



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

Stock Code: 00347

# 2018

## Annual Report



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# Corporate Profile

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

Mr. Wang Yidong, the Company's Chairman and the person in charge, Mr. Ma Lianyong, Chief Accountant and Ms. Guo Wu, 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)

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

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

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

The Company issued HK\$1.85 billion of zero coupon H share convertible bonds on the Hong Kong Stock Exchange on 25 May 2018. The convertible bonds were listed in Hong Kong on 28 May, 2018. The Stock Exchange is listed and dealt and will expire on 25 May 2023.



## Corporate Profile (Continued)

### **CORPORATE PROFILE (CONTINUED)**

As a large national enterprise for manufacture and sales of iron and steel, the Company is engaged in the entire process of 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".



## 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	<a href="http://www.ansteel.com.cn">http://www.ansteel.com.cn</a>
E-mail	<a href="mailto:ansteel@ansteel.com.cn">ansteel@ansteel.com.cn</a>



## 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	<a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
Website for Disclosure of the Company's Information Overseas	<a href="http://www.hkexnews.hk">http://www.hkexnews.hk</a> and <a href="http://angang.wspr.com.hk">http://angang.wspr.com.hk</a>
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	2018	2017		Changes over the preceding year (%) After adjustment	2016	
		Before adjustment	After adjustment		Before adjustment	After adjustment
Operating income	<b>105,157</b>	84,310	91,683	14.70	57,882	62,599
Operating profit	<b>10,088</b>	5,526	6,359	58.64	1,591	1,682
Total profit	<b>10,008</b>	5,480	6,313	58.53	1,620	1,713
Net profit attributable to shareholders of the Company	<b>7,952</b>	5,605	6,638	19.80	1,616	1,708
Net profit attributable to shareholders of the Company after extraordinary items	<b>6,633</b>	5,586	5,585	18.76	1,594	1,594
Net cash flow from operating activities	<b>8,294</b>	6,268	6,478	28.03	4,349	4,878
Basic earnings per share (RMB/share)	<b>1.099</b>	0.775	0.917	19.85	0.223	0.236
Diluted earnings per share (RMB/share)	<b>1.088</b>	0.775	0.917	18.65	0.223	0.236
Returns on net assets on weighted average basis (%)	<b>14.82</b>	11.81	14.02	Increased by 0.80 percentage point	3.67	3.99



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

### I. PRINCIPAL ACCOUNTING FIGURES AND FINANCIAL INDICATORS (CONTINUED)

Items	At the end of 2018	At the end of 2017		Changes over the preceding year (%) After adjustment	At the end of 2016	
		Before adjustment	After adjustment		Before adjustment	After adjustment
Total assets	<b>90,024</b>	89,204	94,886	-5.12	88,373	93,127
Total liabilities	<b>37,559</b>	38,818	42,174	-10.94	43,085	49,068
Owner's equity	<b>51,962</b>	49,973	52,291	-0.63	44,882	43,646
attributable to shareholders of the Company						
Net assets per share	<b>7.18</b>	6.91	7.23	-0.63	6.20	6.03
attributable to shareholders of the Company (RMB/share)						
Assets-liability ratio (%)	<b>41.72</b>	43.52	44.45	Decreased by 2.73 percentage points	48.75	52.69
Total share capital	<b>7,235</b>	7,235	7,235	-	7,235	7,235

*Description:* Reason for retrospective adjustment: the Group acquired Chaoyang Iron and Steel and Energy Technology from the business combination under common control during the year, and retrospectively adjusted the current and final data for 2017 and 2016.

Total share capital of the Company

Total share capital of the Company (*shares*) 7,234,807,847

Fully diluted earnings per share calculated based on the latest  
share capital (RMB/share) 1.099

Is there any corporate bond?

Yes  No



## II. MAJOR FINANCIAL INDICATORS BY QUARTER

*Unit: RMB million*

	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
Operating income	21,513	25,369	30,931	27,344
Net profit attributable to shareholders of the Company	1,590	1,909	3,356	1,097
Net profit attributable to shareholders of the Company after extraordinary items	1,583	1,934	2,410	706
Net cash flow from operating activities	-658	2,565	5,833	554

Whether there is substantial difference between the aforesaid financial indicators or their sum and those disclosed in the quarterly report and interim report.

Yes

No

*Reason explanation:* The Group acquired Chaoyang Iron and Steel from business combination under common control on 30 September 2018, and the cumulative data of Chaoyang Iron and Steel for the first three quarters has been consolidated into that of the third quarter of the Group.

## 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	2018	2017	2016	Description
1. Gains/losses from disposal of non-current assets	-103	-44	-15	-
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	86	72	40	-
3. Net gains or losses of subsidiaries arising from business combination under common control from the beginning of the year to the date of combination	1,268	-	4	-
4. Net gains or losses of subsidiaries arising from business combination under common control for the previous year	-	1,034	92	-
5. Changes in fair value of financial assets held for trading	-5	-	-	-
6. Changes in fair value of other non-current liabilities (part of derivative financial instruments)	68	-	-	-
7. Achievement by steps of business combination under non-common control, the earnings from re-measurement of original equity at fair value	-22	-	-	-
8. Achievement by steps of business combination under non-common control, the earnings from the lower merger cost than the fair value of the investee's identifiable net assets attributable to the investor when the investment is acquired	26	-	-	-
9. Investment income from disposal of subsidiaries	2	-	-	-
10. Other non-operating revenue and expenses except those mentioned above	17	-2	-	-
<b>Subtotal</b>	<b>1,337</b>	1,060	121	-
Less: Effect on income tax	17	7	7	-
Effect on minority investors (after tax)	1	-	-	-
<b>Total</b>	<b>1,319</b>	1,053	114	-

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

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



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 2018 and hereby extend my regards to all shareholders.



## **OPERATING RESULTS FOR 2018:**

Pursuant to the PRC ASBE, the Group recorded a net profit attributable to shareholders of the Company of RMB7,952 million and basic earnings per share of RMB1.099 for the year ended 31 December 2018 as compared to a net profit attributable to shareholders of the Company of RMB6,638 million and basic earnings per share of RMB0.917 for the year ended 31 December 2017.



### **PROFIT DISTRIBUTION:**

The Board recommended distributing RMB1,591,657,726.34 of distributable profits to all shareholders of the Company by way of cash dividend of RMB2.2 (tax inclusive) per 10 shares on the basis of the total share capital of 7,234,807,847 shares. At the same time, the Company will issue shares to all shareholders by way of capitalisation of capital reserve, on the basis of three(3) capitalisation shares for every ten(10) existing shares. If there is any change in the Company's total share capital as of the record date for dividend distribution in 2018, the total amount of cash dividend under the profit distribution proposal 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 proposal is subject to consideration at the 2018 annual general meeting.

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.

## Chairman's Statement (Continued)

### PROFIT DISTRIBUTION:(CONTINUED)

Pursuant to the Notice on the Tax Policies Concerning the Pilot Program of the Shenzhen-Hong Kong Stock Connect (Cai Shui [2016] No. 127) (《關於深港股票市場交易互聯互通機制試點有關稅收政策的通知》), for mainland corporate investors that invest in a company via the Shenzhen-Hong Kong Stock Connect, corporate income tax will be levied according to the law. In particular, for any dividend to be distributed to resident enterprises in the mainland China which hold H shares for more than 12 consecutive months, corporate income tax may be exempted according to the law. Such mainland enterprises shall declare and pay taxes by themselves in respect of such dividends, which will not be withheld by such H share company. In respect of dividends for the H shares of a company invested in by mainland individual investors on the Hong Kong Stock Exchange through the Shenzhen-Hong Kong Stock Connect, the H share company shall apply to China Securities Depository and Clearing Co., Ltd., which will then provide the H share company with the register of mainland individual investors. The H share company shall withhold an individual income tax at the rate of 20% on such dividends.

For dividends received by investors (including enterprise and individual investors) in the Hong Kong market from investing in A shares listed on the Shenzhen Stock Exchange, and before Hong Kong Securities Clearing Company Limited is able to furnish China Securities Depository and Clearing Co., Ltd. with the identity, holding period and other detailed data of the investors in the Hong Kong market, the differentiated tax treatment based on the holding period of shares will not be implemented temporarily. Listed companies shall withhold income tax at the rate of 10% and make withholding filings with the competent tax authorities. For those investors who are tax residents of other countries and the tax rate applicable to dividends is lower than 10% under the tax treaty between China and the relevant countries, such investors may, by themselves or request the withholding agent to act on their behalf to, apply to the competent tax authorities in respect of the listed company for the preferential relevant treatment under the relevant treaties. Once verified by the competent tax authorities, the amount being the difference between the tax withheld and the tax calculated at the rate as prescribed under the corresponding tax treaty shall be refunded.

# Chairman's Statement (Continued)

## PROFIT DISTRIBUTION: (CONTINUED)

All investors should consider the above contents carefully. The Company will strictly comply with the relevant PRC tax laws and regulations; and the Final Dividend will only be payable to the shareholders whose names appear on the register of members of the Company. The Company assumes no responsibility or liability whatsoever for confirming the identity of the shareholders of the Company and for any claims arising from any delay in or inaccurate determination of the identity of shareholders of the Company or any disputes over the withholding mechanism.

## BUSINESS REVIEW:

In 2018, the Company grasped the favorable opportunity for the picking up of steel market by focusing on three key elements of “efficiency, quality and reform”, and has achieved remarkable results in all aspects of production and operation through uniting and leading all cadres and employees and working hard for progress.

### 1. Operating results hit the best level in history

In 2018, the Group achieved an operating income of RMB105,157 million, representing an increase of 14.70% over the previous year. The total profit reached RMB10,008 million, representing an increase of 58.53% over the previous year. The net profit attributable to shareholders of the Company was RMB7,952 million, representing an increase of 19.80% over the previous year. The basic earnings per share was RMB1.099, representing an increase of 19.85% over the previous year.





## **BUSINESS REVIEW: (CONTINUED)**

### **1. Operating results hit the best level in history (Continued)**

In 2018, the Group produced 24.788 million tons of iron, representing an increase of 2.66% over the previous year; 26.155 million tons of steel, representing an increase of 5.12% over the previous year; and 24.1307 million tons of rolled steel, representing an increase of 5.24% over the previous year. Sale of rolled steel amounted to 24.098 million tons, representing an increase of 4.60% as compared with the previous year. The Group achieved a sales-output ratio of 99.86%.

In 2018, the Company successfully acquired 100% equity of Chaoyang Iron and Steel, which further improved the Company's production capacity and profitability.

### **2. Continuous Optimization of Industrial Structure**

The main business of irons and steels achieved a steady development. The upgrading of equipment accelerated with respect of key areas regarding product adjustment and quality improvement, energy conservation and cost reduction, environmental protection and emission reduction, and process optimization. The upgrading and transformation project in relation to Dalian Foundry of Anshan Headquarters were completed successfully. The Company successfully acquired 100% equity of Chaoyang Iron and Steel to promote the coordinated development of three iron and steel production bases, namely Anshan Headquarters, Yingkou Base and Chaoyang Base, thus improving the profitability of the Company.

Coordinated development of related industries. The 180MW CCGT machine set project was steadily implemented, the reasonable use of residual heat to replace urban energy was carried out, and the revenue deriving from the clean power generation industry reached RMB3.944 billion; the projects of needle cokes and carbon microspheres witnessed stable progress, and the revenue deriving from the chemical science and technology industry reached RMB7.668 billion. The further processing of steel products and related extension services were promoted. The layout in the high-end auto parts industry were in the process, and the projects of EPS and thermoforming were accelerated; the capital increase and share enlargement were made in Angang Gas Co., Ltd. (currently renamed as Angang Energy Technology Co., Ltd.) to promote the development of the Company in gas and energy industry. The Company's resource advances were given full play so as to enhance the value creation efficiency of its surplus gas and energy resources.



## **BUSINESS REVIEW: (CONTINUED)**

### **3. Significant Improvement of Operation Efficiency**

Optimization of production organization. The coordination and interaction between the three regions and three lines were strengthened, and the concurrent development of “coke, iron and steel” productions was promoted. Under the circumstance of heavy repair of 1# blast furnace in Bayuquan Iron & Steel Branch Company and 5# blast furnace in Anshan Headquarters, the productions of irons, steels and materials all exceeded expected output.

Strengthening of cost reduction and efficiency improvement. The cost reduction index system consisting of 6 projects and 61 tasks in relation to three dimensions of ferrite flow, carbon flow and capital flow was established. The potential of cost reduction was explored to lower down the cost of outsourcing energy and logistics on a continuous basis. The cost-effective procurement and material life cycle management were implemented, with the ratio of cost-effective procurement reaching 36.39%. The previous fuel purchasing strategy was adjusted, and the “three enhancements and three reductions” scheme witnessed new progress.

Promotion of the intelligent manufacturing. The informatized and intelligent plans together with 2018 project implementation plans were prepared, with emphasis on informatization projects such as ERP transformation, big data platform and digital workshop. The construction of an intelligent and transparent factory under the new metallurgical process was accelerated, and centralized and integrated energy management and control of Bayuquan Iron & Steel Branch Company were realized. The 5,500mm thick plate project was rated as the National Intelligent Manufacturing Pilot Demonstration Project.

### **BUSINESS REVIEW: (CONTINUED)**

#### **4. Effective Release of Reform Vigorousness**

Steady advancement of the system and mechanism reform. The contractual management was promoted, and the contractual performance assessment, target responsibility assessment and quasi-contractual evaluation were implemented. According to the principle of “sharing risks, increasing profits, identifying responsibilities and operating pursuant to regulations”, the management of project follow-up investment was promoted. Taking the contracting of the small-scale production line as a model, seven companies and production lines, such as Seamless Steel Tube Factory and the 3,800mm production line of Bayuquan Iron & Steel Branch Company, were contracted to realize the transformation from being “internal production-driven” to “market-driven”. The structural reform was pushed forward, and the informatized management center and the quality measurement center were established. The reform of “simplifying administration and delegating power, combining control and power delegation, and optimizing services” was carried out to grant full authorization to Chaoyang Iron & Steel Company in six areas including procurement and sales. The incentive and restraint mechanism of “emphasizing precision, strong incentives, strong constraints and strict assessment” was set up and improved to enhance the endogenous power of the company.

Increasingly improvement of the scientific research system reform. The science and technology innovation management committee and the science and technology innovation and technology expert committee were in place. According to the “one office, two centers, three departments and ten institutes” scientific research management framework model, the institutional reform of the technology center was implemented and the “one factory, one institute” system was promoted. The technology center was given “equity, options and autonomy”, the salary incentive mechanism was improved, the channels of talent promotion were unlocked, and the enthusiasm of scientific researchers was further stimulated.

Continuous optimization of the marketing and operation model. The “1+4+N” marketing model was established. The operating and management system of steels for automotive application was optimized, the customer-centered rapid response and coordination mechanism was set up, and the integration of production, sales, research and service was realized. The importance of performance evaluation was emphasized, and the remuneration system of “basic salary + performance bonus” was reinforced with a view to fully mobilizing the enthusiasm of sales staff.



## BUSINESS REVIEW: (CONTINUED)

### 5. Continuous Strengthening of Brand Building

The brand influence continued to increase. The overall brand building strategy was formulated, and the brands of ANSTEEL, TAGAL and AHK were promoted as a whole. The cold rolled non-oriented electrical steels were recognized as Liaoning's key brand product, and 6 types of products such as the medium and thick plate steels applied in rails, ships and ocean engineering were known as famous brand products of Liaoning. The principle regarding expansion of direct supply and increase of direct sales was adhered to, with the direct supply customers increasing by 3% year-on-year, and the number of key projects won upon bidding increasing by 71% on a yearly basis. The Company's senior officers led teams to visit 25 key customers and enhanced the communication with the management thereof. The QCDDS service system was established to improve customer service quality, winning 11 awards for outstanding suppliers throughout the year. The crack arrest steels won the 2018 China Iron and Steel Industry Product Development – Market Exploration Award.

Building brands through premium qualities continued to be reinforced. The third "3.15" quality work conference was held to formulate and implement a three-year quality improvement plan as well to promote quality upgrading in key areas and of key varieties. The quality index system was improved, and the index evaluation method for first-pass ratio was formulated. The total of 97 quality improving "1+10+N" projects was completed. The construction of quality inspection system was strengthened and 10 quality inspection stations were added to the finished product factories. During the year, five products won the Gold Cup Award for Quality in Metallurgical Industry and one product won the Excellent Quality Award.

The product adjustment and brand building achieved remarkable results. The proportions of new products, leading unique products and strategic products reached 12.4%, 30% and 69% respectively, with 3 products achieving world debut and 5 products completing national debut throughout the year. The trial production of high-strength container steel, and the storage tank steel for PetroChina Tangshan LNG Phase II Project was completed. The process route for producing high-magnetic silicon steel by hot rolling 1,580mm line in Bayuquan Iron & Steel Branch Company was put into practice. The enamel steel plate for high-end decoration was successfully developed. The nuclear power plate research and development center was jointly set up with Shanghai Nuclear Engineering Research and Design Institute to help the localization of nuclear power steel.

### **BUSINESS REVIEW: (CONTINUED)**

#### **5. Continuous Strengthening of Brand Building (Continued)**

The role of science and technology in improving brand image was prominent. The conference on scientific and technological innovation was held. The 2025 Science and Technology leading plans were released, 39 leading experts and chief experts were employed, and the 2018–2020 scientific research project plan covering 12 technological fields, 9 product fields and 491 projects was determined. The research and development of key projects were strengthened, 31 national scientific research projects were implemented and key research and development projects achieved important breakthroughs. Remarkable achievements in scientific and technological innovation were made, winning one first prize and one second prize of the National Scientific and Technological Progress Award, six Metallurgy Science Technology Awards, one China Iron and Steel Industry Market Development Award, nine Scientific and Technological Progress Award in Liaoning Province, and one first prize of China Railway Society Science and Technology Award.

#### **6. Results Yielded in Three Crucial Tasks**

Effectively preventing capital risks through optimization of debt structure. The zero-coupon H-share convertible bonds of HK\$1.85 billion were successfully issued, thus optimizing the Company's debt structure and enhancing the Company's capital risk prevention capability. In line with the principle of “reducing two types of amounts, increasing two kinds of rates, and operating with zero liability”, the debt structure was further optimized by repaying interest-bearing liabilities, and expanding financing channels. The futures tools were effectively utilized to avoid market risks, resulting in the futures hedging transactions involving products of 6.8 million tons throughout the year.

The environmental governance was promoted and the green development capability was enhanced. The environmental protection development plans were formulated, the implementation of environmental protection upgrading projects and the construction of green ecological steel mills were accelerated. All coke ovens were desulphurized and denitrated. Lingshan Stockyard went through the transformation of “three sheds and one net”. The coke dust suppression net and the mixed closed stockyard were completed and put into operation. The pollutant emissions of Angang Steel were greatly reduced, with drainage per ton of steel, COD and sulfur dioxide dropping 68%, 76.2% and 15.5% respectively. Bayuquan Iron & Steel Branch Company won the title of “2018 Top Ten Outstanding Enterprises for Green Development”.



## BUSINESS REVIEW: (CONTINUED)

### 6. Results Yielded in Three Crucial Tasks (Continued)

The poverty relief efforts made solid progress. The team focusing on poverty relief was established, and selected personnel for poverty relief were stationed in remote areas and rural areas. The designated poverty relief work was promoted, the poverty relief through industry development was strengthened, and the poverty relief through employment was reinforced. Sixteen poverty relief projects were implemented, and the actual funds allocated to poverty relief was RMB6.273 million, when compared with the poverty relief funds of RMB3 million budgeted at the beginning of the year, had an increase of RMB3.273 million, with a completion rate of 209.1%. The Company's management led the team to conduct in-depth research on poverty relief points and solved 23 related challenging issues on the spot. It has made meaningful contributions to the counterpart to which aids were provided in achieving the schedule of taking targeted measures in poverty relief.

## DEVELOPMENT PLAN FOR THE NEW YEAR

### 1. Landscape and development trend in the industry

The year 2019 is the 70th anniversary of the founding of the PRC, it is also a crucial year for building a well-off society in an all-round way, and an important period for implementing new development concepts and promoting high-quality development.

Macroscopically, the global economic growth has slowed down, and the external economic environment is becoming complicated and changeable due to the continued interest rate hike in the United States and trade friction and uncertainty, all of which have far-reaching impact on the international political and economic environment. Recently, the growth of domestic investment, consumption and export have weakened. According to the prediction of the Chinese Academy of Social Sciences, the Chinese GDP will increase by 6.3% in 2019, CPI by 1.8%, and PPI by 1.6%. The Central Economic Work Conference pointed out that China's economic operation has changed steadily with trepidation while the external environment is still complex and severe, the economy is facing downward pressure, and the development is still and will be in an important strategic opportunity period in the long run.

From the perspective of iron and steel industry, with the weak growth of steel demand, the supply elasticity becomes smaller and cyclical risks of market increase, which are demonstrated by a differentiation trend of the raw material market upstream and slowdown for steel demand downstream, and the market in running in fluctuations. However, with the gradual implementation of a series of policies for the steady growth of the national economy, the long-term positive trend of the economy has not changed. The supply side reform has achieved initial results, the "Belt and Road" strategy has provided rare development opportunities for Chinese iron and steel enterprises to "go out".



# Chairman's Statement (Continued)

## DEVELOPMENT PLAN FOR THE NEW YEAR: (CONTINUED)

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

The Company will make efforts to grasp the rhythm of market changes, work hard in preparing for difficulties and challenges and maintain a good momentum of rapid development, to promote the high-quality development of the Company.

### 2. Development strategy of the Company

The Company will guide its work by the development strategy of “strengthening quality steel, focusing on innovation, implementing green manufacturing, providing excellent service, accelerating layout adjustment, and promoting upgrading and transformation”.

– Strengthening quality steel

Focusing on “total volume, production lines and products”, we will comprehensively enhance the core competitiveness of the steel business; maximize the efficiency of equipment, accelerate the improvement of superior competitive advantages and development capabilities, and promote the scale; promote the product upgrading, build ten major product lines, such as automobiles, shipbuilding and marine engineering, railways and bridges, and solidly promote the development by quality products to consolidate and enhance our influence in the industry; promote the upgrading of production lines by focusing on key areas such as variety adjustment and quality improvement, green production and intelligent manufacturing, and promote the improvement and upgrading of key production lines. the

– Focusing on innovation drivers

To promote technological innovation, institutional innovation and marketing model innovation, deepen the reform of distribution system, and improve our development momentum and vitality.

– Implementing green manufacturing

To improve the efficiency of resource and energy utilization, promote research and application of green manufacturing technology, reduce pollution emissions, and consciously assume social responsibility; to integrate into urban development, achieve a high degree of harmonic and sustainable development of enterprises and environment, and build a resource-saving and environment-friendly enterprise.



## DEVELOPMENT PLAN FOR THE NEW YEAR: (CONTINUED)

### 2. Development strategy of the Company (Continued)

- Providing excellent services

To accelerate the transition from manufacturing to integrated service provider, seek the best solution between expanding market share and increasing product profitability, and enhance market control (market influence, brand influence, price dominance, market share, etc.).

- Speed up layout adjustment

The production capacity was transferred to low-cost areas. firstly, leveraging the opportunity of the country's implementation of the "Belt and Road Initiative" strategy and the strengthening of international cooperation in production capacity, great efforts have been made to open up the international market and promote the transfer of production capacity overseas. Through the implementation of "going out" of the production capacity, it can not only make full use of inefficient and idle equipment and facilities, revitalize existing assets and save investment, but also develop international markets and enhance international competitiveness. Secondly, the layout of production capacity in various bases is optimized and the transformation of regional advantages to profitability is promoted. The Company will make full use of international and domestic resources and markets to increase production capacity and profitability.

- Promote upgrading and transformation

The automated, informatized and intelligent measures were utilized to promote industrial upgrading and improve operating efficiency.

The level of equipment automation was increased and the human resources optimization was promoted to improve labor productivity. The key informatization projects such as the procurement and supply management information system, the sales business management platform, the logistics management and control platform, and the production scheduling management and control center were pushed forward to build an efficient and fast responding information operation system. The management process was optimized, and the "Internet plus", Internet of Things, big data, cloud computing, mobile terminals and other information technologies were applied to enhance the data and information processing capacity as well as transmission efficiency, and realize the integration and development of traditional industries and information technology; tracking, controlling, analyzing, optimizing and guiding of the whole process of production and operation were implemented, the all-time and all-dimension marketing services respecting online transactions, dynamic tracking and inquiry of orders, and major customer channels were provided to improve the efficiency of enterprise operation and management as well the quality of marketing services.





## Chairman's Statement (Continued)

### DEVELOPMENT PLAN FOR THE NEW YEAR: (CONTINUED)

#### 3. Operation plan for the year of 2019

In 2019, the Company will continue to focus on three key elements, namely reform, efficiency and quality, make efforts to achieve six “adhere to” and six “create”, and strive to be the most competitive iron and steel flagship enterprise in the industry by proactive progressing, reforming and innovating and accelerating quality development.

- (1) Adhere to political position, to create a flagship enterprise with the most affection.
- (2) Adhere to innovation driving, to create an innovative enterprise with the most potential for development.
- (3) Adhere to deepening reform, to create a transformational enterprise with the most dynamic.
- (4) Adhere to customer first, to create a service enterprise with the most brand value.
- (5) Adhere to synergy and efficiency, to create an efficient enterprise with the most operational capabilities.
- (6) Adhere to people-oriented, to create a sharing enterprise with the most development synergy.

#### 4. Plans for funding requirements

In 2019, the proposed investments for engineering projects and external investments of the Group will amount to RMB3,128 million.

In 2019, the sources of funding for the Group will mainly include cash inflows from operating activities and bank loans.

*Chairman of the Board:* **Wang Yidong**

Anshan City, the PRC  
18 March 2018



The Board is pleased to present the annual report and the audited financial statements for the year ended 31 December 2018.

