenses	(132)

(50) Items on statements of cash flow

- (a) Cash received from other operating activities

Items	This period	Last period
Government grants	14	40
Rental income	8	11
Deposit income	7	11
Others	5	32
Total	34	94

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(b) Cash paid for other operating activities

Items	This period	Last period
Freight fee payments for others	1,580	1,438
Commission fee	263	41
Sewage fee	74	72
Computer maintenance fees	12	18
Security and firefighting expense	12	16
Green fees	45	24
Pipage	62	56
Intermediary cost	15	19
Purchases and sales business fee	209	142
Insurance fee	48	31
Other operating expenses	790	611
Total	3,110	2,468

(c) Cash received from other investing activities

Items	This period	Last period
Income from test run	81	199
Interest income	66	68
Construction period margin		4
Hedging gain	98	98
Total	245	369

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(d) Cash paid for other investment activities

Items	This period	Last period
Hedging losses	40	70
Total	40	70

(e) Cash received for other financing activities

Items	This period	Last period
Guangzhou Automobile Steel Repayment	87	
Total	87	

(f) Cash paid for other financing activities

Items	This period	Last period
Intermediary fees for loans	5	3
Total	5	3

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(51) Supplement to cash flow statement

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

Items	This period	Last period
1. Reconciliation of net profit to cash flows from operating activities:		
Net profit	5,612	1,615
Add: Provision for impairment	328	19
Depreciation of fixed assets	3,331	3,295
Amortization of intangible assets	161	156
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	44	16
Loss on the change of fair value	6	
Financial expenses	1,167	1,281
Investment loss	(432)	(427)
Decrease in deferred tax assets ("-" for increase)	(188)	(4)
Increase in deferred tax liabilities ("-" for decrease)	(4)	(18)
Decrease in inventories ("-" for increase)	(1,378)	(2,716)
Decrease in operating receivables ("-" for increase)	(1,138)	(1,605)
Increase in operating payables ("-" for decrease)	(1,242)	2,731
Others	1	7
Net cash flow from operating activities	6,268	4,349
2. Change in cash and cash equivalents		
Cash at the end of the period	2,437	1,968
Less: cash at the beginning of the period	1,968	3,601
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	469	(1,633)

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(51) Supplement to cash flow statement (Continued)

(b) Composition of cash and cash equivalents

Items	Closing balance	Opening balance
1. Cash at bank and on hand	2,437	1,968
Of which: Cash	1	1
Bank deposits available	2,205	1,801
Other deposits available	231	166
2. Cash equivalents		
Of which: Bond due within 3 months		
3. Closing balance of cash and cash equivalents	2,437	1,968

(52) Restricted assets of ownership or use rights

Items	Closing date	Reason
Notes receivable	239	Pledged loan
Total	239	

7. CHANGES IN CONSOLIDATION SCOPE

The subsidiary of the company, Angang Steel Processing and Distribution (Changchun) Co., Ltd. (hereinafter referred to as "ASPD-CC"), absorbed and consolidated the company's subsidiary Anshan Iron and Steel Laser Welded Blank (Changchun) Co., Ltd. (hereinafter referred to as "AISLWB"). this year. After the merger, the ANSC-TKS will be written off.

Notes to the Financial Statements (Continued)

For the year 2017 (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 products, building materials, etc.	100	Combination under common control
Shanghai Anshan Iron and Steel International Trade Co., Ltd. ("Shanghai Trade")	Shanghai	Shanghai	Wholesale and retail purchasing services	100	Combination under common control
Tianjin Anshan Iron and Steel International Trade Co., Ltd. ("Tianjin Trade")	Tianjin	Tianjin	Purchase and sale of metal and other materials	100	Combination under common control
Guangzhou Anshan Iron and Steel International Trade Co., Ltd. ("guangzhou Trade")	Guangzhou	Guangzhou	Technology import and export of goods, Wholesale and retail trade	100	Combination under common control
Shenyang Anshan Iron and Steel Processing and Distribution Co., Ltd. ("Shenyang Steel")	Shenyang	Shenyang	Steel Processing and Distribution	100	Combination under common control
Anshan Iron and Steel Processing and Distribution (Dalian) Co., Ltd. ("Angang Dalian")	Dalian	Dalian	Steel Processing and Distribution	100	Establish
Ningbo Anshan Iron and Steel International Trade Co., Ltd. ("Ningbo Trade")	Ningbo	Ningbo	Steel trade	100	Establish

Notes to the Financial Statements (Continued)