## 1. PRINCIPAL BUSINESSES

### Composition of the principal businesses in 2018

Composition of operating income

*Unit: RMB million*

	2018		2017		Year-on-year increase/decrease (%)
	Amount	As a percentage of the operating income (%)	Amount	As a percentage of the operating income (%)	
Total operating income	<b>105,157</b>	<b>100</b>	91,683	100	14.70
<b>By industry</b>					
Steel rolling and processing industry	<b>104,849</b>	<b>99.71</b>	91,370	99.66	14.75
Others	<b>308</b>	<b>0.29</b>	313	0.34	-1.60
<b>By product</b>					
Steel products	<b>97,296</b>	<b>92.52</b>	84,991	92.70	14.48
Others	<b>7,861</b>	<b>7.48</b>	6,692	7.30	17.47
<b>By geographical location</b>					
China	<b>99,371</b>	<b>94.50</b>	85,210	92.94	16.62
Export sales	<b>5,786</b>	<b>5.50</b>	6,473	7.06	-10.61

# Report of the Directors (Continued)

## 1. PRINCIPAL BUSINESSES (CONTINUED)

### Composition of the principal businesses in 2018 (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)
<b>By industry</b>						
Steel rolling and processing industry	104,849	87,845	16.22	14.75	12.06	2.02
<b>By product</b>						
Hot-rolled sheets products	32,328	25,502	21.11	5.58	0.50	3.98
Cold-rolled sheets products	34,487	29,106	15.60	12.78	15.57	-2.04
Medium and thick plates	16,639	14,401	13.45	35.68	26.55	6.25
<b>By geographical location</b>						
China	99,063	82,880	16.34	16.69	14.58	1.54
Export sales	5,786	4,965	14.19	-10.61	-18.04	7.78

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

Applicable

Not applicable



## 1. PRINCIPAL BUSINESSES (CONTINUED)

### Composition of the principal businesses in 2018 (Continued)

Composition of operating costs

Unit: RMB million

Industry classification	Item	2018		2017		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	71,330	81.20	63,316	80.77	0.43
	Others	16,515	18.80	15,075	19.23	-0.43
Total		87,845	100	78,391	100	-

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

During the year, the Company has added four subsidiaries, namely: (1) investment in and establishment of Chemical Technology; (2) acquisition of Energy Technology from business combination under common control; (3) acquisition of Chaoyang Iron and Steel from business combination under common control; and (4) acquisition of FAW Angang from business combination under non-common control.

During the year, the Company has disposed of two subsidiaries, namely: (1) Shanghai Ansteel was liquidated and de-registered in December 2018; and (2) Ansteel Weifang applied for bankruptcy and liquidation in December 2018, and the liquidation matters were transferred to the administrator designated by the People's Court.

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

Applicable  Not applicable

## 4. PLANS OF PROFIT DISTRIBUTION DURING THE REPORTING PERIOD

Net profit attributable to shareholders of the Company amounted to RMB7,952 million for the year of 2018, extraction of surplus reserve amounted to RMB48 million (as at 31 December 2018, the balance of surplus reserve amounted to RMB3,628 million accounting for 50% of the registered capital), in accordance with the PRC ASBE, as audited and confirmed by ShineWing Certified Public Accountants (Special General Partnership) (信永中和會計師事務所(特殊普通合夥)). The Board proposes to distribute RMB1,591,657,726.34 million of distributable profits to all the shareholders of the Company by way of cash dividends. on the basis of the total share capital of 7,234,807,847 shares. At the same time, the Company will issue shares to all shareholders by way of capitalisation of capital reserve, on the basis of three(3) capitalisation shares for every ten(10) existing 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. This proposal shall be subject to consideration and approval at the 2018 annual general meeting. The dividend is expected to be distributed around 30 June 2019.

## 5. ANALYSIS OF MAJOR SUBSIDIARIES AND INVESTEEES

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

*Unit: RMB million*

Name of companies	Type of companies	Principal activities	Registered capital	Total assets	Net assets	Operating income	Operating profit	Net profit
Chaoyang Iron and Steel	Production enterprise	Steel rolling and processing industry	8,000	5,089	3,640	9,192	1,390	1,370



## 5. ANALYSIS OF MAJOR SUBSIDIARIES AND INVESTEEES (CONTINUED)

### 2. Acquisition and disposal of subsidiaries during the Reporting Period

<b>Name of subsidiaries</b>	<b>Purpose of acquisition and disposal of subsidiaries during the Reporting Period</b>	<b>Method of acquisition and disposal of subsidiaries during the Reporting Period</b>	<b>Impact on the overall production and results</b>
Chemical Technology	Optimize and strengthen chemical industry	Investment	Encourage the vitality of the chemical business and enhance operational efficiency.
Energy Technology	Promote the development of the gas industry	Business combinations under common control	Give full play to the advantages of resources and develop and strengthen the energy and gas industry.
Chaoyang Iron and Steel	Optimize and strengthen steel industry	Business combinations under common control	Reduce industry competition, achieve coordinated development, and improve profitability.
FAM Angang	Enhance strategic cooperation with FAM	Non-business combinations under common control	Strengthen cooperation with FAM and increase steel sales.
Ansteel Weifang	Long-term loss due to outdated equipment	Bankruptcy handover	No
Shanghai Ansteel	Dissolved by shareholder's agreement	Dissolution clearing	No

## 6. MAJOR CUSTOMERS AND SUPPLIERS

### Sales to major customers of the Company

Total sales amount of the top five customers ( <i>RMB million</i> )	26,188
Proportion of total sales amount of the top five customers over total sales amount for the year (%)	24.98
Proportion of sales to related parties of total sales amount of the top five customers over total sales amount for the year (%)	21.87

### 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	7,195	6.86
2	Customer B	6,361	6.07
3	Customer C	5,673	5.41
4	Customer D	3,696	3.53
5	Customer E	3,263	3.11
Total		26,188	24.98

Other explanations on major customers: the top five customers include companies which are related parties of the Company.

### Major suppliers of the Company

Total purchase amount from the top five suppliers ( <i>RMB million</i> )	29,426
Proportion of total purchase amount of the top five suppliers over total purchase amount for the year (%)	37.06
Proportion of procurement from related parties of total purchase amount of the top five suppliers over total purchase amount for the year (%)	27.37



## 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	11,879	14.96
2	Supplier B	6,431	8.10
3	Supplier C	3,970	5.00
4	Supplier D	3,721	4.69
5	Supplier E	3,425	4.31
Total		29,426	37.06

Other explanations on major suppliers: the top five suppliers include companies under which are related parties of the 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 2018.

## 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 2018.

### **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 2018 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.

### **14. FIXED ASSETS**

Changes in the fixed assets during the year are set out in note 13 to financial statements on pages 292 to 294 of this annual report.



## 15. OPERATING RESULTS

The results of the Company for the year ended 31 December 2018 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 34 to the financial statements on page 318 of this annual report.

## 17. RESERVES

Changes in the reserves during the year are set out in note 37 to the financial statements on page 320 of this annual report.

## 18. EMPLOYEE RETIREMENT SCHEME

Details of the employee retirement scheme of the Company are set out in note 24 to the financial statements on page 308 of this annual report.

## 19. CONTINUING CONNECTED TRANSACTIONS

Details of Continuing Connected Transactions of the Company for the year are set out on pages 358 to 368 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 392 of this annual report.

## 21. AUDITOR

ShineWing Certified Public Accountants (Special General Partnership) (信永中和會計師事務所(特殊普通合伙)) was appointed as the Company's auditor in 2018.

By order of the Board  
**Wang Yidong**  
*Chairman*

18 March 2019



# 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 four 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.

<b>No.</b>	<b>Meetings</b>	<b>Date of the meeting</b>	<b>Matters considered</b>
1	The 8th meeting of the 7th Session of the Supervisory Committee	26 March 2018	<ol style="list-style-type: none"><li>1. The Report of the Supervisory Committee for 2017 was approved.</li><li>2. The Proposal in relation to the Remunerations of the Supervisors for 2017 was approved.</li><li>3. 2017 Annual Report and its summary were approved.</li><li>4. The 2017 Self-assessment Report on Internal Control was approved.</li></ol>
2	The 9th meeting of the 7th Session of the Supervisory Committee	18 April 2018	<ol style="list-style-type: none"><li>1. 2018 First Quarterly Report of the Company and its text were approved.</li></ol>
3	The 10th meeting of the 7th Session of the Supervisory Committee	27 August 2018	<ol style="list-style-type: none"><li>1. 2018 Interim Report of the Company and its text were approved.</li><li>2. The Proposal in relation to the changes in accounting polices of the Company were approved.</li></ol>
4	The 11th meeting of the 7th Session of the Supervisory Committee	29 October 2018	<ol style="list-style-type: none"><li>1. 2018 Third Quarterly Report of the Company and its text were approved.</li></ol>

## Report of the Supervisory Committee (Continued)



- II In 2018, 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 2018 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*

18 March 2019

# 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	105,157	91,683	14.70	-
Operating costs	88,126	78,707	11.97	-
Marketing expenses	3,067	2,570	19.34	-
Administrative expenses	1,266	1,589	-20.33	-
Financial expenses	1,471	1,331	10.52	-
R&D expenditure	483	326	48.16	Increase in trial and R&D expenditure of new products.
Total profit	10,008	6,313	58.53	In 2018, the Company carried out a series of work around
Net profit attributable to shareholders of the Company	7,952	6,638	19.80	"efficiency, quality and reform" and achieved a record high in profits: firstly, the Company continued to promote system cost reduction and differentiated reduction of procurement costs, and to build a project cost-reducing index system and deepen the potential for cost reduction around the three dimensions of ferrite flow, carbon flow and cost flow, and has achieved new results in "three improvements and three reductions"; secondly, the Company established "T+4+N" marketing model and realized the integration of production, sales, research and services, allocated resources according to market demand, and continued to strengthen the brand's influence through establishing brands with quality, creating brands by variety adjustment and enhancing brands by technology; thirdly, the Company completed the acquisition of Chaoyang Iron and Steel, by which we realized the overall listing of quality assets of the steel industry and improved the Company's profitability.



## I. ANALYSIS OF PRINCIPAL BUSINESSES (CONTINUED)

### 1. Overview (Continued)

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
Net cash flow	-516	325	-258.77	The net increase in cash and cash equivalents decreased by RMB841 million as compared to the same period of the previous year, which was mainly due to (i) increase of RMB1,816 million in net cash flow from operating activities over the same period of the previous year; (ii) decrease of RMB2,544 million in net cash flow from investing activities over the same period of the previous year; (iii) decrease of RMB128 million in net cash flow from financing activities over the same period of the previous year; and (iv) increase of RMB15 million in impact of exchange rate changes on cash flow over the same period of the previous year.

# Discussion and Analysis of Operations (Continued)

## I. ANALYSIS OF PRINCIPAL BUSINESSES (CONTINUED)

### 2. Income and Cost

#### (1) Composition of operating income

Unit: RMB million

	2018		2017		Year-on-year increase/decrease (%)
	Amount	As a percentage of the operating income (%)	Amount	As a percentage of the operating income (%)	
Total Operating Income	105,157	100	91,683	100	14.70
<b>By industry</b>					
Steel rolling and processing industry	104,849	99.71	91,370	99.66	14.75
Others	308	0.29	313	0.34	-1.60
<b>By product</b>					
Steel products	97,296	92.52	84,991	92.70	14.48
Others	7,861	7.48	6,692	7.30	17.47
<b>By geographical location</b>					
China	99,371	94.50	85,210	92.94	16.62
Export sales	5,786	5.50	6,473	7.06	-10.61

# 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)
<b>By industry</b>						
Steel rolling and processing industry	104,849	87,845	16.22	14.75	12.06	2.02
<b>By products</b>						
Hot-rolled sheets products	32,328	25,502	21.11	5.58	0.50	3.98
Cold-rolled sheets products	34,487	29,106	15.60	12.78	15.57	-2.04
Medium and thick plates	16,639	14,401	13.45	35.68	26.55	6.25
<b>By geographical locations</b>						
China	99,063	82,880	16.34	16.69	14.58	1.54
Export Sales	5,786	4,965	14.19	-10.61	-18.04	7.78

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

Applicable  Not applicable



## Discussion and Analysis of Operations (Continued)

### I. ANALYSIS OF PRINCIPAL BUSINESSES (CONTINUED)

#### 2. Income and Cost (Continued)

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

Yes  No

Industry Classification	Item	2018	2017	Year-on-year increase/ decrease (%)
Steel rolling and processing industry	Sales volume (0'000 tons)	2,409.80	2,303.80	4.60
	Production volume (0'000 tons)	2,413.07	2,293.02	5.24
	Stock volume (0'000 tons)	120.06	109.60	9.54

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	2018	As a percentage of operating costs	2017	As a percentage of operating costs	Year-on-year increase/decrease in operating costs
		Amount	(%)	Amount	(%)	(percentage point)
Steel rolling and processing industry	Raw materials and fuel	71,330	81.20	63,316	80.77	0.43
	Others	16,515	18.80	15,075	19.23	-0.43
Total		87,845	100	78,391	100	-

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

Applicable  Not applicable

During the year, the Company has added four subsidiaries, namely: (1) investment in and establishment of Chemical Technology; (2) acquisition of Energy Technology from business combination under common control; (3) acquisition of Chaoyang Iron and Steel from business combination under common control; and (4) acquisition of FAW Angang from business combination under non-common control.

During the year, the Company has disposed of two subsidiaries, namely: (1) Shanghai Ansteel was liquidated and de-registered in December 2018; and (2) Ansteel Weifang applied for bankruptcy and liquidation in December 2018, and the liquidation matters were transferred to the administrator designated by the People's Court.

#### (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> )	26,188
Proportion of total sales amount of the top five customers over total sales amount for the year (%)	24.98
Proportion of sales to related parties of total sales amount of the top five customers over total sales amount for the year (%)	21.87

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	7,195	6.86
2	Customer B	6,361	6.07
3	Customer C	5,673	5.41
4	Customer D	3,696	3.53
5	Customer E	3,263	3.11
Total		26,188	24.98

Other explanations on major customers: the top five customers include companies which are related parties of the Company.



## 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)	29,426
Proportion of total purchase amount of the top five suppliers over total purchase amount for the year (%)	37.06
Proportion of procurement from related parties of total purchase amount of the top five suppliers over total purchase amount for the year (%)	27.37

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	11,879	14.96
2	Supplier B	6,431	8.10
3	Supplier C	3,970	5.00
4	Supplier D	3,721	4.69
5	Supplier E	3,425	4.31
Total		29,426	37.06

Other explanations on major suppliers: the top five suppliers include companies which are related parties of the Company.

# Discussion and Analysis of Operations (Continued)

## I. ANALYSIS OF PRINCIPAL BUSINESSES (CONTINUED)

### 3. Expenses

Unit: RMB million

Financial indicators	2018	2017	Increase/ decrease in the Reporting Period as compared with the corresponding period of the previous year (%)	Explanations on material changes
Marketing expenses	3,067	2,570	19.34	-
Administrative expenses	1,266	1,589	-20.33	-
Financial expenses	1,471	1,331	10.52	-
R&D expenditure	483	326	48.16	Increase in trial and R&D expenditure of new products.
Income tax expenses	2,056	-332	719.28	This was mainly because (i) the Company made up for the previous year's losses, resulting in an increase in deferred income tax expenses of RMB1,639 million; and (ii) the Company increased RMB749 million in provision for income tax expenses accrued for the Reporting Period from its profits.



## I. ANALYSIS OF PRINCIPAL BUSINESSES (CONTINUED)

### 4. R&D expenditure

In 2018, the Company focused on vigorously cultivating and developing strategic iron and steel products, realizing full coverage of downstream industries and developing high-quality, high value-added and strong market-leading products and technologies that significantly improved process quality; With the fundamental goal of improving the ability to use high and new technologies to rapidly transform traditional production lines and accelerating the pace of development of low carbon, energy saving and emission reduction technologies and green manufacturing technologies, key scientific research work such as the formulation and implementation of 2025 Science and Technology Leading Plan was carried out in depth around the key points of production and operation as well the focusing points of environmental protection and emission reduction.

- (1) Complete the full layout of science and technology planning and increase investment in research and development. It focused on “strategic, forward-looking and overturning” technologies and the development of high-tech and advanced products, prepared and completed the 2018–2020 Scientific Research Project Plan. A total of 555 scientific research projects have been launched throughout the year, 31 national projects have been studied, and two national topic projects including titanium steel composite plates have been completed and accepted, and 84 scientific research projects have been completed and accepted.
- (2) Focus on breaking through difficulties, and speed up the fulfillment of technological leadership. It organized world debut of 3 types of products including 18MND5 steel plates applied in nuclear safety injection box base plates, Q420qFNH weather-resistant and extremely cold-resistant steels, and double bulb marine flat bulb steels, and national debut of 5 types of products including extremely wide and extremely thin steels applied in luxury cruises, 90 mm crack-resistant steels, 40 # non-standard symmetrical flat bulb steels, and two special types of flat bulb steels; it also realized the first ever “medium and thick plates + profiles” whole ship supply without defects in China; it took the lead in the country in successfully organizing the development of 1%Ni ultra-low carbon high nickel series of bridge steels resistant to marine corrosion. The fourteen projects, including the “Research on Ultra-fine and Ultra-pure High Speed Steel Powder and Manufacture Technology”, were selected into Liaoning Province’s Key Project Plan for Enterprise Technological Innovation.



## Discussion and Analysis of Operations (Continued)

### I. ANALYSIS OF PRINCIPAL BUSINESSES (CONTINUED)

#### 4. R&D expenditure (Continued)

- (3) A number of important scientific research results have been achieved. The “Clean and Efficient Coking Technology & Equipment Development and Application” and the “Whole Process Optimization of Coking Wastewater Highly Efficient Processing and Converting into Resources Technology and Application” projects were awarded the first and second prizes of the National Scientific and Technological Progress Award; six projects won the Metallurgy Science Technology Award, of which the project “Innovation and Application of Key Technologies in the Whole Process of New Generation of Corrosion-resistant Steels for Railway Vehicles” won the first prize; seven projects won the Scientific and Technological Progress Award in Liaoning Province, of which the “Personalized Series of High Strength Steels Based on Lightweight Body Design and Applied Technology Development” project won the first prize; the “Integration and Application of Manufacturing Technology of High Performance Steels for Super Large Container Ships of Angang” won the China Iron and Steel Association Market Development Award; the “Research, Development and Engineering Application of Structural Steel Q500qE for High Strength and Low Yield Ratio Bridges” project won the first prize of China Railway Association Science and Technology Award. At the same time, 115 achievements were selected and filed in the provincial scientific and technological achievements transformation platform; the evaluation of scientific and technological achievements of 13 projects, including the “Research and Development of SDS Dry Desulfurization Combined with SCR Medium and Low Temperature Denitrification Technology for Coke Oven Flue Gas”, were completed.
- (4) Further explore the layout of core patents, and form patent groups in key technical fields. In the year, 569 patent applications were accepted by the state, of which 303 were inventions, accounting for 53.2% of all the applications; 434 patents were authorized by the state, with 197 of which being inventions. 54 know-how certificates were issued by the Company. The patent regarding “A method of Coal and Rock Blending with Vitrinite Reflectance of Coking Coal as the Main Index” won the 20th China Patent Award. The “Development of High Strength Steel Plate for Steel Containment” project was selected as Liaoning Province’s “Post-incentive Subsidy Project for Transformation of Scientific and Technological Achievements”.



## I. ANALYSIS OF PRINCIPAL BUSINESSES (CONTINUED)

### 4. R&D expenditure (Continued)

- (5) Strengthen academic exchanges and continuously improve the level of production, study, scientific research and practical application. Through participation in more than 20 domestic and foreign academic conferences such as the 10th China International Iron and Steel Conference, the Company has stepped up foreign cooperation and exchanges, given full play to the role of the State Key Laboratory and the Strategic Alliance for Corrosion Resistant Steels in leading the way in developing and applying technologies, and signed an agreement with Harbin Institute of Technology to build a joint laboratory for marine metal materials. Through academic exchanges with universities, 55 cooperation intentions were reached, 46 technology development contracts were signed, and 45 technology service contracts were entered into. This pushed forward the development of production, study, scientific research and practical application, and help created a brand new situation of “development, cooperation and sharing” with key universities.
  
- (6) Keep energy conservation, emission reduction and green manufacturing as key research and development strategies. The transformation of the oxygen-enriched combustion technology of the hot blast stove of 10# blast furnace, the optimization of the operation parameters of the hot blast stove checker bricks and the cold air distribution plates, the energy-saving technical renovation of the converter gas diffusion tower in Bayuquan, the pilot test of reverse osmosis concentrated brine and the optimization of the parameters of each module, the research and development of dust removal technology with high alkali metal content and dust removal technology with high chlorine content were all completed and greatly reduced energy consumption and pollutant emission continuously.



# Discussion and Analysis of Operations (Continued)

## I. ANALYSIS OF PRINCIPAL BUSINESSES (CONTINUED)

### 4. R&D expenditure (Continued)

(6) (Continued)

Item	2018	2017	Year-on-year increase/ decrease (%)
Number of R&D staff ( <i>person</i> )	<b>1,638</b>	1,626	0.74
Percentage of the number of R&D staff in the Company (%)	<b>5.47</b>	5.39	Increased 0.08 percentage point
Amount of R&D expenditure ( <i>RMB million</i> )	<b>1,500</b>	1,372	9.33
Percentage of R&D expenditure in operating income (%)	<b>1.43</b>	1.50	Decreased 0.07 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



## I. ANALYSIS OF PRINCIPAL BUSINESSES (CONTINUED)

### 5. Cash flow

*Unit: RMB million*

Item	2018	2017	Year-on-year increase/ decrease (%)
Sub-total of cash inflow from operating activities	<b>87,018</b>	74,488	16.82
Sub-total of cash outflow from operating activities	<b>78,724</b>	68,010	15.75
Net cash flow from operating activities	<b>8,294</b>	6,478	28.03
Sub-total of cash inflow from investing activities	<b>558</b>	628	-11.15
Sub-total of cash outflow from investing activities	<b>4,440</b>	1,966	125.84
Net cash flow from investing activities	<b>-3,882</b>	-1,338	-190.13
Sub-total of cash inflow from financing activities	<b>21,564</b>	25,269	-14.66
Sub-total of cash outflow from financing activities	<b>26,507</b>	30,084	-11.89
Net cash flow from financing activities	<b>-4,943</b>	-4,815	-2.66
Net increase of cash and cash equivalents	<b>-516</b>	325	-258.77

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)

The cash outflow from investment activities for the year increased by RMB2,474 million as compared to the previous year, which was mainly due to (i) increase of RMB945 million in cash payment for the purchase and construction of fixed assets and construction in progress over the previous year; and (ii) increase of RMB1,486 million in cash payment for investment over the previous year.

The net cash flow from investing activities for the year decreased by RMB2,544 million as compared to the previous year, which was mainly due to the increase of RMB2,474 million in cash outflow from investment activities over the previous year.

The net increase in cash and cash equivalents decreased by RMB841 million as compared to the same period of the previous year, which was mainly due to (i) increase of RMB1,816 million in net cash flow from operating activities over the same period of the previous year; (ii) decrease of RMB2,544 million in net cash flow from investing activities over the same period of the previous year; (iii) decrease of RMB128 million in net cash flow from financing activities over the same period of the previous year; and (iv) increase of RMB15 million in impact of exchange rate changes on cash flow over the same period of the previous year.

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 2018, the Group had long-term loans (exclusive of loans due within one year) of RMB2,295 million with interest rates ranging from 4.2892–4.9% per annum. The terms of such loans range from 2 to 5 years, and the loans will fall due in 2023. The loans are mainly used for replenishing the working capital. The Group's long-term loans due within one year amounted to RMB2,648 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 or quarterly basis in accordance with the adjustments to the benchmark interest rate for loans of the same period made by the People's Bank of China.



## I. ANALYSIS OF PRINCIPAL BUSINESSES (CONTINUED)

### 6. Liquidity and financial resources (Continued)

In 2018, 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 2018, 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 2018, cash and bank balances of the Group denominated in foreign currencies was RMB1 million (31 December 2017: nil).

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

*Unit: RMB million*

	<b>31 December 2018</b>	31 December 2017
RMB	<b>2,153</b>	2,670
US dollars	<b>1</b>	–
HK dollars	–	–
Others	–	–
<b>Total</b>	<b>2,154</b>	2,670

As at 31 December 2018, the Group had a total capital commitment of RMB2,977 million, which was primarily attributable to the construction and renovation 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 Group 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 Group makes contribution to the basic pension scheme at 20% of the gross salary recognized as cost (expenses) of the previous month. In 2018, the total contribution to the basic pension scheme amounted to RMB787 million (including the employer’s contribution of RMB593 million and the employees’ contribution of RMB194 million).



## Discussion and Analysis of Operations (Continued)

### I. ANALYSIS OF PRINCIPAL BUSINESSES (CONTINUED)

#### 7. Pension scheme (Continued)

In addition, the Group maintains corporate annuity scheme for all of its employees, the contribution to which is made by the Group at 4% of the gross salary recognized as cost (expenses) of the previous year. The Group also made compensation to the employees for their years of service prior to the establishment of the corporate annuity scheme. The Group has resumed contribution in 2018, the total contribution to the corporate annuity scheme amounted to RMB299 million (including the employer's contribution of RMB242 million and the employees' contribution of RMB57 million) and the total compensation to the employees for their years of service prior to the establishment of the corporate annuity scheme amounted to RMB62 million.

#### 8. Foreign exchange risk

The Group carries out import and export through agent trade by Angang Group International Economic and Trade Co., Ltd. for its main foreign currency transactions including the export of sales products, import of raw materials and engineering equipment. Foreign currency risk is mainly reflected in the impact of exchange rate changes when settling through agent on sales and procurement costs.

The Group issued HK\$1.85 billion of H-share convertible bonds whose foreign exchange risk depends on the exchange rate of the Renminbi against the Hong Kong dollar at the time of redemption of the unconverted bonds.



## II. ANALYSIS OF NON-PRINCIPAL BUSINESSES

*Unit: RMB million*

<b>Item</b>	<b>Amount</b>	<b>As a percentage of total profit (%)</b>	<b>Reasons for the changes</b>	<b>Sustainable or not</b>
Investment income	315	3.15	Investment income from long-term equity investments accounted by equity method and dividends of other equity instruments during holding period.	Yes
Gains or losses arising from changes in fair value	60	0.60	Changes in fair value of derivative financial assets and transaction financial assets.	Yes
Impairment losses on asset	-74	-0.74	Mainly included recycling of losses on inventory falling price.	No
Other gains	83	0.83	Mainly included government grants	Yes
Non-operating income	56	0.56	Mainly included gains on disposal of non-current assets.	Yes
Non-operating expenses	136	1.36	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 2018		Beginning of 2018		Increase/ decrease (percentage point)	Explanation for significant change
	Amount	As a percentage of total assets (%)	Amount	As a percentage of total assets (%)		
Monetary capital	2,154	2.39	2,670	2.82	-0.43	-
Notes and account receivables	9,644	10.71	13,372	14.11	-3.40	-
Inventories	13,125	14.58	12,269	12.94	1.64	-
Long-term equity investments	2,803	3.11	2,981	3.14	-0.03	-
Fixed assets	50,064	55.61	50,875	53.66	1.95	-
Construction in progress	1,458	1.62	1,072	1.13	0.49	-
Short-term loans	13,180	14.64	14,500	15.29	-0.65	-
Long-term loans	2,295	2.55	2,905	3.06	-0.51	-



## III. ANALYSIS OF ASSETS AND LIABILITY (CONTINUED)

### 2. Assets and liabilities measured at fair value

Unit: RMB million

Item	Opening balance (1 January 2018)	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
<b>Financial assets</b>							
Of which:							
1. Financial assets measured at fair value through profit and loss (excluding derivative financial assets)	39	-4	-	-	-	-	35
2. Derivative financial assets	7	-6	-	-	-	-	1
3. Other credit investment	-	-	-	-	-	-	-
4. Other equity instrument investment	506	-	-319	-	-	-	519
<b>Sub-total of financial assets</b>	<b>552</b>	<b>-10</b>	<b>-319</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>555</b>
Investment properties	-	-	-	-	-	-	-
Productive biological assets	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-
<b>Total</b>	<b>552</b>	<b>-10</b>	<b>-319</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>555</b>
<b>Financial liabilities</b>	<b>13</b>	<b>-10</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3</b>

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 2018 and 31 December 2017, the Group's ratio of equity to liability was 1.40 times and 1.25 times, respectively.

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

The Group pledged notes receivable with carrying amount of RMB261 million to bank to obtain short-term loans of RMB250 million for a pledge with term from 25 January 2018 to 24 January 2019.

#### 5. Contingent liabilities

As at 31 December 2018, the Group had no contingent liabilities.



## IV. ANALYSIS ON THE CORE COMPETITIVENESS

### (I) Development Conditions

#### 1. Industry supply and demand conditions

In recent years, with the reduction of investment scale and structural adjustment, the GDP per unit of steel consumption intensity has gradually decreased, and the steel industry has entered the downward area of the peak arc area of production and consumption. Since 2016, in accordance with the decisions and arrangements of the Party Central Committee and the State Council, the steel industry has actively made efforts to reduce the excess capacity of steels. In the past two years, the total excess capacity of 115 million tons was reduced, and the substandard steels were completely eliminated. The market environment has been significantly improved, the contradiction regarding serious excess capacity has been effectively alleviated, and the steel industry has achieved a steady and sound development trend. The Report of the 19th CPC National Congress pointed out that China's economy had changed from a high-speed growth stage to a high-quality development stage. It is now in a crucial period of changing the development model, optimizing the economic structure and transforming the growth drivers. It puts higher requirements on the quality, service life, safety, environmental protection and practicability of iron and steel products. From 2018 to 2020, China's iron and steel industry is in a critical period of transformation from "big" to "strong". The deep-rooted contradictions that have plagued the healthy development of the iron and steel industry for a long time are still far from being resolved. The work of "De-capacity" and optimization of the production capacity structure has a long way to go. The de-leveraging process needs to be speeded up. There remains a certain gap between the level of energy conservation and environmental protection and the requirements for achieving green development. Iron and steel enterprises must accelerate structural adjustment as well as transformation and upgrading. The first is to further reduce production capacity by adjusting regional layout and enterprise layout; the second is to accelerate the merger and reorganization of enterprises; the third is to promote the pace of steel product development under the "Belt and Road Initiative"; the fourth is to push forward the adjustment of process structure and improve product quality standards.

### IV. ANALYSIS ON THE CORE COMPETITIVENESS (CONTINUED)

#### (I) Development Conditions (Continued)

##### 2. Conditions of regional layout

The Company's main production bases are located in the northeast region with low economic activity, poor development trend and lack of growth momentum. The demand for steel is relatively low, and the demand in winter is especially insufficient; a large number of products need to be transported to the inside of the Pass, especially in eastern and southern China, which has a long distance and high logistics cost, thus affecting the competitiveness of products. At present, the Company has strengthened its sales efforts in the northeast core area, relying on the preliminarily formed multi-base layout, coastal layout and internationalized operation, and continuously expanding its development space to make up for the shortage of regional layout to a certain extent.

##### 3. Secured supply of resources

The surrounding areas of Anshan have abundant reserves of iron ore, providing strong secured supply of resources. Mining companies of Angang Group have iron ore resources of 8,800 million tons and production stripping capacity of 230 million tons per year (ranking 1st in china) and mineral processing capacity of 65 million tons per year (rank the highest in the world). Leveraging domestic-leading mining technology and world-leading mineral processing technology and main processing economic indicators, such areas are well-positioned to provide supply high-quality products.

##### 4. Conditions of informatization and intellectualization

The Company has fully applied automated production lines/equipment as well as MES and ERP systems. The application of information technology in production and manufacturing, storage, logistics and distribution and sales is deepening. The Company has met the conditions to implement digital workshops and intelligent factories, which has promoted the digitalization and intelligent transformation and upgrading of Angang Steel, comprehensively improved the Company's comprehensive competitiveness in the iron and steel industry, accelerated the application of intelligent manufacturing, artificial intelligence and big data technology, and constructed a new development pattern.



## IV. ANALYSIS ON THE CORE COMPETITIVENESS (CONTINUED)

### (I) Development Conditions (Continued)

#### 5. Marketing conditions

The Company's products are comprehensively competitive in the market and enjoy a historical reputation and high popularity both at home and abroad; the products are full of varieties and specifications, and it has strong advantages in providing supporting services to customers. Over the years, the Company has gradually established a long-standing cooperative relationship of mutual benefit and trust with strategic customers and suppliers, and a supply chain with competitive advantages. The proportion of domestically direct supply of products is about 70%. The utilization of e-commerce means and the service capability of TKAS-SSC lag behind leading enterprises. Markets around the world have successively adopted protective measures such as raising tariffs and anti-dumping measures, which have depressed the export of products.

### (II) The Core Competitive Advantage

#### 1. Production organization capacity

Adapting to the continuous mass production system, the management has excellent control ability to maintain stable and smooth production and the staff has high professional quality.

#### 2. Technical and equipment capabilities

Anshan headquarters has been continuously updated and reformed. At present, the main production processes and technologies such as coking, sintering, ironmaking, steelmaking, continuous casting and steel rolling have reached the domestic advanced level as a whole. The rapid selection technology of coking coal, low-cost blast furnace ironmaking technology, ultra-pure steel production technology, defect-free continuous casting slab production technology as well as the 1,700mm medium and thin slab continuous casting and rolling coil production technology, self-integrated cold rolling wide strip production technology, self-developed and applied cold rolling mill shape control system core technology have all reached the internationally advanced level. The main part of Anshan headquarters is equipped with modern and large-scale equipment, and it has rich experience in the construction and construction management of iron and steel plants.

### IV. ANALYSIS ON THE CORE COMPETITIVENESS (CONTINUED)

#### (II) The Core Competitive Advantage (Continued)

##### 2. Technical and equipment capabilities (Continued)

Bayuquan Iron & Steel Branch Company has advanced processing equipment and technology, with its leading main technical indexes in China. The hot rolling technology of 1,580mm hot rolling plate production line is internationally advanced, and it is the only hot rolling production line in the same industry equipped with a fixed width press, a hot coil box and 7 continuous rolling mills; the 5,500mm wide and thick plate production line is currently one of the largest wide and thick plate mills in the world.

Chaoyang Iron and Steel has public and auxiliary facilities and equipment in relation to energy power, coking, sintering, iron making, steel making, steel rolling, and raw material storage and railway transportation. It has an annual production capacity of 2 million tons of fine plates.

##### 3. Technological innovation and product development ability

The Company's steel products are complete in types and specifications, and have certain differentiation advantages. Its brand has high popularity and credibility, and has strong advantages in providing supporting services to customers.

It has relatively strong strength in plate products, and has a leading position in producing automotive steel plates, home appliance plates and container plates. It can stably produce high-grade surface cold-rolled and galvanized automobile steel plates for automobile outer covers. The railway steels, container steels and shipbuilding plates won the title of "China Famous Brand Products".

Two types of products, namely the hull structural steels and ultra-deep drawing cold-rolled automobile steels, won the Excellent Quality Award; 81 types of products such as container hot-rolled steel plates and steel strips, hot-rolled acid pickling plates, hot-rolled seamless steel tubes for oil cylinders, wire rods for steel cords, EDC hot-rolled wire rods won the title of the "Gold Cup Award for Physical Quality of Metallurgical Products".



### IV. ANALYSIS ON THE CORE COMPETITIVENESS (CONTINUED)

#### (II) The Core Competitive Advantage (Continued)

##### 3. Technological innovation and product development ability (Continued)

The Company's comprehensive research and development strength leads the iron and steel industry. The TWIP1180HR hot coil and other new products produced by the full process technology were launched, demonstrating and leading the world's production of advanced high-strength steels in the high manganese steel series; the QP1400 cold-rolled high-strength automobile steel plates witnessed its world debut in Angang Shengang Cold Rolled High Strength Automobile Steel Plates Company, further consolidating Angang Steel's leading position in domestic automobile steel manufacturing. The Company's ultra-high strength marine steel is qualified and capable of supplying to the world's top drilling platforms. It has also become the world's first enterprise with the supply capacity of Cr-Mo steel plates for over 5m ultra-wide pressure vessels. The longitudinal variable thickness weatherproof LP steels are exclusively used in batch in bridge engineering. The 4,000mm ultra-wide nuclear grade duplex stainless steel plates S32101 were successfully developed, filling in the gap of our country regarding special steels and reaching the world leading level. The Company successfully won the bid for 18MND5 plates for Ningde 6# injection box of Hualong No.1 nuclear power unit. This type of steels is domestically made for the first time to replace imports and has filled the domestic gap. The railway vehicle weather-resistant steels can be provided in all kinds of specifications, and the power car bogies lead the development of the industry. The successful development of wide-width martensitic stainless steels 4Cr13 for corrosion-resistant dies fills the blank of large martensitic stainless steel plates in China. The successful development of this product has made Angang the only domestic manufacturer of large martensitic stainless steel plates for high-quality corrosion-resistant abrasives with a width of over 2,000 mm. High strength LX86B cord steels have the same quality as POSCO's similar products. In 2018, a total of 25 projects including the research and production technology development of high manganese high toughness medium and thick plates for offshore platforms and the "titanium/steel" composite plates-industrial trial production and stabilization of high manganese steel medium and thick plates were included in the first batch of scientific research projects in the National Key Research and Development Plan.

### **IV. ANALYSIS ON THE CORE COMPETITIVENESS (CONTINUED)**

#### **(II) The Core Competitive Advantage (Continued)**

##### 4. Technology leading ability

After years of research and development, the Company has mastered a number of key, leading, basic and cutting-edge technologies, and has rich technical foundations. The progress regarding intellectual property rights marked by patent applications, number of licenses and number of know-hows are in the “first echelon” in the metallurgical industry; it takes an important role in modification of national standards and industry standards. Many achievements in intellectual property rights have been made in the fields of pre-ironmaking and iron and steel smelting systems, iron and steel products, environmental resources, etc. A number of invention patents such as “A Low Alloy Sulfuric Acid Dew Point Corrosion Resistant Steel Plates and Related Manufacturing Method”, “A High Strength Cold Rolled Hot Dip Galvanized Dual Phase Steel Plates and Related Manufacturing Method” won the 18th China Patent Excellence Award, and a large number of achievements such as the “New-generation Controlled Rolling and Controlled Cooling Technology and Its Application” won national, industrial, provincial and municipal awards.



## IV. ANALYSIS ON THE CORE COMPETITIVENESS (CONTINUED)

### (II) The Core Competitive Advantage (Continued)

#### 5. Corporate culture integration ability

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 plays an irreplaceable role in uniting the teams and making concerted efforts. Its extensive and profound corporate culture generalizes, extracts and sublimates the spirits of generations of Angang people, has rich connotation and broad denotation, and demonstrates the Chinese traditional virtues and the fine work styles of the working class in the PRC. Angang is the birthplace of the “Angang Constitution” which is praised as the fundamental law for running socialist enterprises. In 2017, Angang Group’s Cultural Charter was issued. The Angang Cultural Charter is a value concept condensed in the process of long-term production, operation, reform and development. It is the common value orientation and spiritual pursuit of all the employees, and also serves as an action guide for Angang’s sustainable development. A new model of corporate culture and work has been formed, which is internalized in thought, solidified in system, externalized in behavior, materialized in products and beautified in image. In the new period, the corporate culture has been continuously enriched the connotation of the new era, providing strong cultural support and spiritual impetus for the realization of the Company’s construction of a new pattern of revitalization and development with the distinctive features of dominant culture, innovative culture, competitive culture and harmonious culture.



# Discussion and Analysis of Operations (Continued)

## V. ANALYSIS OF INVESTMENTS OF THE COMPANY

### 1. Overall information

External Investments

Investments during the Reporting Period (RMB million)	Investments in the corresponding period of the previous year (RMB million)	Change (%)
9,280	516	1,698.45

### 2. Significant equity investments made during the Reporting Period

Applicable     Not applicable

Name of target of investment	Principal activities	Method of investment	Amount of investment (RMB million)	Proportion of shareholding	Source of funds	Party to cooperation	Term of investment	Type of product	Progress as of the balance sheet date	Estimated revenue	Gain/loss from investment during the period
Chaoyang Iron and Steel	Steel rolling and processing industry	Cash and Bank acceptances	6,415	100%	Self-owned	-	Long-term	Delivery completed	-	None	No

# Discussion and Analysis of Operations (Continued)



## V. ANALYSIS OF INVESTMENTS OF THE COMPANY (CONTINUED)

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

Applicable  Not applicable

### 4. Financial asset investments

#### (1) Securities investments

Stock type	Stock code	Abbreviation	Initial Investment (RMB million)	Accounting measurements	Book value		Changes in fair value reported in equity (RMB million)	Purchase amount for the current period	Disposal amount for the current period (RMB million)	Profit or loss during the Reporting Period (RMB million)	Book value at the end of the period (RMB million)	Accounting item	Source of funds
					at the beginning of the period (RMB million)	Profit or loss on fair value change for the current period							
Shares	600961	Zhuye Group (株冶集團)	81	Measured at fair value	39	-4	-	-	-	-4	35	Available for sale financial assets	Self-owned funds

#### (2) Derivatives investments

Unit: RMB million

Name of the derivatives investment operator	Related party with the Group	Transaction or derivatives investment	Type of derivatives investment	Initial investment amount of derivatives	Date of commencement	Date of termination	Investments at the beginning of the period	Purchase amount during the Reporting Period	Disposal amount during the Reporting Period	Provision for impairment (if any)	Investments at the end of the period	Proportion of investments at the end of the period to net assets of the Company	Actual profit or loss during the Reporting Period
Angang Steel	None	No	Futures investment	1	29 April 2015	-	221	754	959	-	139	0.27%	18
Total				1	-	-	221	754	959	-	139	0.27%	18



## 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 26 March 2018, the resolution in relation to the Company's 2018 Annual Hedging Business Amount was approved at the 29th meeting of the Seventh Session of the Board.
Date of the announcement disclosing the approval of derivatives investment at shareholders' meeting	None



## V. ANALYSIS OF INVESTMENTS OF THE COMPANY (CONTINUED)

### 4. Financial asset investments (Continued)

#### (2) Derivatives investments (Continued)

- |   |  |
|---|--|
| 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.) | <ul style="list-style-type: none"><li>(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.</li><li>(2) As the category of position held has a sufficient liquidity, there is no liquidity risk.</li><li>(3) The Futures Exchange provides credit guarantee for the category of position held, thus the credit risk is minimal</li><li>(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.</li></ul> |
|---|--|

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

## Discussion and Analysis of Operations (Continued)

### 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; on 2 January 2018, the settlement prices of deformed bar, hot-rolled coil, copper, nickel, iron ore, coking coal and coke were RMB3,842/ton, RMB3,893/ton, RMB55,140/ton, RMB98,750/ton, RMB540/ton, RMB1,325.5/ton and RMB2,005.5/ton, respectively; on 28 December 2018, the settlement prices of deformed bar, hot-rolled coil, copper, nickel, iron ore, coking coal and coke were RMB3,400/ton, RMB3,344/ton, RMB48,170/ton, RMB88,030/ton, RMB492.5ton, RMB1,175/ton and RMB1,884.5/ton, respectively. The fair values of deformed bar, hot-rolled coil, copper, nickel, iron ore, coking coal and coke were -RMB442/ton, -RMB549/ton, -RMB6,970/ton, -RMB10,720/ton, -RMB47.5/ton, -RMB150.5/ton and -RMB121/ton, respectively.
Explanations of any significant changes in the Company's accounting policies and specific accounting principles on derivatives adopted during the Reporting Period as compared with those of the last reporting period	N/A



## V. ANALYSIS OF INVESTMENTS OF THE COMPANY (CONTINUED)

### 4. Financial asset investments (Continued)

#### (2) Derivatives investments (Continued)

- |  |  |
|--|--|
| Specific opinions of independent Directors on the derivatives investment and risk control of the Company | <ul style="list-style-type: none"><li>(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.</li><li>(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.</li><li>(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.</li></ul> |
|--|--|

# Discussion and Analysis of Operations (Continued)

## V. ANALYSIS OF INVESTMENTS OF THE COMPANY (CONTINUED)

### 5. Use of proceeds

Applicable     Not applicable

(1) Overall use of proceeds

*Unit: HKD million*

Year of proceeds	Method of proceeds	Total proceeds	Total proceeds used in the current period	Accumulated total proceeds used	Total proceeds changed for use in the reporting period	Accumulated total proceeds changed for use in the reporting period	Proportion of accumulated total proceeds changed for use in the reporting period	Total proceeds unused	Use of proceeds unused	Proceeds idle for more than two years
2018	Convertible bonds	1,850	1,850	1,850	0	0	0	0	-	0
Total	Convertible bonds	1,850	1,850	1,850	0	0	0	0	-	0

Particulars of overall use of proceeds

In 2018, the Company issued convertible bonds of HK\$1.85 billion. The funds raised were received on May 25, and then the foreign exchange was settled as RMB and transferred to the Company's daily settlement account, all of which was used for the supplement the Company's liquidity.

(2) Commitments 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

Unit: RMB million

Name of companies	Type of companies	Principal activities	Registered capital	Total assets	Net assets	Operating income	Operating profit	Net profit
Chaoyang Iron and Steel	Production enterprise	Steel rolling and processing industry	8,000	5,089	3,640	9,192	1,390	1,370

### 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
Chemical Technology	Optimize and strengthen chemical industry	Investment	Encourage the vitality of the chemical business and enhance operational efficiency.
Energy Technology	Promote the development of the gas industry	Business combinations under common control	Give full play to the advantages of resources and develop and strengthen the energy and gas industry.
Chaoyang Iron and Steel	Optimize and strengthen steel industry	Business combinations under common control	Reduce industry competition, achieve coordinated development, and improve profitability.



## Discussion and Analysis of Operations (Continued)

### VII. ANALYSIS OF MAJOR SUBSIDIARIES AND INVESTEES (CONTINUED)

#### 2. Acquisition and disposal of subsidiaries during the Reporting Period (Continued)

<b>Name of companies</b>	<b>Purpose of acquisition and disposal of subsidiaries during the Reporting Period</b>	<b>Method of acquisition and disposal of subsidiaries during the Reporting Period</b>	<b>Impact on the overall production and results</b>
FAM Angang	Enhance strategic cooperation with FAM	Non-Business combinations under common control	Strengthen cooperation with FAM and increase steel sales.
Ansteel Weifang	Long-term loss due to outdated equipment	Bankruptcy handover	No
Shanghai Ansteel	Dissolved by shareholder's agreement	Dissolution clearing	No



## VIII. STRUCTURE ENTITY CONTROLLED BY THE COMPANY

Applicable     Not applicable

## IX. POSSIBLE RISK EXPOSURES

The year of 2019 plays a key role in comprehensively building a moderately prosperous society, and acts as an important period for implementing new development concepts and promoting high-quality development. In order to better adapt to internal and external changes, effectively prevent the occurrence of major risk events and ensure the realization of production and operation objectives, the Company carried out the 2019 annual risk assessment, and studied and formulated risk response measures. According to the assessment result, the Company may confront the following major risks in 2019:

### (1) Environmental protection risk

#### ① Risk description

With the implementation of the new Environmental Protection Law and the new pollutant emission standards as well as other relevant laws, the government supervision and law enforcement have become increasingly strict, the intensity and standards of environmental protection supervision on enterprises have been strengthened, the public's awareness of environmental protection has been improved, and the environmental protection requirements on enterprises have been further increased, all of which have resulted in enormous pressure on iron and steel enterprises in respect of environmental protection.

#### ② Risk management solution

From the aspect of management system, the Group will make adjustment based on the standards of leading enterprises, find gaps, improve deficiencies, and develop its ecological environmental protection plan from a high starting point. It will conduct a comprehensive assessment on the current environmental protection facilities and implement a monthly environmental protection evaluation system to achieve all-round control over pollutions through "one point, one measure and one person in charge". For new, renovation and expansion projects, the project completion acceptance will be strictly controlled to ensure 100% implementation of the "three concurrence" system.

### IX. POSSIBLE RISK EXPOSURES (CONTINUED)

#### (1) Environmental protection risk (Continued)

##### ② Risk management solution (Continued)

The comprehensive utilization and standardized management of solid wastes will be promoted, and the construction of forest-type green ecological plant areas will be facilitated; the environmental protection technical innovation project will be fully implemented, and the existing dust control achievements will be consolidated, the management of environmental protection renovation projects will be reinforced, the implementation of projects will be speeded up, and the “blue sky, clean water, green grass and zero solid waste leaving the factory” will be realized.

#### (2) Marketing risk

##### ① Risk description

The overall situation of steel overcapacity has not been fundamentally changed, the contradiction between domestic supply and demand is still prominent, and market competition is fierce. The new economic growth point has obviously weakened the demand for steel products. The industries with a traditional demand for steels have shifted its demand for steel products from the growth of varieties and quantity to the improvement of quality and value, which has put forward higher requirements for the steel industry. Rising prices of raw materials and cost of operating in an environmental friendly way in the iron and steel industry have brought increasing cost pressures to iron and steel enterprises.

With the profound adjustment of the world economy, the rise of protectionism and unilateralism, the twists and turns of economic globalization, and the greater uncertainties and instability, steel enterprises will face more international trade disputes, bringing many adverse effects on steel exports.



## IX. POSSIBLE RISK EXPOSURES (CONTINUED)

### (2) Marketing risk (Continued)

#### ② Risk management solution

The “1+4+N” marketing model will be improved and the overall coordination of the marketing system will be leveraged. Internally, the Group will strengthen product adjustment index, anticipated manufacturing, customer service, sales and pricing based on sophisticated standards; externally, it will promote the integration and coordination of manufacture of automobile steels as well as the medium and heavy plate division system, which as a breakthrough point will facilitate the coordination of serving major customers in three important regions, namely, East China, South China and North China.

The Group will broaden the marketing channels and deepen its presence in the Northeast of China; intensify bidding for key projects; in response to the “Belt and Road” initiative, expand overseas marketing channels and actively compete in the emerging markets such as Southeast Asia and India.

The Group will extend its industrial chain, and actively carry out deep processing, distribution, matching and combination of spot products and futures; promote the implementation of financial services targeting downstream customers pursuant to the industrial chain financing management plan to not only improve customer loyalty and market share but also increase its profits.

The Group will establish and improve the scientific research, quality and marketing management mechanism oriented by customer experience, solve customer pain points, enhance customer loyalty and continuously improve profitability. It will give full play to the leading role of the sales department to feedback market information and customer needs to research and development, quality and production departments so as to improve product quality and enhance competitiveness.

### IX. POSSIBLE RISK EXPOSURES (CONTINUED)

#### (3) Investment risk

##### ① Risk description

The complex and changeable economic situation at home and abroad has brought great uncertainty to the Company's investment decision-making and implementation. If the due diligence and feasibility demonstration of investment projects are not comprehensive, in-depth and sufficient, the investment decision may be inappropriate or the project may be restricted or suspended, or punishment may be imposed due to non-compliance. Intelligent manufacturing involves many technical fields and is difficult to develop. If the project implementation plan is not fully discussed and the management methods are insufficient, projects may not achieve the expected construction goals.

##### ② Risk management solution

Timely understanding and analysis of the relevant national industrial policies, macroeconomic situation and changes in the industry market should be made to provide a basis for investment decisions. The annual investment plan review will be strengthened, the investment direction under the overall strategy and plan of the Company will be followed, and the projects in relation to strategic presence, quality improvement and product adjustment, energy conservation and cost reduction, process optimization, environmental protection and emission reduction, relevant industries, informatization and intelligence will be supported as a priority. The risk assessment and compliance review mechanism will be established and improved. In respect of strategic, overall important and high-risk major investment, financing as well as restructuring and reorganization issues, the risk assessment and compliance review mechanism will be adopted. For major projects, the third-party risk assessment and internal expert review mechanism will be used to reduce decision-making risks of the projects.

The management changes, operating conditions, project income performance of the investment targets as well as the changes in relevant national policies and industry environment that may influence the investment targets will be closely monitored. In case of major changes, the risk points will be promptly identified and the risk impact will be anticipated to provide the basis for the Company's decision-making.



### IX. POSSIBLE RISK EXPOSURES (CONTINUED)

#### (4) Procurement risk

##### ① Risk description

Influenced by national supply-side reforms, safety and environmental protection policies and accidents in overseas mines, the prices of raw fuels such as coal, coke and ore remain expensive, resulting in high raw fuel procurement costs for iron and steel enterprises. As the national environmental protection policy becomes increasingly strict, it may bring great difficulties to the stable supply of mineral resource products. The price fluctuation of raw fuel increases. If the forecast of market trend is not accurate, it may cause stock shortage or overstock, thus leading to stagnation of production or waste of resources.

##### ② Risk management solution

The market changes will be closely monitored, the market research and anticipation ability will be enhanced to grasp the window period of the market so as to scientifically and reasonably control inventory and avoid impairment risks. The procurement plans will be reasonably formulated, and the positive impact arising from the large procurement scale of Angang on procurement cost and resource acquisition will be leveraged to ensure annually stable supply through full implementation of strategic procurement. The centralized scale purchase will be used to achieve differentiated purchase reduction, and the favorable market opportunities will be seized to adjust purchase quantity as appropriate and achieve cost reduction and efficiency gains. On the basis of rational use of financial instruments, hedging, establishment of virtual inventory and reduction of capital occupation, the market price risk will be effectively avoided.