For the year 2017 (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
ASPD-CC	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 2017 (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
Guangzhou powersun	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 2017 (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	1,650	1,453
Cash and cash equivalents	387	254
Non-Current assets	685	793
Total Assets	2,335	2,246
Current liabilities	759	696
Non-Current liabilities	5	7
Total Liabilities	764	703
Minority interests		
Subtotal of Shareholders' equity attributable to shareholders of parent company	1,571	1,543
The share of the net assets calculated by the share of atake	786	772
Adjusting events		
–goodwill		
–unrealized profit resulting from intra- group trade	(49)	(37)
–others		
The book value of equity investments in joint ventures	737	735
The fair value of the equity investments in joint ventures which exist the public offer		
Operating revenue	5,398	4,386
Finance costs	5	1
Income tax expenses	92	110
Net profit	481	453
Net profit from discontinued operations		
Other comprehensive income		
The total of comprehensive income	481	453
Dividends received from joint ventures this year	226	379

Notes to the Financial Statements (Continued)

For the year 2017 (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	11,963	4,818
Cash and cash equivalents	11,915	4,447
Non-Current assets	15,119	15,926
Total Assets	27,082	20,744
Current liabilities	20,294	13,940
Non-Current liabilities	3	
Total Liabilities	20,297	13,940
Minority interests	19	19
Subtotal of Shareholders' equity attributable to shareholders of parent company	6,766	6,785
The share of the net assets calculated by the share of atake	1,353	1,357
Adjusting events		
– goodwill		
– unrealized profit resulting from intra-group trade		
– others		
The book value of equity investments in associations	1,353	1,357
The fair value of the equity investments in associations which exist the public offer		
Operating revenue	991	1,026
Finance costs		
Income tax expenses	202	187
Net profit	611	563
Net profit from discontinued operations		
Other comprehensive income	(26)	5
The total of comprehensive income	585	568
Dividends received from important associations this year	119	

Notes to the Financial Statements (Continued)

For the year 2017 (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	638	660
The followings are calculated by shares		
– net profit	(20)	(2)
– Other comprehensive income		
– The total of comprehensive income	(20)	(2)
Joint ventures :		
The book value of equity investments	221	215
The followings are calculated by shares		
– net profit	10	
–Other comprehensive income		
–The total of comprehensive income	10	

9. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS

The Group's principal financial instruments compromise 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 monitory.

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

9. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued)

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.

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 at December 31, 2017, other assets and liabilities of the Group are denominated in RMB balances.

Items	Closing balance	Opening balance
Bank deposits (<i>dollar</i>)	208,528.67	1,801.89
Short-term loans (<i>dollar</i>)		270,000,000.00
Non-current liabilities due within one year (<i>euro</i>)		123,946.76
Long-term borrowings (<i>euro</i>)		61,973.43

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

9. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued)

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.

A. On December 31, 2017, the exchange risk's exposure of assets and liabilities listed in the original currency is in Note 6 (1)

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	6.7423	6.6529	6.5342	6.9370
euro	7.6579	7.3417	7.8023	7.3068

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

9. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued)

The objectives and policies of risk management (Continued)

(1) Market risk (Continued)

(i) Exchange risk (Continued)

C. Sensitivity analysis

On December 31, 2017, the increase (or decrease) in the exchange rate of RMB to U.S. dollar by one percentage point had minimal impact on the shareholders' equity and net profit of the Group.

On December 31, 2016, the increase (or decrease) in the exchange rate of RMB to U.S. dollar or euro by one percentage point had minimal impact on the shareholders' equity and net profit of the Group.

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 2017 (Expressed in million RMB unless otherwise indicated)

9. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued)

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, 2017 please refer to notes 6 (1、16、25、26、27 and 28)

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, 2017, 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 RMB117 million decrease (last period: RMB157 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 2017 (Expressed in million RMB unless otherwise indicated)

9. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued)

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

There is no significant impairment and overdue receivables as of Dec 31, 2017.

Due to the accounts receivables of the top five customers, which are accounted for 47% of the receivables and other receivables on the balance sheet date (last period: 54%), 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 2017 (Expressed in million RMB unless otherwise indicated)

9. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued)

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 (27).

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 2017 (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	39			39

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

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(1) Information on the parent of the company

Group name	Registration place	The nature of business	Registered Capital	The Group's shareholding	Proportion of voting-right
Ansteel Group Corporation Limited	Tie Xi District Anshan Liaoning Province	Production and sale of steel and metal products, steel filament Tubes, and metal structures	26,000	58.31	58.31

Note: Angang Group Corporation Limited 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 Note8.(2) Investment in joint ventures and associates.