The supplier management system will be improved and the supplier management will be standardized. The channels for attracting premium suppliers will be expanded, and removal of ordinary suppliers will be promoted. The material classification and integration will be reinforced to reduce customized material purchase, form a healthy competition mechanism, and build a pool of high-quality suppliers. The agreement scope of parts procurement and contracting for material and equipment function by suppliers will be expanded, and the agreement periods will be appropriately extended for the suppliers with unique specialty, sufficient qualification and strong ability to achieve stable prices with reasonable conditions and to facilitate the suppliers to improve product quality. The bottleneck resources will be leveraged, and the strategic partnership will be established with suppliers having sufficient qualification and strong ability, advanced technology, outstanding performance and guaranteed after-sales service. The procurement process will be optimized to reduce procurement nodes and shorten procurement cycle. The plan implementation tracking and monitoring system will be established to improve implementation rate of plans and vigorously promote online purchase.



# 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:

The Articles of Association of the Company clarified the basic principle of profit distribution policy, the specific conditions and ratios of cash dividend and the review procedures of profit distribution plan, and made specific requirement for the procedures of adjustments and changes of the profit distribution policy.

#### Special Explanation of the Policy of Distribution of Cash Dividend

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



### 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):

- (1) The profit distribution proposal of the Company for 2018

Net profit attributable to shareholders of the Company amounted to RMB7,952 million for the year of 2018, extraction of surplus reserve amounted to RMB48 million (as at 31 December 2018, the balance of surplus reserve amounted to RMB3,628 million accounting for 50% of the registered capital), in accordance with the PRC ASBE, as audited and confirmed by ShineWing Certified Public Accountants (Special General Partnership) (信永中和會計師事務所(特殊普通合夥)). The Board proposes to distribute RMB1,591,657,726.34 million of distributable profits to all the shareholders of the Company by way of cash dividends. on the basis of the total share capital of 7,234,807,847 shares. At the same time, the Company will issue shares to all shareholders by way of capitalisation of capital reserve, on the basis of three(3) capitalisation shares for every ten(10) existing 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. This proposal shall be subject to consideration and approval at the 2018 annual general meeting

- (2) The profit distribution proposal of the Company for 2017

The Company distributed cash dividend is expected to be RMB0.232 per share (tax inclusive) for the year of 2017 amounting to RMB1,682 million of distributable profits, on the basis of the total share capital of 7,234,807,847 shares.

- (3) 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)

#### 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 (%)
2018	1,592	7,952	20
2017	1,678	5,605	30
2016	485	1,616	30

*Note:* The data of net profit attributable to the shareholders of the Company in the consolidated statements for 2016 and 2017 were the data before adjustment of the financial statements for the year.

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

Numbers of bonus share per 10 shares ( <i>share(s)</i> )	–
Dividend distribution per 10 shares ( <i>RMB</i> ) ( <i>tax inclusive</i> )	2.2
Conversion per 10 shares ( <i>share(s)</i> )	3
Share base of the distribution proposal ( <i>shares</i> )	7,234,807,847
Total cash dividend ( <i>RMB million</i> ) ( <i>tax inclusive</i> )	1,592
Distributable profits ( <i>RMB million</i> )	5,636
Percentage of cash dividend to total profits distribution (%)	100



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

### Cash dividend for this year

The Board proposes to distribute RMB1,591,657,726.34 million of distributable profits to all the shareholders of the Company by way of cash dividends 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 2018, 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 recommends that the Company will issue shares to all shareholders by way of capitalisation of capital reserve, on the basis of three(3) capitalisation shares for every ten(10) existing shares on the basis of total share capital on the register date for dividend distribution in 2018.

## III. PERFORMANCE OF UNDERTAKING

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	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》:  (1) Angang Holding and its wholly-owned and holding subsidiaries have complied with relevant requirements of the state on the non-competition.	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
			(2) Angang Holding and its wholly-owned and holding subsidiaries have never engaged in any business which directly or indirectly competes with the iron and steel business, the principal business of the Company.			
			(3) Angang Holding undertakes that the Company is entitled to the pre-emptive rights for the assets and business to be disposed by Angang Holding or the wholly-owned and controlling subsidiaries of Angang Holding, which are related to the iron and steel business of the Company.			
			(4) If the enterprises in which Angang Holding holds equity interests produce products or engage in business which compete or may compete with the Company, Angang Holding undertakes that it will transfer all the capital contribution, shares or equity interests and grant the Company preemptive rights for such capital contribution, shares or equity interests.			
			(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.			



## 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>(6) During the effective period of the undertakings, on the premise of equal investment qualifications, Angang Holding shall inform the Company first for the opportunity of new business.</p> <p>If the Company accepts such opportunity of new business, Angang Holding shall transfer such new business to the Company for free. Angang Holding and its wholly-owned and holding subsidiaries have the rights to invest in the new business only if the Company expressly refuses such opportunity.</p> <p>If the Company proposes the purchase requirement in the future, Angang Holding and its wholly-owned and holding subsidiaries still need to transfer the assets and business formed by such opportunities to the Company with priority based on reasonable prices and conditions.</p> <p>(7) Other effective measures to avoid and eliminate horizontal competition.</p> <p>The above undertakings do not limit the business of Angang Holding and its wholly-owned and holding subsidiaries which do not compete with the Company, especially the business of provision of required materials or services necessary for the operation of the Company.</p>			



## Significant Events (Continued)

### III. PERFORMANCE OF UNDERTAKING (CONTINUED)

Reason for Undertaking	Undertaking Party	Type of Undertaking	Contents of Undertaking	Date of Undertaking	Period of Undertaking	Performance of Undertaking
			<p>All the undertakings made by Angang Holding are based on the national requirements and subject to the adjustments according to the national requirements. Angang Holding is eligible for engaging in business not prohibited by the state.</p> <p>Such undertakings became effective from the date of issuance, and shall be terminated once one of following conditions occurs:</p> <ol style="list-style-type: none"> <li>(1) Angang Holding ceases to be the controlling shareholder of the Company.</li> <li>(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).</li> <li>(3) When the state does not require the contents of certain undertakings, relevant section shall be terminated automatically.</li> </ol> <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					



#### **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**

##### **(1) Changes in accounting policies**

Particulars of and reasons for the changes

In 2017 and 2018, the Ministry of Finance (“MOF”) issued the following amendments to the Accounting Standards for Business Enterprises and relevant interpretations:

Accounting Standards for Business Enterprises No. 14 – Revenue (revised) (“New Revenue Standard”)

Accounting Standards for Business Enterprises No. 22 – Financial Instruments: Recognition and Measurement (revised), Accounting Standards for Business Enterprises No. 23 – Transfer of Financial Assets (revised), Accounting Standards for Business Enterprises No. 24 – Hedge Accounting (revised), Accounting Standards for Business Enterprises No. 37 – Financial Instruments: Presentation and Reporting (revised) (collectively “New Financial Instruments Standards”)

Accounting Standards for Business Enterprises Interpretation No. 9 – Accounting Treatment of Net Investment losses under Equity Method, Accounting Standards for Business Enterprises Interpretation No. 10 – Depreciation Method based on Revenue Generated from Use of Fixed Assets, Accounting Standards for Business Enterprises Interpretation No. 11 – Amortization Method based on Revenue Generated from Use of Intangible Assets and Accounting Standards for Business Enterprises Interpretation No. 12 – Whether the Provider and the Recipient of the Key Management Personnel Service are Related Parties (collectively “No.9 – No. 12 Interpretation”)

The Notice on Revision of the General Format of 2018 Financial Statements of Business Enterprises (Cai Kuai [2018] No. 15)

The Notice on Revision of the Format of 2018 Consolidated Financial Statements of Business Enterprises (Cai Kuai [2019] No. 1)



## 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)**

Particulars of and reasons for the changes (Continued)

The Group has adopted the above revised Accounting Standards for Business Enterprises and interpretations since 1 January 2018 and made adjustments to relevant accounting policies accordingly.

Major impacts of the changes

- A: New Revenue Standard replaced the Accounting Standards for Business Enterprises No. 14 – Revenue and the Accounting Standard for Business Enterprises No. 15 – Construction Contracts (collectively “Original Revenue Standard”) issued by the MOF in 2006.

Under the New Revenue Standard, the Group regards the transfer of control as the criteria for the time of revenue recognition:

The Group has fulfilled its performance obligations of the contract that the revenue is recognized when the customers take control of the relevant goods or services. The Group pertains to the category that performance obligations are to be fulfilled over a designated period of time only when meeting certain conditions, or otherwise, falls to the category that performance obligations are to be fulfilled at a particular point of time. Where there are two or more performance obligations, the Group shall allocate the transaction price to the corresponding individual performance obligation on the effective date of the contract based on the proportion of the individual selling price of goods or services committed under each individual performance obligation and recognise revenue as per the transaction price allocated to each individual performance obligation. Transaction price refers to the consideration to which the Group are expected to be entitled for the transfer of goods or services, and excludes the amount collected on behalf of the third-party suppliers. The transaction price recognised by the Group does not exceed the amount in the accumulated revenue that is likely not to be significantly reversed when the relevant uncertainty is eliminated. Where there are significant financing components in the contract, the Group determines the transaction price based on the amount payable assumed to be paid by the client in cash the moment the latter takes control of the goods or services. The difference between such transaction price and the consideration under the contract is amortised using the effective interest method during the contract period.



### **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)**

Major impacts of the changes (Continued)

A: (Continued)

The Group has made adjustments to the relevant accounting policies in accordance with the specific requirements on specific matters or transactions under the New Revenue Standard.

The Group has presented contract assets and contract liabilities in the balance sheet based on the connection between the fulfilment of performance obligations and payment of the customers pursuant to the New Revenue Standard. At the same time, the Group, as per information disclosure requirements in respect of revenue under the New Revenue Standard, has made more disclosures on relevant accounting policies, judgement on the possibility to cause material impact (measurement on variable consideration, method to allocate transaction price to each individual performance obligation, assumptions used in evaluating the individual selling price of each individual performance obligation, etc.), customer contract information (revenue recognition for the year, contract balance, performance obligations), information of assets in relation to contract cost, etc.

The Group reviewed the sources of revenue and the customer contracting procedures so as to assess the impacts of the New Revenue Standard on the financial statements. As revenue of the Group is mainly derived from the sale of steel and steel products, the Group recognises revenue at the time point of delivery to the customers. The adoption of New Revenue Standard does not have any material impact on the Group except for the presentation of the financial statements.



### **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)**

Major impacts of the changes (Continued)

##### **B: New Financial Instruments Standards**

The revision of the New Financial Instruments Standards have replaced the “Accounting Standards for Business Enterprises No. 22 – Financial Instruments: Recognition and Measurement”, the “Accounting Standard for Business Enterprises No. 23 – Transfer of Financial Assets” and the “Accounting Standard for Business Enterprises No. 24 – Hedge Accounting” promulgated by the MOF in 2006 as well as the “Accounting Standard for Business Enterprises No. 37 – Financial Instruments: Presentation” revised by the MOF in 2014 (collectively the “Original Financial Instruments Standards”).

On 1 January 2018, the Group presented only those financial assets and liabilities quoted in an active open market as financial assets and liabilities at fair value through profit or loss, and all other financial assets and liabilities were not presented as financial assets or liabilities at fair value through profit or loss.

The New Financial Instruments Standards adopt the “expected credit loss” model (“ECL model”) instead of the “incurred loss” model under the Original Financial Instruments Standards. The ECL model requires consistent evaluation on the credit risks of financial assets. As such, the credit loss recognition time of the Group under the New Financial Instruments Standards is earlier than that under the Original Financial Instruments Standards.

ECL model applies to the following items:

- Financial assets measured at amortized cost;
- Contract assets;
- debt securities measured at fair value through other comprehensive income;
- lease receivables;



### **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)**

Major impacts of the changes (Continued)

**B: New Financial Instruments Standards (Continued)**

The ECL model does not apply to equity instruments investments.

The adoption of the ECL model does not have any material impact on the financial position and operating results of the Group.

Save for certain exceptions, the Group has made retrospective adjustments to the classification and measurement (including impairment) of the financial instruments in accordance with the New Financial Instruments Standards. The difference between the original carrying amount of financial instruments and their carrying amount as at the adoption date of the New Financial Instruments Standards (i.e., 1 January 2018) is credited to other comprehensive income at the beginning of 2018. In addition, the Group did not make any adjustments to the comparative financial statements.

**C: Interpretations No. 9–12**

The Group adjusted the relevant accounting policies based on requirements under Interpretation No. 9–12 relating to the accounting treatments on investment net loss under equity method, the depreciation and amortisation methods of fixed assets and intangible assets and recognition and disclosure of related-party recipient of key management personnel service.

The adoption of Interpretations No. 9–12 does not have any material impact on the financial position and operating results of the Group.

**D: Presentation of Financial Statements**

The Group prepared its 2018 annual financial statements in accordance with the format for financial statements specified by Cai Kuai [2018] No.15 and Cai Kuai [2019] No.1, and retrospectively adjusted the presentation of the related financial statements.

## 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)

Major impacts of the changes (Continued)

D: Presentation of Financial Statements (Continued)

The relevant presentation adjustments are as follows:

Items affected in the consolidated balance sheet and the balance sheet of the Company:

*Unit: RMB million*

Statement	CONSOLIDATED BALANCE SHEET				Impact of changes in accounting polices of new revenue and new finance tools	2018-1-1
	2017-12-31 Before retrospect adjustment of the format of new statement	Consolidation impact under the common control	Impact of changes in the format of new statement	2017-12-31 After retrospect adjustment of new statement		
<b>ASSETS:</b>						
Bills receivables	9,693	1,196	(10,889)			
Trade receivables	2,463	20	(2,483)			
Bills receivables and trade receivables			13,372	13,372	1	13,373
Other receivables	261	5		266	(4)	262
Available-for-sale financial assets	719			719	(719)	
Other investments in equity instrument					506	506
Other non-current financial assets					39	39
Construction in progress	1,040	23	9	1,072		1,072
Project supplies	2	7	(9)			
Deferred income tax assets	1,713	201		1,914	97	2,011



## 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)

Major impacts of the changes (Continued)

D: Presentation of Financial Statements (Continued)

Statement	CONSOLIDATED BALANCE SHEET					Impact of changes in accounting polices of new revenue and new finance tools	2018-1-1
	2017-12-31 Before retrospect adjustment of the format of new statement	Consolidation impact under the common control	Impact of changes in the format of new statement	2017-12-31 After retrospect adjustment of new statement			
<b>LIABILITIES:</b>							
Note payables	240	21	(261)				
Trade payables	8,436	662	(9,098)				
Note payables and trade payables			9,359	9,359			9,359
Advances from customers	5,581	1,066		6,647	(6,647)		
Contract liabilities					6,647		6,647
Other payables	1,544	1,110	131	2,785			2,785
Interest payables	93		93				
Dividend payables		38	(38)				
Deferred income tax liabilities	6			6	52		58
<b>SHAREHOLDERS' EQUITY:</b>							
Other comprehensive income	(3)			(3)	247		(250)
Retained profit	7,604	(8,262)		(658)	115		(543)

## 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)

Major impacts of the changes (Continued)

D: Presentation of Financial Statements (Continued)

Statement	Balance Sheet				Impact of changes in accounting polices of new revenue and new finance tools	2018-1-1
	2017-12-31 Before retrospect adjustment of the format of new statement	Consolidation impact under the common control	Impact of changes in the format of new statement	2017-12-31 After retrospect adjustment of new statement		
<b>ASSETS:</b>						
Bills receivables	9,632		(9,632)			
Trade receivables	3,121		(3,121)			
Bills receivables and trade receivables			12,753	12,753		12,753
Other receivables	258			258	(3)	255
Available-for-sale financial assets	719			719	(719)	
Other investments in equity instrument					506	506
Other non-current financial assets					39	39
Construction in progress	947		2	949		949
Project supplies	2		(2)			
Deferred income tax assets	1,648			1,648	97	1,745



## 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)

Major impacts of the changes (Continued)

D: Presentation of Financial Statements (Continued)

Statement	Balance Sheet				Impact of changes in accounting polices of new revenue and new finance tools	2018-1-1
	2017-12-31 Before retrospect adjustment of the format of new statement	Consolidation impact under the common control	Impact of changes in the format of new statement	2017-12-31 After retrospect adjustment of new statement		
<b>LIABILITIES:</b>						
Note payables	240		(240)			
Trade payables	8,271		(8,271)			
Note payables and trade payables			8,511	8,511		8,511
Advances from customers	4,869			4,869	(4,869)	
Contract liabilities					4,869	4,869
Other payables	1,393		85	1,478		1,478
Interest payables	85		(85)			
Dividend payables	6			6	52	58
Deferred income tax liabilities						
<b>SHAREHOLDERS' EQUITY:</b>						
Other comprehensive income	(3)			(3)	(247)	(250)
Retained profit	7,510			7,510	115	7,625

## 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)

Major impacts of the changes (Continued)

D: Presentation of Financial Statements (Continued)

Items of the compacted consolidated income statement and income statement of the Company in 2017:

*Unit: RMB million*

Statement	Consolidated Income Statement			
	Before changes in the accounting policies 2017	Consolidation impact under the common control	Impact of changes in the accounting policies	After changes in the accounting policies 2017
Administration expenses	1,807	105	(323)	1,589
R&D expenditure		3	323	326

Statement	Income Statement			
	Before changes in the accounting policies 2017	Consolidation impact under the common control	Impact of changes in the accounting policies	After changes in the accounting policies 2017
Administration expenses	1,758		(323)	1,435
R&D expenditure			323	323

#### (2) Changes in accounting estimates

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

During the year, the Company has added four subsidiaries, namely: (1) investment in and establishment of Chemical Technology; (2) acquisition of Energy Technology from business combination under common control; (3) acquisition of Chaoyang Iron and Steel from business combination under common control; and (4) acquisition of FAW Angang from business combination under non-common control.

During the year, the Company has disposed of two of subsidiaries, namely: (1) Shanghai Ansteel was liquidated and de-registered in December 2008; and (2) Ansteel Weifang applied for bankruptcy and liquidation in December 2018, and the liquidation matters were transferred to the administrator designated by the People's Court.

## VIII. APPOINTMENT AND DISMISSAL OF ACCOUNTING FIRM

### 1. Accounting firm currently engaged by the Company

Name of the PRC accounting firm	ShineWing Certified Public Accountants (Special General Partnership)
Remuneration of the PRC accounting firm (RMB0'000)	500
Continued term of service of the PRC accounting firm	1 year
Continued term of service of certified public accountants of the PRC accounting firm	1 year
Name of certified public accountants of the PRC accounting firm	Fan Jianping and Fu Yangyi





## Significant Events (Continued)

### VIII. APPOINTMENT AND DISMISSAL OF ACCOUNTING FIRM (CONTINUED)

#### 2. Whether appointed another accounting firm during the period

Yes                       No

Whether appointed another accounting firm during the auditing period

Yes                                       No

Whether performed approval procedure for appointing another accounting firm

Yes                                       No

Explanation on the appointment and change of another accounting firm:

In view of the fact that Ruihua Certified Public Accountants (Special General Partnership) (hereinafter referred to as "Ruihua") has provided the Company with continuous annual audit services for 5 years, and according to the relevant requirements of the SASAC, the Company needs to change the accounting firm for 2018. The Company has notified Ruihua of the matter in advance and conducted friendly communication, and confirmed that there are neither inconsistency in any of important opinions between the Company and Ruihua, nor disagreement or unresolved matters regarding the proposed change of the accounting firm.

As approved in the 2017 annual general meeting, the Company appointed ShineWing Certified Public Accountants (Special General Partnership) as the Company's auditor for 2018, for a term beginning on the date of approval of the 2017 annual general meeting and ending at the 2018 annual general meeting, and Board is authorized to determine its remuneration.

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

The Company engaged ShineWing Certified Public Accountants (Special General Partnership) as the internal control and auditing firm of the Company for 2018 and the remuneration was RMB0.70 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

### **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

Connected party	Connected relationship	Type of connected transaction	Content of connected transaction	Pricing principle of connected transaction	Connected transaction price	Connected transaction amount <i>(RMB 100 million)</i>	As a percentage of the amount of similar transactions	Transaction cap <i>(RMB 100 million)</i>	Whether exceeding approved cap	Settlement method of connected transactions	Market price of available similar transactions
Angang Holding	Controlled by the same controlling shareholder	Purchase goods/ Receive services	Purchase main materials	Market principle	-	6,442	20.28	21,700	No	In cash	-
Angang Group Mining Gongchangling Co., Ltd.	Controlled by the same controlling shareholder	Purchase goods/ Receive services	Purchase main materials	Market principle	-	3,480	10.95			In cash	-
Angang Mining Co., Ltd.	Controlled by the same controlling shareholder	Purchase goods/ Receive services	Purchase main materials	Market principle	-	2,433	7.66			In cash	-
Angang Group Anqian Mining Company Limited	Controlled by the same controlling shareholder	Purchase goods/ Receive services	Purchase main materials	Market principle	-	1,210	3.81			In cash	-
Angang Group Guanbaoshan Mining Co. Ltd.	Controlled by the same controlling shareholder	Purchase goods/ Receive services	Purchase main materials	Market principle	-	1,072	3.37			In cash	-
Angang Holding International Economic and Trading	Controlled by the same controlling shareholder	Purchase goods/ Receive services	Purchase main materials	Market principle	-	792	2.49			In cash	-
Pangang Vanadium & Titanium Group	Controlled by the same controlling shareholder	Purchase goods/ Receive services	Purchase main materials	Market principle	-	431	1.36			In cash	-
Other subsidiaries of Angang Group	Controlled by the same controlling shareholder	Purchase goods/ Receive services	Purchase main materials	Market principle	-	593	1.86			In cash	-
Sub-total	-	-	Purchase main materials	-	-	16,453	51.78			-	-

## XIII. MAJOR CONNECTED TRANSACTIONS (CONTINUED)

### 1. Connected transactions related to daily operations (Continued)

Connected party	Connected relationship	Type of connected transaction	Content of connected transaction	Pricing principle of connected transaction	Connected transaction price	Connected transaction amount <i>(RMB 100 million)</i>	As a percentage of the amount of similar transactions	Transaction cap <i>(RMB 100 million)</i>	Whether exceeding approved cap	Settlement method of connected transactions	Market price of available similar transactions
Chaoyang Iron & Steel	Controlled by the same controlling shareholder	Purchase goods/ Receive services	Purchase steel products	Market principle	-	376	77.07	600	No	In cash	-
Pangang Group International Economic & Trade Co., Ltd.	Controlled by the same controlling shareholder	Purchase goods/ Receive services	Purchase steel products	Market principle	-	112	22.93			In cash	-
Sub-total	-	-	Purchase steel products	-	-	488	100.00			-	-
Anshan Angang Vesuvius Refractory Co., Ltd.	Controlled by the same controlling shareholder	Purchase goods/ Receive services	Purchase auxiliary materials	Market principle	-	893	7.53	3,015	No	In cash	-
Angang Naihuo Co., Ltd.	Controlled by the same controlling shareholder	Purchase goods/ Receive services	Purchase auxiliary materials	Market principle	-	790	6.66			In cash	-
Other subsidiaries of Angang Group	Controlled by the same controlling shareholder	Purchase goods/ Receive services	Purchase auxiliary materials	Market principle	-	1,303	10.99			In cash	-
Sub-total	-	-	Purchase auxiliary materials	-	-	2,986	25.17			-	-
Angang Holding	Controlled by the same controlling shareholder	Purchase goods/ Receive services	Procurement of energy and power	Market principle	-	1,699	54.92	2,855	No	In cash	-
Other subsidiaries of Angang Group	Controlled by the same controlling shareholder	Purchase goods/ Receive services	Procurement of energy and power	Market principle	-	43	1.39			In cash	-
Sub-total	-	-	Procurement of energy and power	-	-	1,742	56.31			-	-

# Significant Events (Continued)

## XIII. MAJOR CONNECTED TRANSACTIONS (CONTINUED)

### 1. Connected transactions related to daily operations (Continued)

Connected party	Connected relationship	Type of connected transaction	Content of connected transaction	Pricing principle of connected transaction	Connected transaction price	Connected transaction amount <i>(RMB 100 million)</i>	As a percentage of the amount of similar transactions	Transaction cap <i>(RMB 100 million)</i>	Whether exceeding approved cap	Settlement method of connected transactions	Market price of available similar transactions
Delin Land Ports (Anshan) Co., Ltd.	Controlled by the same controlling shareholder	Purchase goods/ Receive services	Receive supporting services	Market principle	-	793	8.52	6,500	No	In cash	-
Angang construction Consortium Co., Ltd.	Controlled by the same controlling shareholder	Purchase goods/ Receive services	Receive supporting services	Market principle	-	707	7.60			In cash	-
Angang Holding	Controlling shareholder	Purchase goods/ Receive services	Receive supporting services	Market principle	-	560	6.23			In cash	-
Angang Cold Rolled Steel Plate Co., Ltd. (Putian)	Controlled by the same controlling shareholder	Purchase goods/ Receive services	Receive supporting services	Market principle	-	493	5.30			In cash	-
Angang Group Engineering Technology Co., Ltd.	Controlled by the same controlling shareholder	Purchase goods/ Receive services	Receive supporting services	Market principle	-	427	4.59			In cash	-
Other subsidiaries of Angang Group	Controlled by the same controlling shareholder	Purchase goods/ Receive services	Receive supporting services	Market principle	-	2,709	29.11			In cash	-
Sub-total	-	-	Receive supporting services	-	-	5,709	61.35			-	-

## XIII. MAJOR CONNECTED TRANSACTIONS (CONTINUED)

### 1. Connected transactions related to daily operations (Continued)

Connected party	Connected relationship	Type of connected transaction	Content of connected transaction	Pricing principle of connected transaction	Connected transaction price	Connected transaction amount <i>(RMB 100 million)</i>	As a percentage of the amount of similar transactions	Transaction cap <i>(RMB 100 million)</i>	Whether exceeding approved cap	Settlement method of connected transactions	Market price of available similar transactions
Delin Land Ports (Anshan) Co., Ltd.	Controlled by the same controlling shareholder	Sales of goods/ Provide services	Sales of products	Market principle	-	1,166	1.17	5,310	No	In cash	-
Angang International Economic Trading Co., Ltd.	Controlled by the same controlling shareholder	Sales of goods/ Provide services	Sales of products	Market principle	-	670	0.67			In cash	-
Angang Green Resources Technology Co., Ltd.	Controlled by the same controlling shareholder	Sales of goods/ Provide services	Sales of products	Market principle	-	315	0.31			In cash	-
Other subsidiaries of Angang Group	Controlled by the same controlling shareholder	Sales of goods/ Provide services	Sales of products	Market principle	-	1,092	1.09			In cash	-
Sub-total	-	-	Sales of products	-	-	3,243	3.24			-	-
Angang Group	Controlled by the same controlling shareholder	Sales of goods/ Provide services	Sell scrap steel material, abandoned material, minus sieve powder	Market principle	-	330	93.75	330	No	In cash	-
Sub-total	-	-	Sell scrap steel material, abandoned material, minus sieve powder		-	330	93.75			-	-
Angang Holding	Controlled by the same controlling shareholder	Sales of goods/ Provide services	Provide comprehensive services	Market principle	-	769	28.45	1,500	No	In cash	-
Other subsidiaries of Angang Group	Controlled by the same controlling shareholder	Sales of goods/ Provide services	Provide comprehensive services	Market principle	-	313	11.58			In cash	-
Sub-total	-	-	Provide comprehensive services	-	-	1,082	40.03			-	-

# Significant Events (Continued)

## XIII. MAJOR CONNECTED TRANSACTIONS (CONTINUED)

### 1. Connected transactions related to daily operations (Continued)

Connected party	Connected relationship	Type of connected transaction	Content of connected transaction	Pricing principle of connected transaction	Connected transaction price	Connected transaction amount <i>(RMB 100 million)</i>	As a percentage of the amount of similar transactions	Transaction cap <i>(RMB 100 million)</i>	Whether exceeding approved cap	Settlement method of connected transactions	Market price of available similar transactions
Angang Financial Company	Controlled by the same controlling shareholder	Receive finance services	Settle fund and deposit interest	Market principle	-	21	74.74	50	No	In cash	-
Angang Financial Company	Controlled by the same controlling shareholder	Receive finance services	Maximum daily deposit balance	Market principle	-	1,999	-	2,000	No	-	-
Angang Financial Company	Controlled by the same controlling shareholder	Receive finance services	Credit business interest	Market principle	-	32	2.41	150	No	In cash	-
Angang Financial Company	Controlled by the same controlling shareholder	Receive finance services	Entrusted loan interest	Market principle	-	0	0	100	No	In cash	-

Particulars on refund of bulk sale –

Estimated total amount for Continuing Connected Transactions to be conducted during the period and their actual implementing during the reporting period

The estimated data of Continuing Connected Transactions of the Group for 2018 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 2018 did not exceed the relevant applicable caps as specified under the Continuing Connected Transaction Agreements. The difference between actual amounts of certain connected transactions and estimated amounts was relatively larger, due to the impact of changes in prices of commodities and trading volumes during actual operation. As the originally estimated data represented the estimated caps of transactions, the existence of difference was reasonable which did not prejudice the interests of non-controlling shareholders and the Company.