Notes to the Financial Statements (Continued)

For the year 2017 (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
ANSC – Dachuan	Joint venture
Anshan Jingu	Associate
Nansha Logistical	Associate
Angang Finance	Associate
Iron Oxide Powder	Associate
Falan Packing	Fellow subsidiary
Angang Cold Rolled Steel Plate Co., Ltd. Putian	Fellow subsidiary
Angang Steel Rope Co., Ltd.	Fellow subsidiary
Anshan Iron and Steel Group Co., Ltd. Chaoyang	Fellow subsidiary
Angang Mining Co.	Fellow subsidiary
Angang Auto Transport Co., Ltd	Fellow subsidiary
Anshan Yingkou Harbor co., LTD	Fellow subsidiary
Angang Cast Steel Co., Ltd	Fellow subsidiary
Angang House Property Construction Co.	Fellow subsidiary
Angang Refractory Co., Ltd	Fellow subsidiary
Anshan Angang Vesuvius Refractory Co., Ltd	Joint venture of the parent company
Angang Electric Co., Ltd	Fellow subsidiary
Angang Real Estate Development Group Co., Ltd	Fellow subsidiary
Angang Automatism Co.	Fellow subsidiary
Angang Engineering Technology Co., Ltd	Fellow subsidiary
Angang Trade	Fellow subsidiary
Angang Construction Group	Fellow subsidiary
Angang Mining Construction Co.	Fellow subsidiary
Angang Heavy Machine Co., Ltd	Fellow subsidiary
Angang Group Energy-saving Technology Service Co., Ltd	Fellow subsidiary
Angang Group Information Industry Co., Ltd	Fellow subsidiary
Angang Entity Group	Fellow subsidiary
Angang Railway Transport Facilities Construction Co.	Fellow subsidiary
Angang Lianzhong (Guangzhou) Stainless Steel Co., Ltd	Fellow subsidiary
Anshan Iron and Steel Research Institute Co., Ltd.	Fellow subsidiary
Chengdu western material federation Co., Ltd.	Fellow subsidiary
Pangang Group Iron and Vanadium Titanium Resources Co., Ltd	Fellow subsidiary

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(4) Related parties without control relationship (Continued)

Name of enterprise	Relation with the Company
Pangang Trade	Fellow subsidiary
Pagang Engineering Technology Co., Ltd	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
Anshan Jidong Cement Co., Ltd	Joint venture of the parent company

(5) Related-party transactions

(a) Related-party transactions within Ansteel Group Corporation Limited

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

Contents	Pricing Policy	This Year	Last Year
Raw materials	Note. i	14,976	9,315
Supplementary materials	Note. ii	2,063	1,686
Energy and power supplies	Note. iii	1,682	1,751
Support services	Note. iiii	3,751	3,096
Total		22,472	15,848

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

Contents	Pricing Policy	This Year	Last Year
Products	Note. v	1,343	849
Scrap steel and materials	Note. v	282	222
General services	Note. vi	1,035	1,038
fuel	Note. vii	86	
Total		2,746	2,109

Notes to the Financial Statements (Continued)

For the year 2017 (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	169	728
Total		169	728

Notes:

- i. The iron ore concentrate purchase price is not higher than Not higher than the monthly average value of the medium price of Platts Fe 65% (CFR) for Northern China (Qingdao port) as published daily by the SBB Steel Markets Daily Briefing for the preceding month (T-1) plus the freight cost from Bayuquan port to the Company. Price adjustments for mineral grades shall be made to the price in accordance with iron content calculated based on the average value of Platts Fe 65% index for the preceding month (T-1). Using this as the basis, a further discount equal to 3% of the average value of Platts Fe 65% index for the preceding month (T-1) shall be applied. The pellets ore is measured at market price. 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%>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%>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 2017 (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.
- vii. Calculating according to the cost of purchasing plus agency fee (RMB5 per ton).

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related-party transactions (Continued)

(c) Guarantee of loans

Warrantor	Warranty	Amount Guaranteed	Starting date	Expiring date	Whether fulfilled
Ansteel Group Corporation Limited	The Company	40	Feb. 10, 2016	Feb 9, 2018	No
Angang Group Corporation Limited	The Company	500	May 24, 2017	May 23, 2018	No
Angang Group Corporation Limited	The Company	500	May 26, 2017	May 25, 2018	No

(d) Other related-party transactions

(i) Service from sales agent

For the year 2017, the amount of domestic and export sales agent service provided Angang Trade were 175 million tons respectively (211 million tons respectively for the year 2016).

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

Name of enterprise	purchases in This Year	purchases in Last Year
ANSC-TKS	236	
Iron Oxide Powder	2	
Total	238	

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(5) Related-party transactions (Continued)

(d) Other related-party transactions (Continued)

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

Name of enterprise	Sales in This Year	Sales in Last Year
ANSC-TKS	3,538	2,429
Changchun FAM	65	44
Nansha Logistical		33
Anshan Jingu	423	177
Guangzhou Automobile Steel	258	
Iron Oxide Powder	10	
Total	4,294	2,683

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

Items	Annual interest rate	Opening balance	Increment	Decrement	Closing balance	Terms of credit
Loans	4.75-6	105		85	20	Credit, Guarantee Loans
Deposit		306	1,579		1,885	

In 2017, the Group's interest income of deposit in Angang Finance was RMB14 million (for the year end 2016: RMB15 million) and the interest expenditure for loans from Angang finance was RMB3 million (for the year end 2016: RMB32 million). The highest daily deposit in Angang Finance in 2017 was RMB1,995 million (for the years end 2016: 1,940 million).

Notes to the Financial Statements (Continued)

For the year 2017 (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	2017	2016
Directors' fees	0.36	0.39
Other remuneration :		
Salaries, allowances and non-cash amount of interest	3.75	2.61
Performance-related bonus		
Equity-settled share option expenses	0.47	0.42
Pension plan contributions	0.75	0.52
other remuneration	4.97	3.55
Total	5.33	3.94

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

Name	Directors' fees	This Year				Total
		Salaries, allowances and non-cash amount of interest	Performance-related bonus	Equity-settled share option expenses	Pension plan contributions	
Executive directors:						
Wang Yidong		0.82		0.10	0.16	1.08
Li Zhongwu (Leave office)		0.57		0.07	0.11	0.75
Zhang Jingfan (Leave office)		0.46		0.06	0.10	0.62
Subtotal for executive directors		1.85		0.23	0.37	2.45

Notes to the Financial Statements (Continued)

For the year 2017 (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	Directors' fees	This Year				Total
		Salaries, allowances and non-cash amount of interest	Performance-related bonus	Equity-settled share option expenses	Pension plan contributions	
Non-executive directors :						
Wu Dajun	0.12					0.12
Ma Weiguo	0.12					0.12
LuoYucheng	0.12					0.12
Subtotal for non-executive directors	0.36					0.36
supervisors :						
Lin Daqing						
Liu Xiaohui						
Yuan Peng		0.33		0.04	0.07	0.44
Subtotal for supervisors		0.33		0.04	0.07	0.44
Senior management:						
Xu Shishuai		0.57		0.08	0.11	0.76
Meng Jinsong		0.58		0.07	0.12	0.77
Yao Lin (Leave office)						
Liu Baoshan (Leave office)		0.42		0.05	0.08	0.55
Subtotal for Senior management		1.57		0.20	0.31	2.08
Total	0.36	3.75		0.47	0.75	5.33

Notes to the Financial Statements (Continued)

For the year 2017 (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)

		Last Year				
Name	Directors' fees	Salaries, allowances and non-cash amount of interest	Performance-related bonus	Equity-settled share option expenses	Pension plan contributions	Total
Executive directors :						
Yao Lin						
Wang Yidong		0.27		0.05	0.05	0.37
Li Zhongwu		0.17		0.03	0.03	0.23
Zhang Jingfan		0.36		0.07	0.07	0.50
Zhang Lifan (Leave office)		0.40		0.06	0.08	0.54
Subtotal for executive directors		1.20		0.21	0.23	1.64
Non-executive directors :						
Wu Dajun	0.07					0.07
Ma Weiguo	0.07					0.07
Luo Yucheng	0.07					0.07
Chen Fangzheng (Leave office)	0.04					0.04
Qu Xuanhui (Leave office)	0.04					0.04
Liu Zhengdong (Leave office)	0.05					0.05
Zhou Zhiwei (Leave office)	0.05					0.05
Subtotal for non-executive directors	0.39					0.39

Notes to the Financial Statements (Continued)

For the year 2017 (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)

		Last Year				
Name	Directors' fees	Salaries, allowances and non-cash amount of interest	Performance-related bonus	Equity-settled share option expenses	Pension plan contributions	Total
supervisors :						
Liu Xiaohui						
Lin Daqing						
Yuan Peng						
Zhu Jun (Leave office)						
Bai Hai (Leave office)		0.09		0.03	0.02	0.14
Subtotal for supervisors		0.09		0.03	0.02	0.14
Senior management:						
Xu Shishuai		0.49		0.07	0.10	0.66
Meng Jinsong		0.17		0.03	0.04	0.24
Liu Jun (Leave office)		0.66		0.08	0.13	0.87
Subtotal for Senior management		1.32		0.18	0.27	1.77
Total	0.39	2.61		0.42	0.52	3.94

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 (three directors and two senior managers for the year 2016), and whose payment are set out in detail above.

Notes to the Financial Statements (Continued)

For the year 2017 (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	647	780
Angang Cast Steel Co., Ltd	46	45
Angang Steel Rope Co., Ltd.	46	42
Angang Real Estate Development Group Co., Ltd	1	6
Angang Mining Co.		3
Angang Group Corporation Limited	62	4
Angang Electric Co., Ltd	2	1
ANSC-TKS	10	8
Angang Lianzhong (Guangzhou) Stainless Steel Co., Ltd.	2	
Angang Heavy Machine Co., Ltd	115	29
Guangzhou automotive steel	10	1
Other Related Parties	1	1
Total	942	920
Prepayments		
Angang Trade	788	1,514
Angang Engineering Technology Co., Ltd	325	1
Angang Heavy Machine Co., Ltd	50	4
Angang Auto Transport Co., Ltd	4	2
Anshan Iron and Steel Group Automation Co., Ltd.	60	
Angang Construction Group	8	
Anshan Iron and Steel Research Institute Co., Ltd.	2	
Anshan steel cold rolled steel plate (Putian) Co., Ltd	68	
Other Related Parties	1	
Total	1,306	1,521