Reason for the difference between transaction price and market reference price –

Relevant explanation on connected transactions

As production in the iron and steel industry is on a continuous basis, Angang Group has been engaged in mining, supplying, processing and manufacturing of raw materials, auxiliary materials and energy and power, which is a part of the supply chain of the Company. In the meantime, its subsidiaries have a high technological level and service capabilities, which can provide necessary support services for production and operation of the Company. The Company would sell certain products, abandoned steel, abandoned materials and integrated services to Angang Group which is a client of the Company

*Note:* the data of the above Continuing Connected Transactions are presented according to the actual amount occurred in the Continuing Connected Transactions of the Group in 2018 other than restated and adjusted under the business combination under same control.



## 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 2018 were carried out in the ordinary and usual course of business of the Company;
- (2) the Continuing Connected Transactions of the Company in 2018 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 2018 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 2018 did not exceed the relevant applicable caps as specified under the Continuing Connected Transaction Agreements. The difference between actual amounts of certain connected transactions and estimated amounts was relatively larger, due to the impact of changes in prices of commodities and trading volumes during actual operation. As the originally estimated data represented the estimated caps of transactions, the existence of difference was reasonable which did not prejudice the interests of non-controlling shareholders and the Company.

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

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



## Significant Events (Continued)

### XIII. MAJOR CONNECTED TRANSACTIONS (CONTINUED)

#### 2. Connected transactions in relation to asset or equity acquisition or disposal

Monetary unit: RMB million

Connected Party	Connected Relationship	Connected Transaction Type	Connected Transaction Details	Connected Transaction Pricing principle	Carrying amount of transferred assets on valuation base date	Appraised value of transferred assets on valuation base date	Final transfer price	Transaction settlement method	Profit and loss of the transaction
Angang Holding	Controlling shareholder of the Company	Equity acquisition	The acquisition of 100% equity interest in Chaoyang Iron and Steel	Determine the transaction amount according to the appraised value	3,034	5,904	6,415	Cash and acceptances	0

Reasons for the substantial difference between the transfer price and the book value or the appraised value (if any)

Impact on the operating result and the financial condition of the Company

If the relevant transaction involves the results agreement, the results during the reporting period are as:

Description of connected transactions

The difference of RMB 511 million between the transfer value and the appraised value is the profit and loss of the transition period from the valuation base date to the date of delivery.

Net profit for the period increased by RMB 1,370 million.

None

In order to improve the Company's steel industry and improve the Company's profitability, on 17 July 2018, the Company's Thirty Ninth Meeting of the Seventh Board of Directors approved the Company's acquisition of 100% equity interest in Chaoyang Iron and Steel held by Angang Holding. On 15 September 2018, the Company approved the matter at the 2018 second extraordinary general meeting. On 30 September 2018, the Company completed the relevant acquisition of equity interest.

## Significant Events (Continued)



### XIII. MAJOR CONNECTED TRANSACTIONS (CONTINUED)

#### 3. Connected transactions in relation to joint external investments

Monetary unit: RMB million

Joint investment parties	Connected relationship	Investee	Principal business of the investee	Registered capital of the investee	Total assets of the investee	Net assets of the investee	Net profit of the investee
Anshan Steel Engineering	Controlled by the same shareholder	Energy Technology	Production and operation of the industrial gas	50	68	58	3

Progress of significant projects under construction of the investee (if any)

-

Description of connected transactions

In order to give full play to the Company's energy and gas resources advantages, to achieve rapid advancement of the Company's goal of gas business, on 25 June 2018, the Company's Thirty Sixth Meeting of the Seventh Board of Directors approved the injection of capital into Energy Technology. The Company increased Energy Technology's capital by cash of RMB 31.3873 million (equivalent to RMB 30 million of the registered capital), accounting for 60% of the total registered capital of the target company; Anshan Steel Engineering increased its capital to Energy Technology in two ways of cash and undistributed profit. A total of RMB 20.9249 million, equivalent to RMB 20 million of registered capital, was contributed by Anshan Steel Engineering to the target company, accounting for 40% of the total registered capital of Energy Technology.

The injection of capital was completed on 29 June 2018.

#### 4. Connected party credit and debt transaction

As at 31 December 2018, bank borrowings of RMB1,000 million were guaranteed by Angang.

There were no connected party credit and debt transactions for non-operating purpose during the Reporting Period.



## Significant Events (Continued)

### XIII. MAJOR CONNECTED TRANSACTIONS (CONTINUED)

#### 5. Other major connected transactions

On 30 January 2018, the Resolution on Entering into the First Batch of the Energy Management Contracts between the Company and Angang Group Energy Conservation Technology Service Co., Ltd. in 2018 was approved at the 26th meeting of the seventh session of the Board.

On 9 February 2018, the Resolution on Entering into the Land Lease Agreements between the Company and each of Anshan Iron & Steel Group Co. Ltd. and Angang Naihao Co., Ltd.\* was approved at the 27th meeting of the seventh session of the Board.

On 30 May 2018, the Resolution on Entering into the Counter-guarantee Agreement between the Company and Angang Group Company Limited was approved at the 34th meeting of the seventh session of the Board.

On 12 July 2018, the Resolution on the Company's Capital Injection into An Steel International Co., Ltd. was approved at the 38th meeting of the seventh session of the Board. Up to now, the Company has not made its capital contribution to An Steel International Co., Ltd.

On 28 September 2018, the Resolution on Entering into the Agreement on Purchase and Sale of Imported Minerals between the Company and Anshan Iron & Steel Group Complex was approved at the 42nd meeting of the seventh session of the Board.

On 18 December 2018, the Resolution on the Materials and Services Supply Agreement (2019–2021) entered into between the Company and Angang Group Company Limited, the Resolution on the Materials Supply Agreement (2019–2021) entered into between the Company and Pangang Group Steel Vanadium & Titanium Co., Ltd. and the Resolution on the Financial Service Agreement (2019–2021) entered into between the Company and Angang Group Financial Company Limited were approved at the 2018 third extraordinary general meeting of the Company.



## **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 Group Company 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.

### **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.



## Significant Events (Continued)

### **XIV. MATERIAL CONTRACTS AND THEIR IMPLEMENTATION (CONTINUED)**

#### **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.

### **XV. SOCIAL RESPONSIBILITIES**

#### **1. Assumption of social responsibilities**

The Company proactively assumed its social responsibilities. For details, please refer to the “2018 Corporate Social Responsibility Report of Angang Steel Company Limited”. Please refer to Cninfo website <http://www.cninfo.com.cn> dated on 19 March 2019 for details of the full text.

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

- (1) Targeted poverty alleviation plans

Under the guidance of the General Secretary Xi Jinping's spirit regarding new-era socialism with Chinese characteristics, the Group has thoroughly studied and implemented the Party's 19th National Congress and the Party Central Committee and the State Council's strategic plan for poverty eradication. The unified requirements of Angang Group was followed, problem-driven improvement measures were focused, the principle of “external supports” and “internal efforts” were observed to achieve the combined aims of poverty alleviation, ambition cultivation and intelligence development, and the Six Targeting” requirements were followed to appropriately carry out targeted poverty alleviation including livelihood poverty alleviation, industrial poverty alleviation, education poverty alleviation, medical poverty alleviation and talent support. The Group will fully leverage its resource advantages, mobilize various forces and make every effort to implement the targeted poverty alleviation throughout the whole process of poverty eradication, and earnestly fulfill its political responsibility and mission shouldered by a state-owned enterprise directly led by the central government, and help poverty alleviation targets successfully complete the poverty eradication goals.



## XV. SOCIAL RESPONSIBILITIES (CONTINUED)

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

#### (2) Summary of annual targeted poverty alleviation

In 2018, Angang Steel diligently implemented the requirements of the Party Central Committee and the State Council on targeted poverty alleviation. On the basis of the reality of the Company and the poverty alleviation targets, Angang Steel orderly promoted the work in relation to poverty alleviation and poverty lifting, earnestly fulfilled the corporate social responsibility, and played a positive role in promoting the development of various local economic and social undertakings. According to the allocation arrangement, the main targets of financial assistance include Jianchang County of Liaoning Province, Shihuiyao Town (Village) of Xiuyan County, and Shangtao Village of Chaoyang City. In respect to Ta County of Xinjiang Province, “talent support” was mainly applied.

In 2018, Angang Steel implemented 16 poverty alleviation projects, and made actual investment of RMB6.273 million as poverty alleviation funds, an increase of RMB3.273 million compared with RMB3 million as budgeted at the beginning of the year, with a completion rate of 209.1%. It made meaningful contributions to the counterparts to which aids were provided in achieving their schedule of poverty alleviation. The practices and results were mainly reflected in the following aspects:

First, the organization and leadership of poverty alleviation were strengthened, and the organization system and accountability system of poverty alleviation were implemented.

Second, the policy study and political consciousness were reinforced. The central team of the Party Committee took the lead in learning the General Secretary Xi Jinping’s poverty alleviation and development strategy as well as the decision-making and deployment plan of the Party Central Committee and the State Council on poverty alleviation to follow the spirit of the Central Government.

Third, the top-layer design and management system were improved. The poverty alleviation plans were formulated and the management system was improved to standardize the poverty alleviation process.

Fourth, the poverty alleviation plans were formulated to guide poverty alleviation work.

Fifth, the investigation and study were reinforced to carry out targeted poverty alleviation. Leaders at all levels attached great importance to poverty alleviation, conducted in-depth investigations at frontline poverty alleviation targets, analyzed the causes of poverty, and provided a solid basis for formulating poverty alleviation plans.



## Significant Events (Continued)

### **XV. SOCIAL RESPONSIBILITIES (CONTINUED)**

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

##### (2) Summary of annual targeted poverty alleviation (Continued)

Sixth, outstanding cadres were selected to provide talent support. According to the criteria of good political quality, diligent work attitude, strong comprehensive ability, previous management experience and sound technical expertise, six outstanding cadres were selected to carry out poverty alleviation work in Ta County of Xinjiang Province.

Seventh, the poverty alleviation projects witnessed remarkable results, such as the photovoltaic poverty alleviation power station project in Jianchang County.

After the personnel from the Department of Planning and Development went to Jianchang County for field investigation and consultation with the local poverty alleviation office, on the basis of full leverage of the national policies and the advantages of local natural resources enjoyed by Jianchang County, and after in-depth research and demonstration, RMB2 million was invested to build two village-level photovoltaic poverty alleviation power stations in Tianzenglong Village and Xingshengyong Village of Jianchang County. The construction was started in September 2018 and the grid-connected power generation was completed before the end of December, which achieved the goal of making investment and achieving result during the same year. This project is expected to lift 260 registered poverty-stricken households in the surrounding five villages out of poverty. Preliminary estimates showed that the average household income will increase by more than RMB1,000 per year.

Eighth, the timely disaster relief was provided with care for the common people and the courage to bear responsibilities. The timely help was offered in emergency cases. The best efforts were made to repair and rebuild the roads and bridges destroyed by floods in Shihuiyao Town to ensure traffic resumption to the earliest extent possible. In August, Shihuiyao Town of Xiuyan County was hit by heavy rain and suffered severely. Upon receipt of the relief request, the emergent repair, restoration and reconstruction of roads, bridges and other facilities damaged and destroyed by the floods in Shihuiyao Town were started immediately. A total of 19 sets of machinery and equipment were used and rescue work was carried out for 11 days; meanwhile, 708 tons of cement were purchased for repairing collapsed and damaged real properties of suffered residents, costing a total of RMB620,000. For this reason, the Shihuiyao Town Government sent a thank-you letter on behalf of all the villagers – thanking the “steel backbone” for the warmth and hope it brought!



## 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	627.3
2. Supplies converted into cash	RMB'0,000	
3. Number of archive impoverished population casting off poverty	Person	1,518
II. Subentry	–	
1. Poverty alleviation through industrial development	–	
Including : 1.1 Type of industrial development projects for poverty alleviation	–	Village collective economy
1.2 Number of industrial development projects for poverty alleviation	Project	6
1.3 Capital invested in industrial development projects for poverty alleviation	RMB'0,000	314
1.4 Number of archive impoverished population casting off poverty	Person	868
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	37
2.3 Employment of archive impoverished population	Person	2



## 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
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	– 1
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	
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	



## 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
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	
8.3 Capital donated to poverty alleviation-related charity funds	RMB'0,000	
9. Others	–	–
Including: 9.1 Number of projects	Project	10
9.2 Capital contributed	RMB'0,000	312.3
9.3 Number of archive impoverished population casting off poverty	Person	650
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-up targeted poverty alleviation plans

On the basis of the poverty eradication target for the poverty-stricken areas from 2018 to 2020, the organs at levels of county, town (countryside) and village will be assisted to actively carry out poverty eradication work. In the principle of focusing on “internal efforts” and supplementing with “external supports” and in combination of both, poverty alleviation projects will be selected carefully and appropriately and endogenous motivation will be encouraged to facilitate poverty alleviation so as to help local governments to achieve poverty relief of 3,362 registered poverty-stricken households and 11,762 poverty-stricken individuals in 2019.

The year of 2019 is the 70th anniversary of the founding of the People’s Republic of China and is an important year to win the fight against poverty. We will make every effort, step by step, to fully implement the important statement of the General Secretary Xi Jinping on poverty alleviation, work together with poverty alleviation counterparts and focus on unity to help them achieve the grand goal of full poverty alleviation by 2020, and make renewed and greater contributions of Angang Steel!



## XV. SOCIAL RESPONSIBILITIES (CONTINUED)

### 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 <sup>3</sup> )	Pollutant discharge standard adopted (tonnes)	Total discharge amount (ton)	Excess discharge
Angang Steel Company Limited	Chemical oxygen demand	Standard discharge	1	Plant area of Angang	50	98.14	280	Nil
Angang Steel Company Limited	Ammoniacal nitrogen	Standard discharge	1	Plant area of Angang	5	12.58	-	Nil
Angang Steel Company Limited	Particulate matters	Standard discharge	337	Plant area of Angang	20	8,578.4	-	Nil
Angang Steel Company Limited	Sulphuric dioxide	Standard discharge	142	Plant area of Angang	50	7,624.9	8,500	Nil
Angang Steel Company Limited	Nitrogen oxides	Standard discharge	124	Plant area of Angang	100	14,410	16,980	Nil

During the period, the Company did not have major environmental and other social security problems.



## Significant Events (Continued)

### XV. SOCIAL RESPONSIBILITIES (CONTINUED)

#### 3. Matters regarding environmental protection (Continued)

- (2) Suggestions on and operation of pollution prevention facilities

In 2018, the Company carried out reduction of waste gas, peculiar smell and noise, with an environmental protection investment of RMB2.36 billion, and approved 69 major environmental protection and renovation projects such as the sheltered enclosure of lump ore pellet yard in Lingshan Material Yard, the one-time dust removal and standard raising renovation project for converter in the steelmaking plant, and the environmental protection project of adding a coal storage silo to the coal yard of Bayuquan branch. The Company's existing environmental protection facilities are all running stably and pollutants are discharged up to standard.

- (3) Environmental impact assessment on construction projects and other environment protection administrative permits

In 2018, the Company successively carried out environmental impact assessments for 33 construction projects such as coke oven flue gas desulfurization and denitration project, refined steel wire cable project, needle coke project of chemical industry department, and coal tar processing product's quality upgrading and variety structure adjustment project, and obtained environmental assessment approval documents from competent government authorities.

In 2018, the Company obtained all seven emission permits, and the permitted emissions of various pollutants met the Company's capacity needs.

- (4) Emergency plans for environmental pollution accidents

In 2018, the Company formulated the Emergency Plan for Radiation Environmental Accidents and the Emergency Plan for Severe Pollution Weather, revised the Emergency Plan for Environmental Emergencies, and carried out emergency drills for environmental emergencies and severe pollution weather in June and December 2018 respectively.

- (5) Environmental protection self-monitoring plan

In 2018, the Company issued an environmental protection monitoring plan in accordance with relevant national regulations, and carried out environmental protection self-monitoring on a monthly and quarterly basis in accordance with the plan.

# 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 (%)
<b>I. Shares subject to trading moratorium</b>	15,737	0.00	-	-	-	-	-	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	15,737	0.00	-	-	-	-	-	15,737	0.00
4. Foreign shares	-	-	-	-	-	-	-	-	-
Including: shares									
held by overseas legal persons	-	-	-	-	-	-	-	-	-
shares held by overseas natural persons	-	-	-	-	-	-	-	-	-
<b>II. Shares not subject to trading moratorium</b>	7,234,792,110	100.00	-	-	-	-	-	7,234,792,110	100.00
1. Renminbi ordinary shares	6,148,992,110	84.99	-	-	-	-	-	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	-	-	-	-	-	-	-	-	-
<b>III. Total shares</b>	<b>7,234,807,847</b>	<b>100.00</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,234,807,847</b>	<b>100.00</b>



# Movement in Share Capital and Shareholders' Profile (Continued)

## I. MOVEMENT IN SHARE CAPITAL (CONTINUED)

### 2. Changes in shares subject to trading moratorium

During the reporting period, the Company had no changes in shares subject to trading moratorium.

## II. ISSUANCE AND LISTING OF SECURITIES

### 1. Issuance of securities during the Reporting Period

Name of shares and their derivative securities	Date of issuance	Issue price or rate	Issuance amount	Listing date	Amount approved for listing and trading	Termination date of trading
Convertible corporate bonds, bonds cum warrants, corporate debt securities						
ANSTEEL B2305	25 May 2018	0%	HK\$1,850,000,000	28 May 2018	HK\$1,850,000,000	25 May 2023

Issuance of securities during the Reporting Period:

On 25 May 2018, the Company issued HK\$1,850,000,000 zero coupon convertible bonds on the Hong Kong Stock Exchange. The convertible bonds were listed and dealt on the Hong Kong Stock Exchange on 28 May 2018 and will fall due on 25 May 2023. 201,086,956 new H shares, representing 2.8% of the total number of issued shares of the Company as at 31 December 2018, and 2.7% of the enlarged total number of issued shares immediately after full conversion of convertible bonds, may be issued upon full conversion of the convertible bonds based on the adjusted conversion price of HK\$9.20 per H share. As of 31 December 2018, there has been no conversion of the above convertible bonds.

# Movement in Share Capital and Shareholders' Profile (Continued)



## II. ISSUANCE AND LISTING OF SECURITIES (CONTINUED)

### 1. Issuance of securities during the Reporting Period (Continued)

Below is an analysis of the shareholding structure of the Company (i) as at 31 December 2018; and (ii) assuming after full conversion of the convertible bonds into shares at the adjusted conversion price of HK\$9.20.

Shareholder	As at 31 December 2018		Assuming after full conversion of the convertible bonds at the adjusted conversion price of HK\$9.20	
	No. of shares	Approximate %	No. of shares	Approximate %
Angang Holding	3,858,547,330	53.33	3,858,547,330	51.89
Public holder of A shares	2,290,460,517	31.66	2,290,460,517	30.80
HKSCC (Nominees) Limited	1,075,745,479	14.87	1,075,745,479	14.47
Public holders of H shares	10,054,521	0.14	10,054,521	0.14
The bondholder(s)	–	–	201,086,956	2.70
<b>Total</b>	<b>7,234,807,847</b>	<b>100.00</b>	<b>7,435,894,803</b>	<b>100.00</b>

During the year ended 31 December 2018, please refer to the Note 19 Supplemental Information – 2. Net Asset Return and Earning Per Share in the notes to the financial statement for details of the dilutive effect of convertible bonds on earnings per share..

The Company is currently in good operating condition, with sufficient liquidity and good solvency. The Company has the ability to fulfill its bond redemption obligations as agreed. Under the terms of the bond issuance, the Company or bondholder can conditionally redeem the bond during the period from 25 May 2021 to the due date.



# 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

Name of shareholder	Nature of shareholder	Percentage of shareholding (%)	Details of shareholders with more than 5% of shares		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	Number of shares pledged or frozen	
			Status of shares	Amount						
The total number of ordinary shareholders of the Company as at the end of the Reporting Period			100,245 of which 485 were holders of H shares							101,742
The total number of ordinary shareholders of the Company as at 28 February 2018										
Anshan Iron & Steel Group Co. Ltd.	State-owned legal person	53.33	3,858,547,330	-360,000,000		-	3,858,547,330	-	-	
HKSCC (Nominees) Limited	Overseas legal person	14.87	1,075,745,479	+623,196		-	1,075,745,479	-	-	
China National Petroleum Corporation	State-owned legal person	8.98	650,000,000	0		-	650,000,000	-	-	
Power Construction Corporation of China	State-owned legal person	4.98	360,000,000	+360,000,000		-	360,000,000	-	-	
Hong Kong Securities Clearing Company Limited	Overseas legal person	1.72	124,638,694	+54,502,199		-	124,638,694	-	-	
Central Huijin Asset Management Ltd.	State-owned legal person	1.00	72,575,900	0		-	72,575,900	-	-	

# 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
Abu Dhabi Investment Authority (阿布達比投資局)	Overseas legal person	0.40	28,914,362	+4,158,462	-	28,914,362	-	-
Portfolio 407 of The National Social Security Fund (全國社保基金四零七組合)	Others	0.22	15,584,100	-	-	15,584,100	-	-
China Life Insurance Company Limited – Traditional – Ordinary insurance products – 005L-FH1002 Shenzhen (中國人壽保險股份有限公司 – 傳統 – 普通保險產品-005L-FH1002深)	Others	0.17	12,375,802	+10,875,802	-	12,375,802	-	-
China Merchants Bank Co., Ltd. – Boshi Zhongzheng State-owned Enterprise Structure Adjustment Trading Open Type Index Security Investment Fund (招商銀行股份有限公司 – 博時中證央企結構調整交易型開放式指數證券投資基金)	Others	0.15	11,060,300	-	-	11,060,300	-	-

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.	3,858,547,330	Renminbi ordinary shares	3,858,547,330
HKSCC (Nominees) Limited	1,075,745,479	Overseas listed foreign shares	1,075,745,479
China National Petroleum Corporation	650,000,000	Renminbi ordinary shares	650,000,000
Power Construction Corporation of China	360,000,000		360,000,000
Hong Kong Securities Clearing Company Limited	124,638,694		124,638,694
Central Huijin Asset Management Ltd.	72,575,900	Renminbi ordinary shares	72,575,900
Abu Dhabi Investment Authority (阿布達比投資局)	28,914,362	Renminbi ordinary shares	28,914,362
Portfolio 407 of The National Social Security Fund (全國社保基金四零七組合)	15,584,100	Renminbi ordinary shares	15,584,100



## 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-FH002 Shenzhen (中國人壽保險股份有限公司 – 傳統 – 普通保險產品-005L-FH002深)	12,375,802	Renminbi ordinary shares	12,375,802
China Merchants Bank Co., Ltd.- Boshi Zhongzheng Sate-owned Enterprise Structure Adjustment Trading Open Type Index Security Investment Fund (招商銀行股份有限公司 – 博時中證央企結構調整交易型開放式指數證券投資基金)	11,060,300	Renminbi ordinary shares	11,060,300

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.

Description of top ten ordinary shareholders to participate in financing business (if any)

None

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.