Notes to the Financial Statements (Continued)

For the year 2017 (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	213	300
Angang Steel Rope limited liability company	2	
Other Related Parties	1	
Total	216	300

(b) Accounts payable and receivables in advance

Items	Closing balance	Opening balance
Accounts payable		
Anshan Iron and Steel Group Co., Ltd. Chaoyang		7
Angang Group Engineering Technology Development Co., Ltd	1	2
Angang Group Energy-saving Technology Service Co., Ltd		13
Angang Trade	3,359	4,471
Angang Mining Co.	18	23
Angang Automatism Co.	14	6
Angang Construction Group	83	29
Angang Mining Construction Co.	16	6
Angang Auto Transport Co., Ltd	27	28
Angang Entity Group	60	31
Anshan Yingkou Harbor co., LTD	10	11
Angang Heavy Machine Co., Ltd	13	2
Angang Group Corporation Limited	121	24
Angang Electric Co., Ltd	25	7
Falan Packing	11	9
ANSC-TKS	134	100

Notes to the Financial Statements (Continued)

For the year 2017 (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	84	42
Angang Railway Transport Facilities Construction Co.	3	7
Angang Steel Rope Co., Ltd.	2	2
Angang Refractory Co., Ltd	1	61
Angang Cold Rolled Steel Plate Co., Ltd. Putian		1
ANSC – Dachuan	46	
Pangang Trade	12	
Pangang Group Iron and Vanadium Titanium Resources Co., Ltd	10	
Angang Cast Steel Co., Ltd	6	
Anshan Iron and Steel Group property company	4	
Anshan Iron and Steel Group Comprehensive Industrial Development Co., Ltd.	1	
Other Related Parties		3
Total	4,061	4,885

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

11. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

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

(b) Accounts payable and receivables in advance (Continued)

Items	Closing balance	Opening balance
Receivables in advance		
Angang Mining Co.	6	8
Angang Construction Group	26	14
Angang Auto Transport Co., Ltd	168	30
Angang Entity Group	24	30
Angang Heavy Machine Co., Ltd		1
Falan Packing	10	4
Angang Group Corporation Limited		1
ANSC-TKS	56	125
Anshan Iron and Steel Group		
Comprehensive Industrial		
Development Co., Ltd.	20	
AISSG	16	
Pangang Trade	25	
Pangang Group Panzhihua Steel		
Vanadium Co., LTD	1	
Pangang Trade	1	
Anshan Jidong Cement Co., Ltd	5	
Chengdu western material federation		
Co., Ltd.	2	
Other Related Parties	1	1
Total	361	214

Notes to the Financial Statements (Continued)

For the year 2017 (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 Engineering Technology Co., Ltd	34	32
Angang Real Estate Development Group Co., Ltd	1	1
Angang Trade	5	7
Angang Group Information Industry Co., Ltd	14	14
Angang Automatism Co.	24	24
Angang Construction Group	14	13
Angang Mining Construction Co.	2	2
Angang Auto Transport Co., Ltd	3	
Angang Entity Group	13	13
Angang Heavy Machine Co., Ltd	10	5
Angang Electric Co., Ltd	4	5
Pangang Engineering Technology Co., Ltd	3	
Angang Railway Transport Facilities Construction Co.	1	1
Pangang Group Design Institute		3
Anshan Angang Vesuvius Refractory Co., Ltd	2	3
Other Related Parties	1	1
Total	131	124

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

12. SHARE-BASED PAYMENT

As of December 31, 2017, there is no share based payment transaction need to be disclosed.

13. COMMITMENTS

(1) Significant commitment

Items	2017	2016
Investment contracts entered but not yet performed or performed partially	18	18
Construction and renovation contracts entered but not yet performed or performed partially	1,121	1,058
Total	1,139	1,076

(2) Contingencies

As of Dec 31, 2017, there were no contingencies need to be disclosed.

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

14. SUBSEQUENT EVENTS

- (1) The Board of Directors proposes to allocate cash dividends after the balance sheet date, please refer to Note 6.(37).
- (2) On January 30, 2018, the 26th meeting of the 7th Board of Directors of the Company reviewed and approved the Proposal on the Contract for the First Batch of Contract Energy Management Project Signed by the Company and Angang Group Energy Saving Technology Service Co., Ltd. The company intends to cooperate with Angang Group Energy Saving Technology Service Co., Ltd to establish a contract energy management project for a 180MW gas-steam combined cycle power generation unit (hereinafter referred to as "180MW CCPP contract energy project"). Angang Group Energy Saving Technology Service Co., Ltd. invested in the construction of a 180MW CCPP contract energy project. During the benefit sharing period of the contract energy management project, the two parties shared the energy-saving benefit. The company will pay the energy-saving benefit to Angang Group Energy Saving Technology Service Co., Ltd. in a certain proportion. Sharing period is 40 months. After the contract expires, the assets formed by the project are owned by the company. The first batch of contracted energy management projects planned for 2018 will have an investment of approximately RMB700 million (excluding import equipment tariffs, deductible VAT, interest during the construction period). The company expects to pay the net energy-saving benefit of Angang Group Energy Saving Technology Services Co., Ltd. to not more than RMB1,470 million (including tax) during the benefit-sharing period.
- (3) On February 9, 2018, the 27th meeting of the 7th Board of Directors of the Company reviewed and approved the Proposal on the Land Lease Agreement Signed by the Company and Ansteel Group Corporation Limited and Angang Refractory Co., Ltd. The lease period starts on February 9, 2018 and ends on January 8, 2019. The rent of Ansteel Group Corporation Limited was RMB74.68 million for 8,427,508.80 square meters land area. The company leased the land use rights of Anshan Iron and Steel Group Refractory Co., Ltd. The rent of Angang Refractory Co., Ltd was RMB4.36 million for 320,148.10 square meters land area.

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

15. OTHER SIGNIFICANT INSTRUCTIONS

- (1) On October 10, 2017, the 18th meeting of the 7th Board of Directors of the Company reviewed and approved the “Proposal on the Company’s Issuance of H Shares Convertible Corporate Bonds “. : In order to meet the needs of the company’s operations, adjust its debt structure, supplement liquidity, and other purposes, the company expects to issue convertible bonds with a size not exceeding 300 million or equivalent in other currencies. The term of the bond is a 5-year period with a 3-year return, and the conversion price is determined based on the closing price on the pricing day or the average price on the pricing day plus a certain premium. The specific price is decided by the company’s board of directors according to the market environment of the convertible bond at the time of issue. Approximately 217 million shares of the Target shares of the convertible bonds (calculated based on 20% of the H share capital authorized by Angang’s general mandate). The Board of Directors has been authorized in accordance with the Proposal on the General Mandate Granted by the General Meeting of Shareholders for Additional Issuance of H Shares and Other Transferable Rights to the Board of Directors of Angang Steel Company. The matter is currently underway.
- (2) On October 21, 2017, the company received the Notice of Angang Group Corporation Limited transferring the company’s state-owned shares without compensation from Angang Group Corporation Limited. Angang Group Corporation Limited plans to transfer 650,000,000 A shares of the company (which accounts for 8.98% of the company’s total share capital) held by its wholly-owned subsidiary Ansteel Group Corporation Limited to China National Petroleum Corporation (hereinafter referred to as “CNPC”) without compensation. The above-mentioned gratis transfer of state-owned shares has been approved by the State-owned Assets Supervision and Administration Commission of the State Council (hereinafter referred to as “SASAC”). On December 13, 2017, the company completed the transfer registration of shares above-mentioned. After the completion of the free transfer registration, Ansteel Group Corporation Limited is still the company’s largest shareholder (shareholding ratio of 58.31%), and CNPC is the company’s third largest shareholder (shareholding ratio of 8.98%), The free transfer will not cause any change to the controlling shareholder and actual controller of the company.

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

15. OTHER SIGNIFICANT INSTRUCTIONS (Continued)

- (3) On October 18, 2017, the company received a notice from the controlling shareholder Ansteel Group Corporation Limited that Ansteel Group Corporation Limited has received the SASAC's "Reply on the Issues Relating to the Issuing of Exchangeable Corporate Bonds by Ansteel Group Corporation Limited". The SASAC agreed in principle to the plan that Ansteel Group Corporation Limited issues up to RMB4 billion of exchangeable corporate bonds in exchange for some of its A shares of the company. After this issuance and conversion is completed, Ansteel Group Corporation Limited will hold no less than 3,573,386,040 A shares of the company, which will account for no less than 49.39% of the company's total share capital. It will not cause any change to the controlling shareholder and actual controller of the company. The matter is currently underway.

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	3,054	96	66	99
Accounts receivable with amounts that are individually insignificant and subject to separate assessment for bad debts provision	134	4	1	1
Total	3,188	100	67	100

Notes to the Financial Statements (Continued)

For the year 2017 (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)

Items	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	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

(b) Aging analysis of accounts receivable

Aging	Closing balance			
	Book value		Bad debt provision	
	Balance	Percentage	Balance	Percentage
Within 1 year	3,076	96	66	99
1 to 2 years	17	1		
2 to 3 years	17	1		
Over 3 years	78	2	1	1
Total	3,188	100	67	100

Notes to the Financial Statements (Continued)

For the year 2017 (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	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

(c) Bad debt provision accrued at the end of the year:

Accounts receivable (By company)	Closing balance			Reason
	Accounts receivable	Bad debt provision	Percentage (%)	
Anshan Zhongyou Tianbao Steel Tube Co., Ltd.	67	66	99	Business is in trouble, It does not have repayment ability
Total	67	66		