## 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 held by Angang Holding, the controlling shareholder of the Company, are as follows:

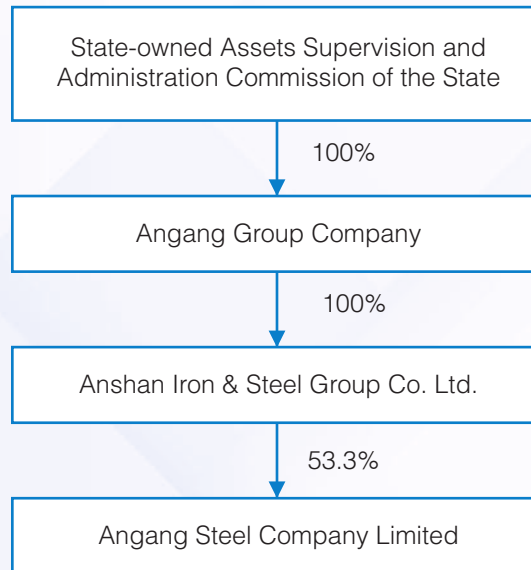
Stock Code	Name of Shares	Number of shares held <i>(share)</i>	Percentage of total share capital <i>(%)</i>
600705	AVIC Capital	1,900,704	0.02
601989	CSIC	14,420,000	0.06
601988	Bank of China	103,611,387	0.04
HK03988	Bank of China	76,361,000	0.03
HK01088	China Shenhua	4,562,500	0.02
601088	China Shenhua	3,333,549	0.02
601006	Daqin Railway	20,671,877	0.14
600886	SDIC	13,695,997	0.2
600019	Baosteel	7,206,491	0.03
HK01288	ABC	52,346,000	0.01
600884	Shanshan	2,446,000	0.22
601628	China Life	1,982,400	0.01
000729	Yanjing Beer	8,540,100	0.3
002149	Western Materials	4,503,231	1.06
400069	Jien Nickel	21,690,200	1.35
000629	Pangang Vanadium Titanium	928,946,141	10.815
836861	Anshan Falan	50,400,000	36.00



## Movement in Share Capital and Shareholders' Profile (Continued)

### III. SHAREHOLDERS AND DE FACTO CONTROLLER (CONTINUED)

#### 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
601669	A Shares of POWERCHINA	306,045,340	2%

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 2018, 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.	3,858,547,330 State shares	53.33%	–	62.75%	Beneficial owner
HKSCC Nominees Limited	1,075,745,479 H Shares	14.87%	99.07%	–	Nominee
China National Petroleum Corporation	650,000,000 A Shares	8.98%	–	10.57%	Beneficial owner



### 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	No. of	No. of	No. of
							Shares Held at the Beginning of the Reporting Period (shares)	Shares Increased in the Reporting Period (shares)	Shares Reduced in the Reporting Period (shares)	Shares Held at the End of the Reporting Period (shares)
Wang Yidong	Chairman	In office	Male	50	2017.11.23	-	7,650	-	-	7,650
	Executive Director	In office			2013.07.08	-	-	-	-	
Li Zhen	Deputy General Manager (in charge)	In office	Male	48	2018.01.10	-	0	-	-	0
	Executive Director	In office			2018.03.05	-	-	-	-	
Ma Lianyong	Deputy General Manager, Chief Accountant, Joint Company Secretary (i.e. Company secretary)	In office	Male	56	2018.01.10	-	0	-	-	0
	Executive Director	In office			2018.03.05	-	-	-	-	
Xie Junyong	Deputy General Manager	In office	Male	53	2018.03.05	-	0	-	-	0
	Executive Director	In office			2018.01.10	-	-	-	-	
Wu Dajun	Independent non-executive Director	In office	Male	62	2016.06.08	-	0	-	-	0
Ma Weiguo	Independent non-executive Director	In office	Male	49	2016.06.08	-	0	-	-	0
Feng Changli	Independent non-executive Director	In office	Male	55	2018.06.05	-	0	-	-	0
Lin Daqing	Chairman of Supervisory Committee	In Office	Male	53	2015.08.21	-	0	-	-	0
Liu Xiaohui	Supervisor	In Office	Female	50	2016.06.08	-	0	-	-	0
Xu Shishuai	Vice President	In office	Male	45	2016.03.30	-	-	-	-	-
Meng Jingsong	Vice President	In office	Male	49	2016.03.30	-	-	-	-	-
Yuan Peng	Supervisor	In Office	Male	51	2016.06.08	-	0	-	-	0

# 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	No. of	No. of	No. of
							Shares Held at the Beginning of the Reporting Period (shares)	Shares Increased in the Reporting Period (shares)	Shares Reduced in the Reporting Period (shares)	Shares Held at the End of the Reporting Period (shares)
Chen Chun	Joint Company Secretary (i.e. Company secretary)	In office	Female	31	2017.10.20	-	0	-	-	0
Li Zhongwu	Former executive Director Former Deputy General Manager	Resigned Resigned	Male	56	2016.06.08 2016.03.30	2018.03.05 2018.01.10	0	-	-	0
Zhang Jingfan	Former executive Director Former Joint Company Secretary Former Chief Accountant	Resigned Resigned Resigned	Male	54	2015.08.21 2015.11.24 2015.06.03	2018.03.05 2018.01.10 2018.01.10	0	-	-	0
Luo Yucheng	Former Independent non-executive Director	In office	Male	53	2016.06.08	2018.06.05	0	-	-	0

*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 2018, 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).



## 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 (攀枝花鋼鐵集團公司) 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, PRC certified accountant, and a professor in accounting. 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, 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. 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.



## 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. Feng Changli (馮長利)**, an independent non-Executive Director of the Company and doctor in business management, currently serves as a professor at the Faculty of Management and Economics of Dalian University of Technology (大連理工大學管理與經濟學部). Mr. Feng graduated from Dalian College of Technology (大連工學院) with a bachelor's degree in electronics; from Dalian University of Technology with a master's degree in systems engineering; and from Dalian University of Technology with a doctorate in business management. Mr. Feng served as the director of the information department of Dalian Branch of China Petroleum Engineering Co., Ltd., the party branch secretary of Enterprise Management Department of Faculty of Management of Dalian University of Technology, and the party branch secretary of Institute of Operations & Logistics of School of Business Administration of Dalian University of Technology. Mr. Feng is also an evaluation expert for the key special projects under the national key research and development programs, an evaluation expert for the science and technology awards of the Ministry of Education, an evaluation expert for academic dissertations at China Academic Degrees & Graduate Education Development Center, and an expert reviewer for domestically and internationally renowned journals including International Journal of Production Research, Chinese Journal of Management Science (《中國管理科學》) and Management Review (《管理評論》).





# 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.



## 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	Vice president	2017.05	-	Yes
	Angang Holding	Chairman	2017.12	-	-
Lin Daqing	Angang Holding	Deputy Secretary of the Party Committee and chairman of the labor union	2013.12	2018.12	Yes
Liu Xiaohui	Angang	Department Head of the Legal Department	2016.06	-	Yes
Yuan Peng	Angang Holding	Deputy Chairman of the Labor Union	2013.03	-	No
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
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
Feng Changli	Economics of Dalian University of Technology	Professor	2016.12	–	Yes
Chen Chun	SW Corporate Service Group Limited	Company secretary senior supervisor	2017.01	–	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	Male	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	50	Incumbent	-	Yes
Li Zhongwu	Former executive Director, Former deputy general manager	Male	48	Incumbent	85.83	No
Ma Lianyong	Deputy general manager, chief accountant, joint secretary to the Board (i.e. company secretary)	Male	56	Incumbent	65.12	No
	Executive Director	Male	53	Incumbent	66.63	No
Xie Junyong	Deputy general manager	Male	62	Incumbent	12.00	No
	Executive Director	Male	49	Incumbent	12.00	No
Luo Yucheng	Independent Executive Director	Male	55	Incumbent	7.00	No
Feng Changli	Independent Non-executive Director	Male	53	Incumbent	0	Yes
Liu Xiaohui	Supervisor	Female	50	Incumbent	0	Yes
Yuan Peng	Supervisor	Male	51	Incumbent	52.03	No

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



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

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

Name	Position	Male	Age	Status of Position	Total Remuneration before Tax Received from the Company (RMB'000)	Whether the remuneration was received from a corporate shareholder
Xu Shishuai	Vice President	Male	45	Incumbent	116.02	No
Meng Jingsong	Vice President	Male	49	Incumbent	113.71	No
Chen Chun	Joint Company Secretary (i.e. Company secretary)	Female	31	Incumbent	-	No
Li Zhongwu	Former executive Director	Male	56	Resigned	7.67	Yes
Zhang Jingfan	Former executive Director Former Joint Company Secretary	Male	54	Resigned	-	Yes
Luo Yucheng	Former Independent non-executive Director	Male	53	Incumbent	6.00	No
<b>Total</b>	-	-	-	-	544.01	-

*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
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	–
Ma Lianyong	Executive Director	Elected	5 March 2018	–
	Deputy general manager, chief accountant, joint secretary to the Board (i.e. company secretary)	Appointed	10 January 2018	–
Xie Junyong	Executive Director	Elected	5 March 2018	–
	Deputy general manager	Appointed	10 January 2018	–
Luo Yucheng	Executive Director	Elected	5 March 2018	–
	Independent Executive Director	Resigned	5 June 2018	Personal reasons
Feng Changli	Independent Non-executive Director	Elected	5 June 2018	–



## V. EMPLOYEES OF THE COMPANY

### 1. Number and constitution of employees

Number of current employees in the Company ( <i>person</i> )	34,797
Number of current employees in major subsidiaries ( <i>person</i> )	720
Total number of current employees ( <i>person</i> )	35,517
Total number of employees receiving remuneration during the period ( <i>person</i> )	35,517
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	25,432
Sales	301
Technical	2,501
Finance	264
Administration	2,128
Others	4,891
<b>Total</b>	<b>35,517</b>

### Education level

Category of education level	Number of people ( <i>person</i> )
Bachelor's degree and above	9,526
Post-secondary	9,719
Technical secondary school	14,477
Others	1,795
<b>Total</b>	<b>35,517</b>





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

## V. EMPLOYEES OF THE COMPANY (CONTINUED)

### 2. Training programs

In 2018, the education and training work of Angang Steel Company Limited focused on the Company's production, operation, transformation and upgrading, followed the implementation of the spirit of the 19th Party Congress, focused on the overall deployment of Anshan Iron & Steel Group Co. Ltd. and the Company in 2018, aimed to cultivate industry leading talents and the core team, established a global awareness, focused on improving quality and efficiency, deepened the reform, and earnestly implemented the plan of employee education and training. 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 18,347 in 2018. Among which, the attendance of the Party's spirit of 19th National Congress training for the leaders at the deputy factory level or above was 3,200; the attendance of the core leadership training for the senior management regarding political ideology and strategies and transformation was 1,755; the attendance of the trainings in managerial expertise and advanced iron and steel R&D technology for management officers and professional technician was 7,725; the attendance of the trainings (including micro-classes) in improving innovation abilities for high-tech talents was 3,908; the attendance of the rotating trainings for the secretaries of the Party branches was 422 and the attendance of the special trainings for shift monitors and team leaders was 1,337. 51 managerial officers and professional technician were dispatched for on-the-job trainings, and 53,348 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.



## **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.	The Company completed the acquisition of 100% equity interest in Chaoyang Steel and Iron Co., Ltd

For relevant information on acquisition of 100% equity interest in Angang Group Chaoyang Steel and Iron Co., Ltd., please refer to the announcement on the resolution of the Thirty-ninth meeting of the Seventh Session of the Board of Angang Steel Company Limited and the connected transaction announcement of Angang Steel Company Limited on acquisition of the 100% equity interest in Angang Group Chaoyang Steel and Iron Co., Ltd. published on China Securities Journal, the Securities Times and CNINFO on 1u July 2018.



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

##### 1. General meeting during the Reporting Period

<b>Session of Meeting</b>	<b>Type of Meeting</b>	<b>Proportion of investors involvement</b>	<b>Date of convening</b>
2018 first extraordinary general meeting	Extraordinary general meeting	65.10%	3 March 2018
2017 annual general meeting	Annual general meeting	66.55%	5 June 2018
2018 second extraordinary	Extraordinary general meeting	75.63%	17 September 2018
2018 third extraordinary	Extraordinary general meeting	74.90%	18 December 2018

## 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

Name of independent non-executive Director	Required attendance at the Board meetings during the Reporting Period	Attendance			Absence	Non-attendance in person for two consecutive times
		Attendance in person	Attendance through communication	Attendance by proxy		
Wu Dajun	27	4	23	0	0	No
Ma Weiguo	27	3	23	1	0	No
Feng Changli	17	2	15	0	0	No
Luo Yucheng	10	1	8	1	0	No
Attendance of independent non-executive Directors at general meetings						3 times



### 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 2018, 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.



### 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.



## VI. CORPORATE GOVERNANCE REPORT (CONTINUED)

### 4. The Board and Its Special Committees

#### (1) Composition of the Board

The Board of the Company comprises seven members including one Chairman, three 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 2018 are as follows:



## VI. CORPORATE GOVERNANCE REPORT (CONTINUED)

### 4. The Board and Its Special Committees (Continued)

#### (1) Composition of the Board (Continued)

<b>Name</b>	<b>Position in the Board</b>	<b>Attendance at the Board meetings (attendance by proxy)/ attendance rate</b>	<b>Attendance at the general meetings/ attendance rate</b>
Wang Yidong	Chairman	27(0)/100%	4/100%
Li Zhen	Executive Director	24(0)/100%	2/67%
Ma Lianyong	Executive Director	24(0)/100%	3/100%
Xie Junyong	Executive Director	24(0)/100%	3/100%
Wu Dajun	Independent Non-executive Director	27(0)/100%	2/50%
Ma Weiguo	Independent Non-executive Director	27(1)/100%	1/25%
Feng Changli	Independent Non-executive Director	17(0)/100%	1/50%
Li Zhongwu	Former Executive Director	3(0)/100%	0/0%
Zhang Jingfan	Former Executive Director	3(0)/100%	0/0%
Luo Yucheng	Former Non-executive Director	10(1)/100%	0/0%



## 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 2018, the Board of the Company held a total of 15 Board meetings.

##### (3) Remuneration and Appraisal Committee

In 2018, the members of the Remuneration and Appraisal Committee of the Company and their attendance at meetings are as follows:

<b>Name</b>	<b>Position in the Committee</b>	<b>Attendance at meetings</b>
Feng Changli	convener	–
Wang Yidong	member	100%
Xie Junyong	member	100%
Wu Dajun	member	100%
Ma Weiguo	member/former	
	convener	100%
Luo Yucheng	Former member	100%



## 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 2018, 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 2017 and reviewed their remunerations for 2017, and submitted the same to the Board for consideration.

##### (4) Nomination Committee

In 2018, the members of the Nomination Committee of the Company and their attendance are as follows:

<b>Name</b>	<b>Position in the Committee</b>	<b>Attendance at meetings</b>
Wu Dajun	convener	100%
Wang Yidong	member	100%
Ma Weiguo	member	100%
Ma Weiguo	member	100%
Feng Changli	member	100%
Luo Yucheng	former member	100%



## 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 2018, 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 candidates of directors, candidates of non-executive directors, 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 2018, the members of the Audit Committee of the Company and their attendance are as follows:

<b>Name</b>	<b>Position in the Committee</b>	<b>Attendance at meetings</b>
Ma Weiguo	convener	100%
Wu Dajun	member	100%
Feng Changli	member	100%
Luo Yucheng	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;



## 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;



## 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 2018, 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 2018, 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 2018.



### 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 2018

The Company's financial report for 2018 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 2018

Ruihua Certified Public Accountants (Special General Partnership) performed their duties during the auditing of the Company's financial statements for 2018 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.



## VI. CORPORATE GOVERNANCE REPORT (CONTINUED)

### 4. The Board and Its Special Committees (Continued)

#### (5) Audit Committee (Continued)

- Opinions on 2018 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 2018 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

For the year ended 31 December 2018, all the directors of the Company have received relevant training, details of which are as follows:

<b>Director</b>	<b>Continuous Professional Development Category</b>
<b>Executive director</b>	
Wang Yidong	A ∙ B
Li Zhen	B
Ma Lianyong	A ∙ B
Xie Jun Yong	B
<b>Independent Non-Executive Director</b>	
Wu Dajun	B
Ma Weiguo	B
Feng Changli	A ∙ B

*Note:* A: Attend meetings/forums/reporting meeting relating to businesses or functions of the Directors

B: Internal training of the Company/read supervisory update information about laws, rules and regulations relating to the roles and functions of the Directors,



## Corporate Governance (Continued)

### VI. CORPORATE GOVERNANCE REPORT (CONTINUED)

#### 5. Chairman and General Manager

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

Duties of the Chairman:

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

Duties of the General Manager:

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

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



## VI. CORPORATE GOVERNANCE REPORT (CONTINUED)

### 6. 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.

The joint company secretaries of the Company are in compliance with Rule 3.29 of the Hong Kong Listing Rules during the Reporting Period.

### 7. Rights of Shareholders

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

Pursuant to Article 77 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).



## Corporate Governance (Continued)

### VI. CORPORATE GOVERNANCE REPORT (CONTINUED)

#### 7. Rights of Shareholders (Continued)

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

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.

The supervisory committee 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 supervisory committee fails to give a notice convening a general meeting within the prescribed period of time, it shall be deemed as not to convene and hold such a general meeting, in which circumstance, shareholder(s) individually or aggregately holding more than 10% of the shares of the Company shall be entitled to convene and chair such a general meeting on its/their own.”

- (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.

Pursuant to the provisions of Article 83 in the Articles of the Association:

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.

The contents of such proposals shall 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.

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 addition proposals within 2 days upon receipt of the same.



## VI. CORPORATE GOVERNANCE REPORT (CONTINUED)

### 7. Rights of Shareholders (Continued)

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."

### 8. Changes in the Articles of Association during the Reporting Period

According to the Company's production and operation needs, the Company added "the sale of manganese iron ore, ilmenite, pig iron, ferroalloy and non-ferrous metal, the manufacturing of wire rope and its products, and the import of solid waste that can be used as raw materials" in the business scope, and revised the corresponding provisions of the Articles of Association. Meanwhile, according to the relevant provisions of *Interim Measures for the Administration for the Review of the Reform and Reorganization Listing and the Post-listing Military Affairs Capital Operation for Military Enterprises and Institutions* (《涉軍企事業單位改制重組上市及上市後資本運作軍工事項審查工作管理暫行辦法》) by State Administration of Science, Technology and Industry for National Defense, combined with the actual situation of the Company, it added the special stipulation in the 21st Chapter in the Articles of Association, which stipulates the implementation of national security and confidentiality laws and regulations, and the acceptance of the investment in military fixed assets.





## VI. CORPORATE GOVERNANCE REPORT (CONTINUED)

### 8. 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 12	<p>Article 12 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><b>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 &amp; Steel Group Co. Ltd.</b></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>



## VI. CORPORATE GOVERNANCE REPORT (CONTINUED)

### 8. 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 13	<p>Article 13 As registered in accordance with the laws, the business scope of the Company is as follows: Primary business: ferrous metal metallurgy and steel rolling and processing. Secondary business: coking and production and sales of coked products and by-products, production and sales of by-products of steel-rolling, the sales of coal, iron ore, waste steel, production and sales of pellet, electricity supply and distribution, production and sales of water for domestic and industrial use; production and sales of chemical fertilizer, industrial gas, medical oxygen (liquid) and commonly used spare parts, measuring appliances, meter examination, deep processing of steel products, metallurgical raw and fuel materials, ferroalloy processing, wholesale and retail (excluding licensed products) and commission agent (excluding auctioned products) of metallic materials, warehousing, technical consultancy, development, transfer and other services, standard materials and small machinery research and development, physical and chemical performance testing, inspection sample processing, maintenance of equipment for chemical inspection, freight forwarding agency services and loading and unloading services, lease of self-owned properties;</p>	<p>Article 13 As registered in accordance with the laws, the business scope of the Company is as follows: Primary business: ferrous metal metallurgy and steel rolling and processing. Secondary business: coking and production and sales of coked products and by-products, production and sales of by-products of steel-rolling, the sales of coal, iron ore, waste steel, production and sales of pellet, electricity supply and distribution, production and sales of water for domestic and industrial use; production and sales of chemical fertilizer, industrial gas, medical oxygen (liquid) and commonly used spare parts, measuring appliances, meter examination, deep processing of steel products, metallurgical raw and fuel materials, ferroalloy processing, wholesale and retail (excluding licensed products) and commission agent (excluding auctioned products) of metallic materials, warehousing, technical consultancy, development, transfer and other services, standard materials and small machinery research and development, physical and chemical performance testing, inspection sample processing, maintenance of equipment for chemical inspection, freight forwarding agency services and loading and unloading services, lease of self-owned properties; <b>sales of manganese iron ore, ilmenite, pig iron, ferroalloy and nonferrous metal; manufacturing of metal wire ropes and products thereof; importing of solid wastes that can be used as raw materials.</b></p>

## VI. CORPORATE GOVERNANCE REPORT (CONTINUED)

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

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

	<b>Existing Articles</b>	<b>Amended Articles</b>
One paragraph was added to Article 21	<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 <b>Anshan Iron &amp; Steel Group Co. Ltd.</b> 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>Article 21 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 &amp; 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>



## VI. CORPORATE GOVERNANCE REPORT (CONTINUED)

### 8. 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 <b>Anshan Iron &amp; Steel Group Co. Ltd.</b> 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 &amp; 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>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 <b>Anshan Iron &amp; Steel Group Co. Ltd.</b> 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 &amp; 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>

## VI. CORPORATE GOVERNANCE REPORT (CONTINUED)

### 8. 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 <b>Anshan Iron &amp; Steel Group Co. Ltd.</b> 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 &amp; 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>Upon the exercise of the warrant granted by <b>Anshan Iron &amp; Steel Group Co. Ltd.</b> 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 <b>Anshan Iron &amp; Steel Group Co. Ltd.</b> 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 Angang Holding 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 &amp; 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>



**VI. CORPORATE GOVERNANCE REPORT (CONTINUED)**

**8. 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 <b>Anshan Iron &amp; Steel Group Co. Ltd.</b> 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 &amp; 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><b>In 2017, as approved by the SASAC of the State Council, Anshan Iron &amp; Steel Group Co. Ltd. gratuitously transfer 650,000,000 A shares of the Company held by it to China National Petroleum Corporation. After the Gratuitous Transfer, the shareholding structure of the Company shall be as follows: a total of 7,234,807,847 ordinary shares, of which 4,218,547,330 tradable A shares not subject to trading moratorium are held by Anshan Iron &amp; Steel Group Co. Ltd., representing 58.31% of the total share capital of the Company; 650,000,000 tradable A shares not subject to trading moratorium are held by China National Petroleum Corporation, representing 8.98% of the total 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.</b></p>



**VI. CORPORATE GOVERNANCE REPORT (CONTINUED)**

**8. 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>A chapter 21: Special Provisions is added after the existing Chapter 20: Procedures for Making Amendments to the Articles of Association</p>	<p><b>Chapter 21: SPECIAL PROVISIONS</b></p> <p><b>Article 283</b> The Company accepts orders from the State for military products, and ensures that the national military scientific research and production tasks are completed in accordance with the required schedule, quality and quantity.</p> <p><b>Article 284</b> The Company strictly implements laws and regulations on national security and confidentiality, practicably defines the confidentiality responsibilities of involved shareholders, directors, supervisors, senior management and intermediary agencies through the establishment of a confidential work system, a confidentiality accountability system, and a military products information disclosure review system, and accepts the supervision and inspection of relevant security and confidential departments, ensuring the security of national secrets.</p> <p><b>Article 285</b> The Company strictly abides by the administration regulations governing the key equipment and facilities of the military industry, and strengthens the registration and disposal management of key military equipment and facilities, to ensure the safe, complete and effective utilization of key military equipment and facilities.</p> <p><b>Article 286</b> The Company strictly abides by the administration regulations governing the scientific research and production of weaponry.</p>



**VI. CORPORATE GOVERNANCE REPORT (CONTINUED)**

**8. 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><b>Article 287</b> The Company adopts review and approval procedures for matters such as the application, enforcement, transfer, confidentiality, and decryption of national defense patents pursuant to the provisions concerning national defense patents to protect the same.</p> <p><b>Article 288</b> When the amendment or approval of new Articles of Association involves special provisions, relevant legal procedures shall be performed upon approval by relevant authorities of science, technology and industry for national defense of the State Council.</p> <p><b>Article 288</b> The Company abides by the provisions of the Law of the People’s Republic of China on National Defense and the Law of National Defense Mobilization of the People’s Republic of China, completes the mobilization task as required by the order of national mobilization issued by the State; accepts the requisition of relevant assets according to the law.</p>



**VI. CORPORATE GOVERNANCE REPORT (CONTINUED)**

**8. 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><b>Article 289</b> Prior to the change of the controlling shareholder, the Company, the former controlling shareholder and the new controlling shareholder shall respectively apply to the authorities of science, technology and industry for national defense of the State Council for the execution of the review and approval procedures; the Company shall file with the authorities of science, technology and industry for national defense of the State Council for the change of chairman and general manager, the dismissal and re-designation of key military industry scientific research professionals and experts; the engagement of overseas independent directors or employment of foreigners by the Company shall be reported to the authorities of science, technology and industry for national defense of the State Council for consideration and approval in advance; in case the acquirer of a material acquisition gets hold of over 5% (including 5%) independently or jointly with other parties acting in concert, the acquirer must file with the authorities of science, technology and industry for national defense of the State Council.</p>
	<p><b>Article 290</b> The assets formed by investment in military fixed asset by the State by way of capital contribution will be held by Anshan Iron &amp; Steel Group Co. Ltd. in the form of state-owned equity, state-owned bonds or solely state-owned capital reserve</p>

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 Chapter 21. Save as the above amendments, other contents of the Articles of Association remain unchanged.



## VI. CORPORATE GOVERNANCE REPORT (CONTINUED)

### 9. 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.

### 10. Risk management and internal control

The Board has reviewed the Company's risk management and internal control systems. The Company has an internal audit department and internal audit function. In 2018, the Company reviewed the 2017 internal control system and the 2018 annual risk management each for once. The Board believes that the Company's risk management and internal control system settings are sufficient and effective.