(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 RMB1,889 million, accounting for 59% 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 2017 (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	233	90		
Other receivables with amounts that are individually insignificant and subject to separate assessment for bad debts provision	25	10		
Total	258	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	334	93		
Other receivables with amounts that are individually insignificant and subject to separate assessment for bad debts provision	26	7		
Total	360	100		

Notes to the Financial Statements (Continued)

For the year 2017 (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	18	20
Loan for Guangzhou Automotive Steel	213	300
Export rebates	21	34
Other	6	6
Total	258	360

- (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	2,035		2,035	1,565		1,565
Investments in joint ventures and associates	2,949		2,949	2,968		2,968
Total	4,984		4,984	4,533		4,533

Notes to the Financial Statements (Continued)

For the year 2017 (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	94		121		
Shanghai Trading	9	94		103		
Tianjin Trading	9	94		103		
Guangzhou Trading	21	94		115		
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	94		100		
Anshan Iron and Steel Kobelco	357			357		
AI SLWB	175		175			
ASPD-CC	69	175		244		
Angang Technology	50			50		
Zhengzhou Steel	123			123		
Total	1,565	645	175	2,035		

(c) Investments for the joint ventures and associates

Note: the same to 6 (10).

Notes to the Financial Statements (Continued)

For the year 2017 (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	
	Revenue	cost	Revenue	cost
Prime operating	82,254	71,235	57,417	49,783
Other operating	308	310	117	106
Total	82,562	71,545	57,534	49,889

(5) Investment income

Items	This period	Last period
Long-term equity investment income measured at equity method	351	335
Investment income from disposal of long-term equity investments	16	
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		
The investment income during the period when held the available-for-sale financial assets	67	73
Disposal of available for sale financial assets investment returns	14	2
Total	448	410

17. NET CURRENT ASSETS

Items	Closing balance	Opening balance
Current assets	28,576	25,980
Less: current liabilities	33,098	37,093
Net current assets/(liabilities)	(4,522)	(11,113)

Notes to the Financial Statements (Continued)

For the year 2017 (Expressed in million RMB unless otherwise indicated)

18. TOTAL ASSETS LESS CURRENT LIABILITIES

Items	Closing balance	Opening balance
Total assets	89,204	88,373
Less: current liabilities	33,098	37,093
Total assets less current liabilities	56,106	51,280

19. SUPPLEMENTARY DOCUMENTS

(1) Non-recurring gains and losses

Items	This period	Last period
Gains/losses from disposal of non-current assets	(44)	(15)
Government grant recorded into profit/loss for current period except that relevant to enterprise operation and in compliance with government policies	72	40
Other Non-recurring gains/losses	(2)	4
subtotal	26	29
Effect on taxation	(7)	(7)
Effect on minority interest (after tax)		
Total	19	22

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' 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	11.81	0.775	0.775
Net profit (exclusive of non-operating profit) attributable to ordinary shares	11.77	0.772	0.772

Five-Year Summary

	2017	2016	2015	2014	2013
Operating revenue	84,310	57,882	52,759	74,046	75,329
Net (loss)/profit	5,612	1,615	(4,600)	924	755
Total assets	89,204	88,373	88,596	91,291	92,865
Total liabilities	(38,818)	(43,085)	(44,915)	(43,095)	(45,775)
Net assets	50,386	45,288	43,681	48,196	47,090

Other Relevant Corporate Information

INCORPORATION:

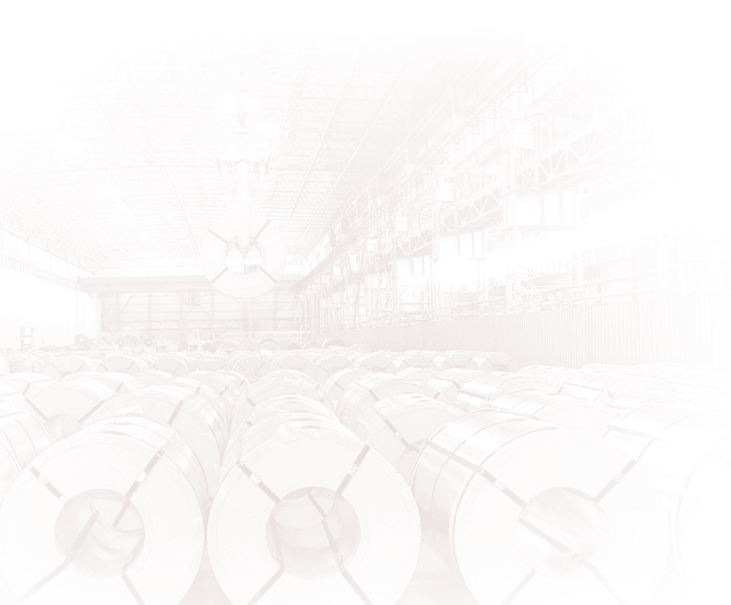
Organization code	The uniform social credit code of the Company was 912100002426694799
Changes in the main business of the Company since the Company's Listing	No changes in the main business
Changes of the Controlling Shareholder of the Company	None

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

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

“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”	Angang Group Company Limited* (鞍鋼集團有限公司), the ultimate controlling shareholder of the Company
“Angang Energy Conservation”	Angang Group Energy-saving Technology Service Co., Ltd (鞍鋼集團節能技術服務有限公司), a company incorporated in the PRC with limited liabilities and an indirect wholly-owned subsidiary of Angang
“Angang Financial Company”	Angang Group Financial Company Limited* (鞍鋼集團財務有限責任公司)
“Angang Group”	Angang and subsidiaries held by it as to 30% or more (excluding the Group)
“Angang Holding”	Anshan Iron & Steel Group Co. Ltd., the controlling shareholder of the Company
“Angang Holding Group”	Angang Holding and the companies in which it holds 30% or above interests in (not including the Group)
“Angang Naihuo”	Angang Naihuo Co., Ltd* (鞍山鋼鐵集團耐火材料有限公司), a liability limited company incorporated in the PRC and a direct wholly-owned subsidiary of Angang Holding
“ANSC-TKS”	ANSC-TKS Automobile Steel Company Ltd. (鞍鋼蒂森克虜伯汽車鋼有限公司)
“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 in ANSI held by Angang Holding and cancelled the business registration of ANSI
“associate”	has the meaning ascribed thereto under the Hong Kong Listing Rules
“Bayuquan Iron & Steel Branch Company”	Bayuquan Iron & Steel Branch Company* (鮫魚圈鋼鐵分公司) of Angang Steel

Definitions (Continued)

“Board”	the board of Directors of the Company
“Changchun Welded Plate”	Anshan Iron and Steel Laser Tailor Welded Plate (Changchun) Co., Ltd. (鞍鋼激光拼焊板(長春)有限公司)
“Company” or “Angang Steel”	Angang Steel Company Limited* (鞍鋼股份有限公司)
“Continuing Connected Transactions”	the non-exempt continuing connected transactions
“Continuing Connected Transaction Agreements”	collectively, the Supply of Materials and Services Agreement (2016–2018), the Supply of Materials Agreement (2016–2018) and the Financial Service Agreement (2016–2018)
“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
“Director(s)”	the director(s) of the Company
“Financial Service Agreement (2016–2018)”	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 on 23 December 2015
“Group”	the Company 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 PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Definitions (Continued)

“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Karara”	Karara Mining Limited (卡拉拉礦業有限公司)
“Pangang Vanadium & Titanium”	Pangang Group Steel Vanadium & Titanium Co., Ltd* (攀鋼集團鈮鈦資源股份有限公司)
“Pangang Vanadium & Titanium Group”	Pangang Vanadium & Titanium and its subsidiaries
“PRC”	the People’s Republic of China (for the purpose of this announcement, excluding Hong Kong and Macau Special Administrative Region)
“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 2017 to 31 December 2017
“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
“Supply of Materials Agreement (2016–2018)”	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 on 12 October 2015
“Supply of Materials and Services Agreement (2016–2018)”	the Supply of Materials and Services Agreement (2016–2018) entered into between the Company and Angang, which was approved at the second extraordinary general meeting of the Company in 2015 on 12 October 2015
“TKAS-SSC”	Angang Steel processing and distribution (Changchun) Co., Ltd. (鞍鋼鋼材加工配送(長春)有限公司)
“%”	per cent

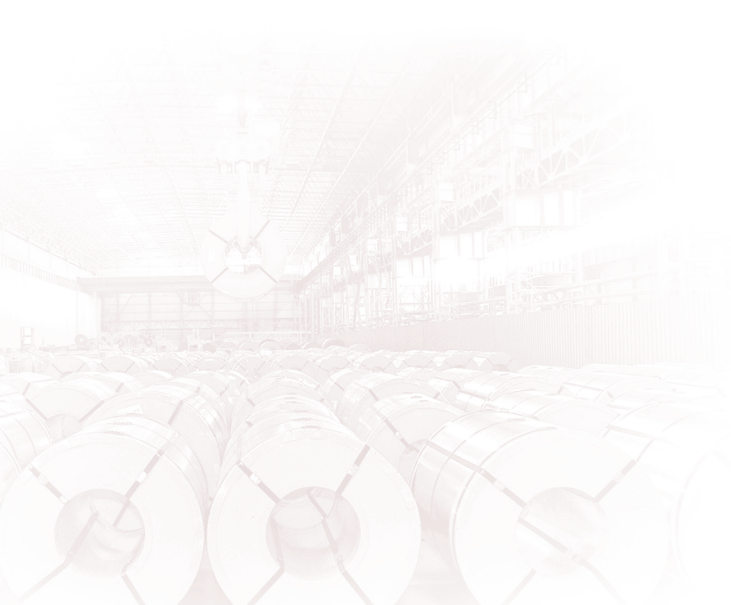
Documents Available for Inspection

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 2017;
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

26 March 2018

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*