### 11. Remuneration of auditor

For the year ended 31 December 2018, 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)

### **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



## VIII. INTERNAL CONTROL (CONTINUED)

### 2. Self-evaluation Report on Internal Control

The proportion of the total unit asset under the scope of evaluation to the total assets of the consolidated financial statements of the Company	90.41%
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The proportion of the unit operating income under the scope of evaluation to the operating income of the consolidated financial statements of the Company	94.3%
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## VIII. INTERNAL CONTROL (CONTINUED)

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

Defect identification standards

Type	Financial report	Non-financial report
	<p>1. Significant defect:</p> <p>(1) The directors, supervisor and senior management are found to have fraudulent behavior;</p> <p>(2) Amendment to the published financial report of the Company</p> <p>(3) there was a material misstatement in the financial statements, and the internal control failed to find the misstatement during the operation;</p> <p>(4) The supervision of internal control by the enterprise audit committee and the internal audit institution was invalid</p>	<p>1. Defect identification standards for internal control of daily operations:</p> <p>(1) 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.</p> <p>(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.</p> <p>(3) 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.</p>



**VIII. INTERNAL CONTROL (CONTINUED)**

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

Defect identification standards (Continued)

Type	Financial report	Non-financial report
	<p>2. Major defect:</p> <p>The severity and economic consequences of accounting policies, accounting and financial reporting were lower than significant defects, but there still existed internal control defects that may cause the Company to deviate from the control objectives.</p>	<p>2. Defect identification standards for internal control of the Company's reputation as follows:</p> <p>(1) General defect: the Company is required to pay a certain consideration for its recovery in a certain period; 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> <p>(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.</p> <p>(3) 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.</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
	3. General defect:  Internal control defect other than significant defect and major defect.	3. Defect identification standards for internal control of the Company's safety:  (1) General defect: affects minority of staff/public health/safety; relatively larger accidents.  (2) Major defect: affects part of staff/public health/safety; major accidents.  (3) Significant defect: affects certain number of staff/public health/safety; significant accidents.  4. Defect identification standards for internal control of the Company's environmental protection:  (1) General defect: the occurrence of general environmental incident (National level IV).  (2) Major defect: the occurrence of larger environmental accident (National level III)  (3) Significant defect: Occurrence of environmental protection incident at the level of significant environmental accident (National level II) or above.



## 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"> <li data-bbox="568 627 1078 918">1. Significant defect: significant effect on liquidity (0.8 time <math>\leq</math> turnover of current assets &lt; 1 time); effect on total profit <math>\geq</math> RMB50 million; effect on total assets <math>\geq</math> RMB8 billion.</li> <li data-bbox="568 950 1078 1267">2. Major defect: larger effect on liquidity (0.5 times <math>\leq</math> turnover of current assets &lt; 0.8 time); RMB10 million <math>\leq</math> effect on total profit &lt; RMB50 million; RMB4.8 billion <math>\leq</math> effect on total assets &lt; RMB8 billion.</li> <li data-bbox="568 1300 1078 1597">3. General defect: middle-level or smaller effect on liquidity (turnover of current assets &lt; 0.5 time); effect on total profit &lt; RMB10 million; effect on total assets &lt; RMB4.8 billion.</li> </ol>	





## 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

ShineWing 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 2018.

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 2018 annual general meeting of the Company will be held on Tuesday, 28 May 2019, details of which and the proposed resolutions are set out in the accompanying notice of annual general meeting of the Company.



# Audit Report

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XYZH/201XAXXX

**To the shareholders of Angang Steel Co., Ltd.**

## 1. OPINION

We have audited the financial statements of Angang Steel Co., Ltd. ("Angang Steel Company"), which comprise the consolidated and company's balance sheets as at December 31, 2018, and the consolidated and company's income statements, the consolidated and company's cash flow statements and the consolidated and company's statements of changes in shareholders' equity for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements of Angang Steel Company present fairly, in all material respects, the consolidated and company's financial position as at 31 December 2018, the consolidated and company's results of operations and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

## 2. BASIS FOR OPINION

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



### 3. KEY AUDIT MATTERS

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

#### (1) Convertible Bonds

##### ① Details

On 25 May 2018, Angang Steel Company issued HK\$1,850,000 zero coupon convertible bonds due 25 May 2023 at the Stock Exchange of Hong Kong Limited. The convertible period is after 5 July 2018 up to the close of business on the date falling 15 May 2023. The price of the H Shares to be issued for the exercise of the conversion rights is initially HK\$9.54 per H Share. After the dividend on June 29, 2018, it is adjusted to HK\$9.20 per H Share. On the issue date, due to exchange rate fluctuations, conversion options, issuer redemption rights and investor resale rights that are not settled by means of a fixed amount of cash or other financial assets in exchange for a fixed amount of their own equity instruments are recognized as embedded derivative financial instruments. The portion of the issue price that exceeds the initial recognition as a derivative financial instrument is recognized as debt instruments. The transaction costs incurred in the issuance shall be apportioned between the debt instruments and the embedded derivative financial instruments according to their respective fair values. The transaction costs associated with the embedded derivative financial instruments shall be recognized in profit or loss for the current period. The transaction costs associated with the debt component shall be recognized in the book value of the debts. In the subsequent measurement, the debt component of the convertible bonds is measured at the amortized cost using the effective interest method. The embedded derivative financial instruments are measured at fair value, and the gain and loss shall be recognized in profit or loss for current period.

The above transaction structure is complex, and accounting treatment involves extensive analysis and judgment of contract terms. For specific disclosure information, please refer to Note 6(30) and Note 6(33).



# Audit Report (Continued)

## 3. KEY AUDIT MATTERS (Continued)

### (1) Convertible Bonds (Continued)

#### ② Audit response

We understood, evaluated and tested the internal controls related to bond issuance. At the same time, we tested the general control of information systems and application control related to bond issuance.

We implemented the following substantive testing procedures:

obtained the issuance announcement and prospectus of the convertible bond, reviewed the relevant bond terms, and assessed whether the accounting treatment complies with the accounting standards for the classification and measurement of financial instruments;

used the work from external evaluation experts, reviewing the rationality of the assumptions, models, and parameters used by external experts to value the financial instrument;

obtained a breakdown of the relevant issuance costs of the convertible bond, reviewing the relevant supporting documents and the funds raised to the account;

considered the accounting treatment and disclosure of convertible corporate bonds on December 31, 2018.

### (2) Sales revenue recognition

#### ① Details

The sales revenue of Angang Steel Company is mainly due to the sales of steel products. The accounting policies related to revenue confirmation refer to Note 4(19). As stated in Note 6(40) "Operating income and operating costs", the operating income of Angang Steel company in 2018 is RMB105,157 million. Operating income is an important subject of the company's income statement, which is the main source of profit for the company. The accuracy and completeness of revenue recognition have a great impact on the company's profit. Therefore, we recognize revenue recognition as a key audit matter.



## 3. KEY AUDIT MATTERS (Continued)

### (2) Sales revenue recognition (Continued)

#### ② Audit response

Understand, evaluate and test the effectiveness of internal control design and operations related to revenue recognition;

Check whether the confirmation conditions, methods and confirmation time of the company's sales revenue meet the requirements of the Accounting Standards for Business Enterprises.

Select samples for transactions recorded in the current year, check sales details, sales contracts, cashier receipts, outbound orders, shipping documents, sales invoices, etc. to evaluate the authenticity of revenue recognition;

In conjunction with the audit of accounts receivable, select the major customer's letter of credit for the current year to evaluate the completeness of the revenue recognition;

Conduct a cut-off test on sales transactions before and after the balance sheet date to assess whether the income is accounted in the appropriate accounting period;

Check whether the presentation and disclosure of information related to revenue recognition in the financial statements is sufficient and appropriate.

## 4. OTHER INFORMATION

The management of Angang Steel Company (hereinafter referred to as the "Management") is responsible for the other information. The other information comprises the information included in the Angang Steel Company's 2018 annual report, but does not include the financial statements and our auditor's report thereon.

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



## Audit Report (Continued)

### **4. OTHER INFORMATION (Continued)**

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

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

### **5. RESPONSIBILITIES OF THE MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS**

The Management is responsible for the preparation of the financial statements in accordance with Accounting Standards for Business Enterprises to achieve fair presentation; and designing, implementing and maintaining internal control which is necessary to enable 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 Angang Steel Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management either intends to liquidate Angang Steel Company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance of Angang Steel Company (hereinafter referred to as the "those charged with governance") are responsible to overseeing Angang Steel Company's financial reporting process.

### **6. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS**

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



### **6. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (Continued)**

During the course of audit in accordance with auditing standards, we exercise professional judgment and maintain professional skepticism. We also carry out 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 audit. 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 Angang Steel Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements in accordance with the auditing standards or, if such disclosures are inadequate, we shall modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Angang Steel Company to cease to continue as a going concern.
- (5) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and also 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.





## Audit Report (Continued)

### **6. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (Continued)**

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

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

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

ShineWing Certified Public Accountants LLP      CICPA: Fan Jianping      (Audit Partner)  
CICPA: Fu Yangyi

China, Beijing  
18 March 2019

# Consolidated Balance Sheet

December 31, 2018 Prepared by: Angang Steel Company Limited Monetary unit: RMB million



Items	Notes	December 31, 2018	January 1, 2018	December 31, 2017
<b>Current assets:</b>				
Cash at bank and on hand	6(1)	2,154	2,670	2,670
Financial assets at fair value through profit or loss	6(2)			7
Derivative financial assets	6(3)	1	7	
Notes receivable and accounts receivable	6(4)	9,644	13,373	13,372
Including: notes receivable	6(4)	7,184	10,891	10,891
Accounts receivable	6(4)	2,460	2,482	2,481
Prepayments	6(5)	1,408	1,121	1,121
Other receivables	6(6)	50	262	266
Including: interest receivable	6(6)			
Dividends receivable	6(6)			
Inventories	6(7)	13,125	12,269	12,269
Contract assets				
Other current assets	6(8)	526	300	300
<b>Total current assets</b>		<b>26,908</b>	30,002	30,005
<b>Non-current assets:</b>				
Available-for-sale financial assets	6(9)			719
Long-term equity investments	6(10)	2,803	2,981	2,981
Other equity investment	6(11)	519	506	
Other non-current financial assets	6(12)	35	39	
Fixed assets	6(13)	50,064	50,875	50,875
Construction in progress	6(14)	1,458	1,072	1,072
Intangible assets	6(15)	6,315	6,464	6,464
Deferred income tax assets	6(16)	781	2,011	1,914
Other non-current assets	6(17)	1,141	856	856
<b>Total non-current assets</b>		<b>63,116</b>	64,804	64,881
<b>Total assets</b>		<b>90,024</b>	94,806	94,886



## Consolidated Balance Sheet (Continued)

December 31, 2018 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

Items	Notes	December 31, 2018	January 1, 2018	December 31, 2017
<b>Current liabilities:</b>				
Short-term loans	6(18)	13,180	14,500	14,500
Financial liabilities at fair value through profit or loss	6(19)			13
Derivative financial liabilities	6(20)	3	13	
Notes payable and accounts payable	6(21)	9,063	9,359	9,359
Advances from customers	6(22)			6,647
Contract liabilities		6(23)	4,795	6,647
Employee benefits payable	6(24)	183	365	365
Tax payable	6(25)	589	495	495
Other payables	6(26)	2,286	2,785	2,785
Including: interests payable	6(26)	9	93	93
Dividends payable	6(26)		38	38
Non-current liabilities due within 1 year	6(27)	2,648	787	787
Other current liabilities	6(28)		1,500	1,500
<b>Total current liabilities</b>		<b>32,747</b>	36,451	36,451
<b>Non-current liabilities:</b>				
Long-term loans	6(29)	2,295	2,905	2,905
Bonds payable	6(30)	1,574	2,004	2,004
Long-term employee benefits payable	6(31)	97	126	126
Deferred income	6(32)	630	682	682
Deferred income tax liabilities	6(16)	77	58	6
Other non-current liabilities	6(33)	139		
<b>Total non-current liabilities</b>		<b>4,812</b>	5,775	5,723
<b>Total liabilities</b>		<b>37,559</b>	42,226	42,174

# Consolidated Balance Sheet (Continued)

December 31, 2018 Prepared by: Angang Steel Company Limited Monetary unit: RMB million



Items	Notes	December 31, 2018	January 1, 2018	December 31, 2017
<b>Shareholders' equity:</b>				
Share capital	6(34)	7,235	7,235	7,235
Capital reserve	6(35)	35,655	42,080	42,080
Other comprehensive income	6(36)	(241)	(250)	(3)
Special reserve	6(37)	49	57	57
Surplus reserve	6(38)	3,628	3,580	3,580
Undistributed profit	6(39)	5,636	(543)	(658)
Subtotal of Shareholders' equity attributable to shareholders of parent company		51,962	52,159	52,291
Minority interests		503	421	421
<b>Total shareholders' equity</b>		<b>52,465</b>	52,580	52,712
<b>Total liabilities and shareholders' equity</b>		<b>90,024</b>	94,806	94,886

Legal representative:  
**Wang Yidong**

Chief Accountant:  
**Ma Lianyong**

Controller:  
**Guo Wu**



# Consolidated Income Statement

For the year ended December 31, 2018 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

Items	Notes	2018	2017
<b>1. Operating income</b>		<b>105,157</b>	91,683
Including: operating income	6(40)	<b>105,157</b>	91,683
<b>2. Operating costs</b>		<b>95,533</b>	85,831
Less: operating costs	6(40)	<b>88,126</b>	78,707
Tax and surcharges	6(41)	<b>1,184</b>	977
Marketing expenses	6(42)	<b>3,067</b>	2,570
Administrative expenses	6(43)	<b>1,266</b>	1,589
Research and development expenses	6(44)	<b>483</b>	326
Financial expenses	6(45)	<b>1,471</b>	1,331
Including: interests expenses	6(45)	<b>1,416</b>	1,376
Interests revenue	6(45)	<b>36</b>	59
Impairment losses on assets	6(46)	<b>(74)</b>	331
Credit impairment loss	6(47)	<b>10</b>	
Add: Other income	6(48)	<b>83</b>	72
Investment income (“-” for losses)	6(49)	<b>315</b>	433
Income from investment in jointly ventures and associates	6(49)	<b>286</b>	352
Gains/losses from fair value variation (“-” for losses)	6(50)	<b>60</b>	(6)
Asset disposal income (“-” for losses)	6(51)	<b>6</b>	8
<b>3. Operating profit (“-” for losses)</b>		<b>10,088</b>	6,359
Add: Non-operating income			
Non-operating income	6(52)	<b>56</b>	19
Less: Non-operating expenses	6(53)	<b>136</b>	65
<b>4. Profit before income tax (“-” for losses)</b>		<b>10,008</b>	6,313
Less: Income tax expenses	6(54)	<b>2,056</b>	(332)

# Consolidated Income Statement (Continued)

For the year ended December 31, 2018 Prepared by: Angang Steel Company Limited Monetary unit: RMB million



Items	Notes	2018	2017
<b>5. Net profit for the period (“-” for losses)</b>		<b>7,952</b>	6,645
(1) Classification according to the continuity of operation		<b>7,952</b>	6,645
i. Continuous operating net profit (“-” for losses)		<b>7,954</b>	6,645
ii. Termination of net profit (“-” for losses)		<b>(2)</b>	
(2) Classification according to ownership		<b>7,952</b>	6,645
i. The net profit belongs to the owners of the company		<b>7,952</b>	6,638
ii. Minority interest income			7
<b>6. The net amount after tax of other comprehensive income</b>			
Net after-tax net of other comprehensive income attributable to the parent company owner	6(55)	<b>9</b>	(15)
(1) The other comprehensive income which can not be reclassified into profit or loss	6(55)	<b>6</b>	
i. Changes in fair value of other equity instruments investment	6(55)	<b>6</b>	
(2) The other comprehensive income which can be classified into profit or loss	6(55)	<b>3</b>	(15)
i. The shares of the other comprehensive income which can be reclassified in profit or loss of the invested company in equity method	6(55)	<b>3</b>	(5)
ii. The profit or loss from the change at fair value of available-for-sale financial assets	6(55)		(10)
Net after-tax net of other comprehensive income attributable to minority shareholders			



## Consolidated Income Statement (Continued)

For the year ended December 31, 2018 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

Items	Notes	2018	2017
<b>7. Total comprehensive income</b>		<b>7,961</b>	6,630
The other comprehensive income attributed to the owners of the company		<b>7,961</b>	6,623
The other comprehensive income attributed to the minority			7
<b>8. Earning per share</b>			
(1) Basic earning per share (RMB/share)	19(2)	<b>1.099</b>	0.917
(2) Diluted earning per share (RMB/share)	19(2)	<b>1.088</b>	0.917

In the case of a business combination under the same control this year, the net profit realized by the merged party before the merger was RMB1,268 million, and the net profit realized by the combined party in the previous year was RMB1,034 million.

Legal representative:

**Wang Yidong**

Chief Accountant:

**Ma Lianyong**

Controller:

**Guo Wu**

# Consolidated Statement of Cash Flows

For the year ended December 31, 2018 Prepared by: Angang Steel Company Limited Monetary unit: RMB million



Items	Notes	2018	2017
<b>1. Cash flows from operating activities:</b>			
Cash received from selling of goods or rendering of services		86,911	74,416
Refund of taxes and fares		35	35
Other cash received from operating activities	6(56)	72	37
<b>Sub-total of cash inflows</b>		<b>87,018</b>	74,488
<hr/>			
Cash paid for goods and services		65,105	57,615
Cash paid to and for the employees		4,811	4,287
Cash paid for all types of taxes		4,914	2,973
Other cash paid for operating activities	6(56)	3,894	3,135
<b>Sub-total of cash outflows</b>		<b>78,724</b>	68,010
<hr/>			
<b>Net cash flow from operating activities</b>		<b>8,294</b>	6,478
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<b>2. Cash flows from investing activities:</b>			
Cash received from return of investments			362
Cash received from investment income		379	
Net cash received from disposal of fixed assets, intangible assets and other non-current assets		12	21
Other cash received from investment activities	6(56)	167	245
<b>Sub-total of cash inflows</b>		<b>558</b>	628
<hr/>			
Cash paid for acquisition of fixed assets, intangible assets and other non-current assets		2,825	1,880
Cash paid for acquisition of investments		1,532	46
Other cash paid for investment activities	6(56)	83	40
<b>Sub-total of cash outflows</b>		<b>4,440</b>	1,966
<hr/>			
<b>Net cash flow from investing activities</b>		<b>(3,882)</b>	(1,338)





## Consolidated Statement of Cash Flows (Continued)

For the year ended December 31, 2018 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

Items	Notes	2018	2017
<b>3. Cash flows from financing activities:</b>			
Cash received from absorbing investments		3	2,553
Including: Received of subsidiary from minority shareholders			
Cash received from borrowings		21,181	22,616
Cash received from the issuance of bonds			
Other cash received from financing activities	6(56)	380	100
<b>Sub-total of cash inflows</b>		<b>21,564</b>	25,269
Cash paid for settling of debts		23,115	28,174
Cash paid for distribution of dividends or profit and repayment of interests		2,889	1,705
Including: Dividends or profit paid to minority shareholders			
Other cash paid for financing activities	6(56)	503	205
<b>Sub-total of cash outflows</b>		<b>26,507</b>	30,084
<b>Net cash inflow from financing activities</b>		<b>(4,943)</b>	(4,815)
<b>4. Effect of changes in foreign exchange rate on cash and cash equivalents</b>		<b>15</b>	
<b>5. Net increase in cash and cash equivalents</b>	6(57)	<b>(516)</b>	325
Add: Cash and cash equivalents at beginning of this period	6(57)	<b>2,670</b>	2,345
<b>6. Cash and cash equivalents carrying forward</b>	6(57)	<b>2,154</b>	2,670

Legal representative:  
**Wang Yidong**

Chief Accountant:  
**Ma Lianyong**

Controller:  
**Guo Wu**

# Consolidated Statement of Changes in Shareholders' Equity

As of 31 December 2018 Prepared by: Angang Steel Company Limited Monetary unit: RMB million



Items	2018									
	Shareholders' equity attributable to shareholders of the parent company									
	Share capital	Capital reserve	Less: treasury stock	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Undistributed profit	Minority interests	Total of shareholders' equity
<b>1. Balance as of 31 Dec. 2017</b>	7,235	31,519		(3)	38	3,580		7,604	413	50,386
Add: Changes of accounting policy				(247)				115		(132)
Business combination under the common control		10,561			19			(8,262)	8	2,326
Others										
<b>2. Balance as of 1 Jan. 2018</b>	7,235	42,080		(250)	57	3,580		(543)	421	52,580
<b>3. Increase/decrease in 2018</b>										
<b>("-" represents loss)</b>	-	(6,425)		9	(8)	48		6,179	82	(115)
(1) Total amount comprehensive income				9				7,952		7,961
(2) Capital introduced or withdrawn by owners		(6,425)							81	(6,344)
i. Capital introduced by owners										
ii. Capital introduced by other equity instrument holders										
iii. Others		(6,425)							81	(6,344)
(3) Profit distribution						48		(1,773)		(1,725)
i. Transfer to surplus reserve						48		(48)		
ii. Transfer to general risk reserve										
iii. Distribution to shareholders								(1,678)		(1,678)
iv. Others								(47)		(47)
(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										
(5) Special reserve					(8)				1	(7)
i. Extracts of this period					89				1	90
ii. Usage of this period					97					97
(6) Others										
<b>4. Balance as of 31 Dec. 2018</b>	7,235	35,655	-	(241)	49	3,628		5,636	503	52,465

# Consolidated Statement of Changes in Shareholders' Equity (Continued)

As of 31 December 2018 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

Items	2017									
	Shareholders' equity attributable to shareholders of the parent company									Total of shareholders' equity
	Share capital	Capital reserve	Less: treasury stock	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Undistributed profit	Minority interests	
<b>1. Balance as of 31 Dec. 2016</b>	7,235	31,519		12	52	3,580		2,484	406	45,288
Add: Changes of accounting policy										
Business combination under the common control		8,008			14			(9,258)	7	(1,229)
Others										
<b>2. Balance as of 1 Jan. 2017</b>	7,235	39,527		12	66	3,580		(6,774)	413	44,059
<b>3. Increase/decrease in 2017 ("-" represents loss)</b>		2,553		(15)	(9)			6,116	8	8,653
(1) Total amount comprehensive income				(15)				6,638	7	6,630
(2) Capital introduced or withdrawn by owners		2,553						-	2	2,555
i. Capital introduced by owners		2,553								2,553
ii. Capital introduced by other equity instrument holders										
iii. Others									2	2
(3) Profit distribution		-						(522)		(522)
i. Transfer to surplus reserve										
ii. Transfer to general risk reserve										
iii. Distribution to shareholders								(522)		(522)
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										
(5) Special reserve					(9)				(1)	(10)
i. Extracts of this period					72					72
ii. Usage of this period					81				1	82
(6) Others										
<b>4. Balance as of 31 Dec. 2017</b>	7,235	42,080		(3)	57	3,580		(658)	421	52,712

Legal representative:  
**Wang Yidong**

Chief Accountant:  
**Ma Lianyong**

Controller:  
**Guo Wu**

# Balance Sheet



December 31, 2018 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

Items	Notes	December 31, 2018	January 1, 2018	December 31, 2017
<b>Current assets:</b>				
Cash at bank and on hand		1,125	1,785	1,785
Financial assets at fair value through profit or loss				7
Derivative financial assets		1	7	
Notes receivable and accounts receivable	16(1)	9,488	12,753	12,753
Including: notes receivable	16(1)	6,249	9,632	9,632
Accounts receivable	16(1)	3,239	3,121	3,121
Prepayments		1,136	909	909
Other receivables	16(2)	46	255	258
Including: interest receivable	16(2)			
Dividends receivable	16(2)			
Inventories		9,813	9,864	9,864
Contract assets				
Holding assets for sale				
Other current assets		178		
<b>Total current assets</b>		<b>21,787</b>	25,573	25,576
<b>Non-current assets:</b>				
Debt investment				
Available-for-sale financial assets				719
Long-term equity investments	16(3)	11,275	4,984	4,984
Other equity investment		519	506	
Other non-current financial assets		35	39	
Investment properties				
Fixed assets		43,283	46,290	46,290
Construction in progress		1,373	949	949
Intangible assets		5,866	6,016	6,016
Deferred income tax assets		589	1,745	1,648
Other non-current assets		1,094	789	789
<b>Total non-current assets</b>		<b>64,034</b>	61,318	61,395
<b>Total assets</b>		<b>85,821</b>	86,891	86,971



## Balance Sheet (Continued)

December 31, 2018 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

Items	Notes	December 31, 2018	January 1, 2018	December 31, 2017
<b>Current liabilities:</b>				
Short-term loans		13,210	14,430	14,430
Financial liabilities at fair value through profit or loss				13
Derivative financial liabilities		3	13	
Notes payable and accounts payable		8,346	8,511	8,511
Advances from customers				4,869
Contract liabilities		3,209	4,869	
Employee benefits payable		169	346	346
Tax payable		502	388	388
Other payables		1,969	1,478	1,478
Including: interests payable		2	85	85
Dividends payable				
Non-current liabilities due within 1 year		2,545	300	300
Other current liabilities			1,500	1,500
<b>Total current liabilities</b>		<b>29,953</b>	31,835	31,835
<b>Non-current liabilities:</b>				
Long-term loans		2,000	2,545	2,545
Bonds payable		1,574	2,004	2,004
Long-term employee benefits payable		94	123	123
Deferred income		494	543	543
Deferred income tax liabilities		74	58	6
Other non-current liabilities		139		
Total non-current liabilities		4,375	5,273	5,221
<b>Total liabilities</b>		<b>34,328</b>	37,108	37,056

## Balance Sheet (Continued)

December 31, 2018 Prepared by: Angang Steel Company Limited Monetary unit: RMB million



Items	Notes	December 31, 2018	January 1, 2018	December 31, 2017
<b>Shareholders' equity:</b>				
Share capital		7,235	7,235	7,235
Capital reserve		28,697	31,565	31,565
Less: treasury stock				
Other comprehensive income		(241)	(250)	(3)
Special reserve		19	38	38
Surplus reserve		3,618	3,570	3,570
Undistributed profit		12,165	7,625	7,510
Subtotal of Shareholders' equity attributable to shareholders of parent company		51,493	49,783	49,915
Minority interests				
<b>Total shareholders' equity</b>		<b>51,493</b>	49,783	49,915
<b>Total liabilities and shareholders' equity</b>		<b>85,821</b>	86,891	86,971

Legal representative:  
**Wang Yidong**

Chief Accountant:  
**Ma Lianyong**

Controller:  
**Guo Wu**



# Income Statement

For the year ended December 31, 2018 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

Items	Notes	2018	2017
<b>1. Operating income</b>		<b>95,658</b>	82,562
Including: operating income	16(4)	<b>95,658</b>	82,562
<b>2. Operating costs</b>		<b>87,877</b>	77,885
Less: operating costs	16(4)	<b>81,278</b>	71,545
Tax and surcharges		<b>1,043</b>	868
Marketing expenses		<b>2,653</b>	2,219
Administrative expenses		<b>1,087</b>	1,435
Research and development expenses		<b>480</b>	323
Financial expenses		<b>1,410</b>	1,168
Including: interests expenses		<b>1,346</b>	1,191
Interests revenue		<b>23</b>	34
Impairment losses on assets		<b>(76)</b>	327
Credit impairment loss		<b>2</b>	
Add: other income		<b>75</b>	67
Investment income (“-” for losses)	16(5)	<b>351</b>	448
Including: income from investment in jointly ventures and associates	16(5)	<b>284</b>	351
Gains/losses from fair value variation (“-” for losses)		<b>60</b>	(6)
Asset disposal income (“-” for losses)		<b>(5)</b>	
<b>3. Operating profit (“-” for losses)</b>		<b>8,262</b>	5,186
Add: Non-operating income Non-operating income		<b>50</b>	15
Less: Non-operating expenses		<b>132</b>	63
<b>4. Profit before income tax (“-” for losses)</b>		<b>8,180</b>	5,138
Less: Income tax expenses		<b>1,914</b>	(227)
<b>5. Net profit for the period (“-” for losses)</b>		<b>6,266</b>	5,365
(1) Classification according to the continuity of operation		<b>6,266</b>	5,365
i. Continuous operating net profit (“-” for losses)		<b>6,266</b>	5,365
ii. Termination of net profit (“-” for losses)			
(2) Classification according to ownership		<b>6,266</b>	5,365
i. The net profit belongs to the owners of the company		<b>6,266</b>	5,365
ii. Minority interest income			

# Income Statement (Continued)

For the year ended December 31, 2018 Prepared by: Angang Steel Company Limited Monetary unit: RMB million



Items	Notes	2018	2017
<b>6. The net amount after tax of other comprehensive income</b>		<b>9</b>	(15)
Net after-tax net of other comprehensive income attributable to the parent company owner		9	(15)
(1) The other comprehensive income which can not be reclassified into profit or loss		6	
i. Changes in fair value of other equity instruments investment		6	
(2) The other comprehensive income which can be classified into profit or loss		3	(15)
i. The shares of the other comprehensive income which can be reclassified in profit or loss of the invested company in equity method		3	(5)
ii. The profit or loss from the change at fair value of available-for-sale financial assets			(10)
Net after-tax net of other comprehensive income attributable to minority shareholders			
<b>7. Total comprehensive income</b>		<b>6,275</b>	5,350
The other comprehensive income attributed to the owners of the company		6,275	5,350
The other comprehensive income attributed to the minority			

Legal representative:  
**Wang Yidong**

Chief Accountant:  
**Ma Lianyong**

Controller:  
**Guo Wu**





# Statement of Cash Flows

For the year ended December 31, 2018 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

Items	Notes	2018	2017
<b>1. Cash flows from operating activities:</b>			
Cash received from selling of goods or rendering of services		81,282	70,224
Refund of taxes and fares		21	34
Other cash received from operating activities		69	35
<b>Sub-total of cash inflows</b>		<b>81,372</b>	70,293
Cash paid for goods and services		61,351	53,902
Cash paid to and for the employees		4,358	3,915
Cash paid for all types of taxes		4,272	2,689
Other cash paid for operating activities		4,017	3,125
<b>Sub-total of cash outflows</b>		<b>73,998</b>	63,631
<b>Net cash flow from operating activities</b>		<b>7,374</b>	6,662
<b>2. Cash flows from investing activities:</b>			
Cash received from return of investments		17	
Cash received from investment income		424	378
Net cash received from disposal of fixed assets, intangible assets and other non-current assets		2	1
Net cash received from disposal of subsidiaries and other business units			
Other cash received from investment activities		122	241
<b>Sub-total of cash inflows</b>		<b>565</b>	620
Cash paid for acquisition of fixed assets, intangible assets and other non-current assets		2,616	1,816
Cash paid for acquisition of investments		2,038	516
Other cash paid for investment activities		82	40
<b>Sub-total of cash outflows</b>		<b>4,736</b>	2,372
<b>Net cash flow from investing activities</b>		<b>(4,171)</b>	(1,752)

# Statement of Cash Flows (Continued)

For the year ended December 31, 2018 Prepared by: Angang Steel Company Limited Monetary unit: RMB million



Items	Notes	2018	2017
<b>3. Cash flows from financing activities:</b>			
Cash received from borrowings		20,775	20,848
Cash received from the issuance of bonds			
Other cash received from financing activities		232	87
<b>Sub-total of cash inflows</b>		<b>21,007</b>	20,935
Cash paid for settling of debts		22,160	23,765
Cash paid for distribution of dividends or profit and repayment of interests		2,725	1,503
Including: Dividends or profit paid to minority shareholders			
Other cash paid for financing activities			20
<b>Sub-total of cash outflows</b>		<b>24,885</b>	25,288
<b>Net cash inflow from financing activities</b>		<b>(3,878)</b>	(4,353)
<b>4. Effect of changes in foreign exchange rate on cash and cash equivalents</b>		<b>15</b>	
<b>5. Net increase in cash and cash equivalents</b>		<b>(660)</b>	557
Add: Cash and cash equivalents at beginning of this period		1,785	1,228
<b>6. Cash and cash equivalents carrying forward</b>		<b>1,125</b>	1,785

Legal representative:  
**Wang Yidong**

Chief Accountant:  
**Ma Lianyong**

Controller:  
**Guo Wu**



# Statement of Changes in Shareholders' Equity

As of 31 December 2018 Prepared by: Angang Steel Company Limited Monetary unit: RMB million

Items	2018										
	Shareholders' equity attributable to shareholders of the parent company									Minority interests	Total of shareholders' equity
	Share capital	Capital reserve	Less: treasury stock	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Undistributed profit			
<b>1. Balance as of 31 Dec. 2017</b>	7,235	31,565		(3)	38	3,570		7,510		49,915	
Add: Changes of accounting policy				(247)				115		(132)	
Business combination under the common control											
Others											
<b>2. Balance as of 1 Jan. 2018</b>	7,235	31,565		(250)	38	3,570		7,625		49,783	
<b>3. Increase/decrease in 2018 ("-" represents loss)</b>		(2,868)		9	(19)	48		4,540		1,710	
(1) Total amount comprehensive income				9				6,266		6,275	
(2) Capital introduced or withdrawn by owners		(2,868)								(2,868)	
i. Capital introduced by owners											
ii. Capital introduced by other equity instrument holders											
iii. Others		(2,868)								(2,868)	
(3) Profit distribution						48		(1,726)		(1,678)	
i. Transfer to surplus reserve						48		(48)			
ii. Transfer to general risk reserve											
iii. Distribution to shareholders								(1,678)		(1,678)	
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											
(5) Special reserve					(19)					(19)	
i. Extracts of this period					70					70	
ii. Usage of this period					89					89	
(6) Others											
<b>4. Balance as of 31 Dec. 2018</b>	7,235	28,697		(241)	19	3,618		12,165		51,493	

# Statement of Changes in Shareholders' Equity (Continued)

As of 31 December 2018 Prepared by: Angang Steel Company Limited Monetary unit: RMB million



Items	2017									
	Shareholders' equity attributable to shareholders of the parent company									
	Share capital	Capital reserve	Less: treasury stock	Other comprehensive income	Special reserve	Surplus reserve	General risk reserve	Undistributed profit	Minority interests	Total of shareholders' equity
<b>1. Balance as of 31 Dec. 2016</b>	7,235	31,565		12	52	3,570		2,630		45,064
Add: Changes of accounting policy										
Business Combination under the common control										
Others										
<b>2. Balance as of 1 Jan. 2017</b>	7,235	31,565		12	52	3,570		2,630		45,064
<b>3. Increase/decrease in 2017 ("-" represents loss)</b>										
(1) total amount comprehensive income				(15)	(14)			4,880		4,851
(2) Capital introduced or withdrawn by owners										
i. Capital introduced by owners										
ii. Capital introduced by other equity instrument holders										
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										
(5) Special reserve					(14)					(14)
i. Extracts of this period					58					58
ii. Usage of this period					72					72
(6) Others										
<b>4. Balance as of 31 Dec. 2017</b>	7,235	31,565		(3)	38	3,570		7,510		49,915

Legal representative:  
**Wang Yidong**

Chief Accountant:  
**Ma Lianyong**

Controller:  
**Guo Wu**



# Notes to the Financial Statements

*For the year 2018 (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 18 March, 2019.

There are 20 subsidiaries within the scope of the consolidation, please refer to Note 8 interests in other entities, and of which 4 subsidiaries are newly established, and 2 subsidiaries 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.

# Notes to the Financial Statements (Continued)

*For the year 2018 (Expressed in million RMB unless otherwise indicated)*



## **3. STATEMENT ON COMPLIANCE WITH THE ENTERPRISE ACCOUNTING STANDARDS**

The Group declares that the Financial Report prepared by the Group is in compliance with requirements of Accounting Standards for Business Enterprise. These financial statements present truly, accurately and completely the financial position of the Group as of December 31, 2018, the financial performance and cash flow of the Group for the year. In addition, these financial statements also comply with, in all material respects, the disclosure requirements of “Regulation on disclosure of information of public listed companies, No. 15: General Requirements for Financial Reports”, revised by the China Securities Regulatory Commission (CSRC) in 2014.

## **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(27), Significant accounting judgments and estimates.

### **1. Accounting period**

The Group’s fiscal year is the calendar year that starts from January 1 and 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.



# Notes to the Financial Statements (Continued)

*For the year 2018 (Expressed in million RMB unless otherwise indicated)*

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

### 4. Accounting treatment of business combinations

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

#### (1) The business combinations under common control

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

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

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

# Notes to the Financial Statements (Continued)

*For the year 2018 (Expressed in million RMB unless otherwise indicated)*



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

### 4. Accounting treatment of business combinations (Continued)

#### (2) 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.

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.





# Notes to the Financial Statements (Continued)

*For the year 2018 (Expressed in million RMB unless otherwise indicated)*

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

### 5. Methods for preparation of consolidated financial statements

#### (1) 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.

#### (2) 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 31 December 2017s 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 31 December 2017s 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.

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



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

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

#### (2) Preparation of consolidated financial statements (Continued)

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

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

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

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

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



# Notes to the Financial Statements (Continued)

*For the year 2018 (Expressed in million RMB unless otherwise indicated)*

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

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

The equity method is adopted for the investment of the joint venture, please refers to Note 12(2)② Long-term equity investments accounted by equity method.

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

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

When the Company transacts with a joint operation in which the Company is a joint operator, such as a sale or contribution assets, (The assets do not constitute as business, similarly hereinafter).The profit or loss resulting from the transactions is recognized only to the extent of the other parties' interests in the joint operation; When the Company transacts with a joint operation in which the Company is a joint operator, such as a purchase of assets, the Company does not recognize its share of the profit or loss until it resells those assets to a third party. A loss shall be recognized in the full amount of the sale or contribution of assets, and of the purchase of the assets from the joint operation in accordance with "ASBE-No.8-assets impairment" and other provisions.

### **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.

# Notes to the Financial Statements (Continued)

*For the year 2018 (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

#### (1) 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.

#### (2) Translation of foreign monetary items and foreign non-monetary items

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

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

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



# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

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

### 9. Financial assets and liabilities

Financial assets and liabilities are recognized when the Group becomes one party under the financial instrument contract.

#### (1) Financial assets

##### 1) Classification, confirmation basis and measurement method of financial assets

The Group classifies financial assets based on the business model of managing financial assets and the contractual cash flow characteristics of financial assets. Financial assets will be classified as Financial assets measured at amortized cost, Financial assets measured at fair value through changes in other comprehensive income, Financial assets measured at fair value through profit or loss.

The Group measures financial assets at amortised cost if both of the following conditions are met:

- ① The financial asset is held within a business model with the objective to hold the financial assets in order to collect contractual cash flows;
- ② The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Such financial assets are initially measured at fair value, and related transaction costs are included in the initial recognition amount; they are subsequently measured at amortized cost. Except for those designated as hedged items, the difference between the initial amount and the amount due is amortized in accordance with the effective interest method. Amortisation, impairment, exchange gains and losses, and gains or losses arising from derecognition are recognised in profit or loss.

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



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

### 9. Financial assets and liabilities (Continued)

#### (1) Financial assets (Continued)

##### 1) Classification, confirmation basis and measurement method of financial assets (Continued)

The Group measures financial assets at fair value through other comprehensive income if both of the following conditions are met:

- ① The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling;
- ② The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such financial assets are initially measured at fair value, and related transaction costs are included in the initial recognition amount. Except for those designated as hedged items, such financial assets, other than credit impairment losses or gains, foreign exchange revaluation and interest on the financial assets calculated according to the effective interest method, are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to profit or loss.

The Group designates non-tradable equity instrument investments as financial assets measured at fair value through other comprehensive income. Once the designation is made, it cannot be revoked. The non-trading equity instrument investment designated by the Group at fair value through profit or loss is recognised initially at fair value. related transaction costs are included in the initial recognition amount. Except for the acquisition of dividends (other than the recovery of investment costs), the other related gains and losses (including exchange gains and losses) are included in other comprehensive income and are not subsequently transferred to the current profits and losses.



# Notes to the Financial Statements (Continued)

*For the year 2018 (Expressed in million RMB unless otherwise indicated)*

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

### 9. Financial assets and liabilities (Continued)

#### (1) Financial assets (Continued)

- 1) Classification, confirmation basis and measurement method of financial assets (Continued)

The financial assets, other than the financial assets measured at amortised or fair value through other comprehensive income, are measured at fair value through profit and loss. Those financial assets are initially measured at fair value, and related transaction costs are directly recognised in profit or loss. The gains or losses on the financial assets are included in the current profits and losses.

The contingent consideration recognized by the Group in the business combinations not under common control constitutes financial assets, which are classified as financial assets measured at fair value through profit or loss.

At the time of initial recognition, if the accounting mismatch can be eliminated or significantly reduced, the Group can arbitrarily designate financial assets that should be measured at amortized cost or measured at fair value through other comprehensive income as the financial assets that are measured at fair value through profit and loss.

When the Group changes its business model of managing financial assets, it reclassifies all affected financial assets.

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



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

### 9. Financial assets and liabilities (Continued)

#### (1) Financial assets (Continued)

##### 1) Classification, confirmation basis and measurement method of financial assets (Continued)

The interest income on a financial asset shall be recognized based on the effective interest rate method. The Interest income is calculated by multiplying the book value of a financial asset by the effective interest rate, except the following situations:

- ① For a purchased or derived financial asset with credit impairment, the Group shall, starting from the initial recognition, determine its interest income by multiplying the amortized cost of the financial asset by the adjusted effective interest rate due to credit impairment.
- ② For a purchased or derived financial asset which does not initially suffer credit impairment but has credit impairment in subsequent periods, the Group shall determine its interest income by using the amortized cost of the financial assets multiple the effective interest rate in subsequent periods.

##### 2) Confirmation basis and measurement method of financial asset transfer

The Group shall derecognize a financial asset when, and only when one of the following conditions is met:

- ① the contractual rights to the cash flow from the financial asset expire,
- ② the Group transfers substantially all the risks and rewards of the ownership of the financial asset;
- ③ the Group neither transfers nor retains substantially all the risks and rewards of the ownership of the financial asset, and it has not retained the control of the financial asset.





# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

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

### 9. Financial assets and liabilities (Continued)

#### (1) Financial assets (Continued)

#### 2) Confirmation basis and measurement method of financial asset transfer (Continued)

On derecognition of a financial asset in its entirety, the difference between:

- a) the carrying amount (measured at the date of derecognition); and
- b) the sum of the consideration received (including any new asset obtained less any new liability assumed) and the cumulative gain or loss, resulting from the changes of fair value of the financial asset, recorded in other comprehensive income (the contractual terms of the financial asset give rise on specified dated to cash flows that are solely payments of principal and interest on the principal amount outstanding);

shall be recognized in profit and loss.

If a part of a financial asset is transferred and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the entire financial asset shall be allocated between the part continued to be recognized and the part that is derecognized, on the basis of the relative fair values of those parts on the date of the transfer. The difference between:

- a) the carrying amount (measured at the date of derecognition) allocated to the part derecognized; and
- b) the sum of the consideration received for the part derecognized (including any new asset obtained less any new liability assumed) and the cumulative gain or loss for the part derecognized, resulting from the changes of fair value of the financial asset, recorded in other comprehensive income (the contractual terms of the financial asset give rise on specified dated to cash flows that are solely payments of principal and interest on the principal amount outstanding);

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



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

### 9. Financial assets and liabilities (Continued)

#### (1) Financial assets (Continued)

##### 2) Confirmation basis and measurement method of financial asset transfer (Continued)

shall be recognized in profit and loss on derecognition of the investments in equity instruments not held for trade designated as financial assets by the Group, all the accumulated gains or losses recognized in other comprehensive income account shall be transferred into retained earning account.

#### (2) Financial Liabilities

##### 1) Classification, confirmation basis and measurement method of financial liabilities

The financial liabilities of the Group measured initially are classified as financial liabilities at fair value through profit or loss and other financial liabilities.

Financial liabilities measured at fair value through gain and loss include trading financial liabilities and designated financial liabilities measured at fair value through gain and loss on initial recognition(The relevant classification is based on the disclosure of the financial assets classification basis). Subsequent measurement is based on fair value. Gains or losses arising from changes in fair value and dividends and interest expense related to the financial liabilities are recognised in profit or loss.



# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

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

### 9. Financial assets and liabilities (Continued)

#### (2) Financial Liabilities (Continued)

- 1) Classification, confirmation basis and measurement method of financial liabilities (Continued)

Other financial liability (disclosure of specific financial liabilities based on actual conditions). Other financial liabilities are subsequently measured at amortized cost with effective rate. Except for the following, the Group classifies financial liabilities as financial liabilities measured at amortised cost:

- ① Financial liability measured at their fair value through profit or loss, which include trading financial liabilities (containing derivatives that are financial liabilities) and designated financial liabilities measured at fair value through gain and loss.
- ② Financial assets that do not meet the conditions for derecognition transfer or continue to be involved in the financial liabilities of the transferred financial assets.
- ③ Financial guarantee contracts that do not fall into the above 1 or 2 cases, and loan commitments that are not subject to the above 1 situation and are loans at a lower than market rate.

The Group, measured If the Group, as an acquirer, recognises a contingent consideration to form a financial liability in a business combination not under the common control, it is measured at fair value through profit or loss.

# Notes to the Financial Statements (Continued)

*For the year 2018 (Expressed in million RMB unless otherwise indicated)*



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

### 9. Financial assets and liabilities (Continued)

#### (2) Financial Liabilities (Continued)

##### 2) Derecognition

The Group shall remove a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished. An exchange between the Group and lender of debt instruments with substantially different terms shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, a substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the debtor) shall be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of a financial liability extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, shall be recognized in profit and loss.

#### (3) Method for determining the fair value of financial assets and financial liabilities

The Group measures the fair value of financial assets and financial liabilities at the prices of major markets. If there is no major market, the fair value of financial assets and financial liabilities is measured at the most favorable market price. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data and other supporting information are available to measure fair value.



# Notes to the Financial Statements (Continued)

*For the year 2018 (Expressed in million RMB unless otherwise indicated)*

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

### 9. Financial assets and liabilities (Continued)

- (3) Method for determining the fair value of financial assets and financial liabilities (Continued)

The input values used in fair value measurement are divided into three levels:

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

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

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

The Group prioritizes the use of the first level of input values and finally uses the third level of input values.

The Group's investments in equity instruments are measured at fair value. However, in limited circumstances, if the short-term information used to determine the fair value is insufficient, or the possible estimated amount of fair value is widely distributed, and the cost represents the best estimate of the fair value within the scope, the cost may represent appropriate estimates of fair value within this distribution.

- (4) Offset of financial assets and financial liabilities

The Group's financial assets and financial liabilities are presented separately in the balance sheet and are not offset. But financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



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

### 9. Financial assets and liabilities (Continued)

- (5) The distinction between financial liabilities and equity instruments and related treatment methods

The Group distinguishes financial liabilities and equity instruments according to the following principles:

- ① If the Group cannot unconditionally avoid fulfilling a contractual obligation by paying cash or other financial assets, the contractual obligation is consistent with the definition of financial liability. Some financial instruments, although not explicitly containing the terms and conditions of delivery of cash or other financial assets obligations, may indirectly form contractual obligations through other terms and conditions.
- ② If a financial instrument is required or can be settled by the Group's own equity instruments, it is necessary to consider the Group's own equity instruments used to settle the instrument, whether it is a substitute for cash or other financial assets, or for the holder of the instrument to enjoy the remaining interest in the assets of the issuer after deducting all liabilities. In the former case, the instrument is the issuer's financial liability; if it is the latter, the instrument is the issuer's equity instrument. In some cases, a financial instrument contract stipulates that the Group settles the financial instrument with its own equity instruments, where the amount of contractual rights or contractual obligations equals the amount of equity instruments available or to be delivered multiplied by the fair value at settlement. Whether the amount of the contractual rights or obligations is fixed, or totally or partly based on changes in variables other than the market price of the Group's own equity instruments (eg. interest rate, price of a commodity, or price of a financial instrument). The contract is classified as a financial liability.

When the Group classifies financial instruments (or their components) in the consolidated statements, it considers all the terms and conditions between the group members and the holders of financial instruments. If the group as a whole assumes the obligation to settle cash, other financial assets, or other means of causing the instrument to become a financial liability due to the financial instruments, the instrument should be classified financial liability.



# Notes to the Financial Statements (Continued)

*For the year 2018 (Expressed in million RMB unless otherwise indicated)*

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

### **9. Financial assets and liabilities (Continued)**

- (5) The distinction between financial liabilities and equity instruments and related treatment methods (Continued)

If the financial instrument or their components are classified as financial liabilities. Relevant interest, dividends (or dividends), gains or losses, and gains or losses arising from redemption or refinancing are recognised in profit or loss.

If the financial instrument or its components are equity instruments, it is treated as a change in equity and not recognized changes in the fair value of equity instruments when it is issued (including refinancing), repurchased, sold or cancelled.

### **10. Expected credit loss from receivables**

- (1) Notes receivable and accounts receivable

The method to confirm and account expected credit loss on notes receivable and accounts receivable.

The Group's receivables formed by transactions regulated by the "ASBE No. 14 – Revenue Standards" and which do not contain significant financing components are always measured at the amount of the expected credit losses for the entire duration of the period for their bad debt provision.

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



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

### 10. Expected credit loss from receivables (Continued)

#### (1) Notes receivable and accounts receivable (Continued)

The judgment of whether the credit risk has increased significantly since the initial confirmation. The Group determines whether the financial instrument credit risk has increased significantly by comparing the probability of default of the financial instrument at the initial recognition period and the probability of default of the instrument during the estimated duration of the instrument as determined on the balance sheet date. However, if the Group determines that a financial instrument has only a low credit risk on the balance sheet date, it can be assumed that the credit risk of the financial instrument has not increased significantly since the initial recognition. In general, if the overdue period exceeds 30 days, it indicates that the credit risk of financial instruments has increased significantly. Unless the Group obtains reasonable and evidence-based information without unnecessary additional costs or effort, it proves that even if the overdue period exceeds 30 days, the credit risk has not increased significantly since the initial confirmation. In determining whether the credit risk has increased significantly since the initial recognition, the Group considers reasonable and evidence-based information, including forward-looking information, that can be obtained without unnecessary additional costs or effort. The information considered by the Group includes:

- ① The debtor's failure to pay the principal and interest on the contractual maturity date;
- ② Serious deterioration of external or internal credit ratings (if any) of financial instruments that have occurred or are expected;
- ③ Serious deterioration of the debtor's operating results that have occurred or are expected;
- ④ Changes in existing or anticipated technical, market, economic or legal circumstances that will have a material adverse effect on the debtor's ability to repay the Group.





# Notes to the Financial Statements (Continued)

*For the year 2018 (Expressed in million RMB unless otherwise indicated)*

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

### 10. Expected credit loss from receivables (Continued)

#### (1) Notes receivable and accounts receivable (Continued)

For notes receivable and accounts receivable, the Group assesses whether credit risk has increased significantly on the basis of a single financial instrument or combination of financial instruments. When conducting an assessment based on a combination of financial instruments, the Group can classify financial instruments based on common credit risk characteristics, such as overdue information and credit risk ratings.

Measurement of Expected credit loss. The expected credit loss refers to the weighted average of the credit losses of financial instruments that are weighted by the risk of default. Credit loss refers to the difference between all contractual cash flows receivable from the contract by the Group at the original effective interest rate and all cash flows expected to be received, that is, the present value of all cash shortages.

The Group calculates the expected credit losses of the notes receivable and accounts receivable on the balance sheet date. If the expected credit losses are greater than the book value of the bad debt provision on notes receivable and accounts receivable, the Group recognizes the difference as impairment losses on notes receivable and accounts receivable. Instead, the Group recognizes the difference as an impairment gain.

The Group actually incurred credit losses and determined that the relevant notes receivable and accounts receivable could not be recovered. If it is approved for written-off and the amount is greater than the provision for loss, the difference shall be included in the current profit and loss.

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



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

### 10. Expected credit loss from receivables (Continued)

#### (2) Other receivables

The method to confirm and account expected credit loss on other receivables.

The Group measures the loss of other receivables according to the following circumstances:

- ① For the financial assets whose credit risk has not increased significantly since the initial recognition, the Group measures the loss according to the amount of expected credit losses in the next 12 months ;
- ② For the financial assets that have increased significantly since the initial recognition, the Group measures the loss according to the amount of expected credit losses for the entire duration of the financial instrument ;
- ③ For the purchased or originated financial assets that have suffered credit impairment, the Group measures the loss provision based on the amount of expected credit losses over the life.

For other receivable, the Group assesses whether credit risk has increased significantly on the basis of a single financial instrument or combination of financial instruments. When conducting an assessment based on a combination of financial instruments, the Group can classify financial instruments based on common credit risk characteristics, such as overdue information and credit risk ratings.

As for the method for assessing whether credit risk has increased significantly since initial recognition, forward-looking information for the current year, accounting estimation policy for measuring expected credit losses, and accounting treatment methods, please refer to Note IV.10(1) "Notes receivable and receivables".



# Notes to the Financial Statements (Continued)

*For the year 2018 (Expressed in million RMB unless otherwise indicated)*

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

### 11. Inventories

(1) 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.

(2) 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.

(3) 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.

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

# Notes to the Financial Statements (Continued)

*For the year 2018 (Expressed in million RMB unless otherwise indicated)*



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

### **11. Inventories (Continued)**

#### (5) Amortization of reusable materials

Reusable materials such as low-value consumables, packaging materials and other consumables shall be amortized by lumpsum, 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**

The long-term equity investment refers to the investment in which the company has control, joint control or significant influence over the invested entities. On the other hand, the long-term equity investments which not result in the control, jointly control or significantly influence on the invested entities, are treated as other equity instruments or financial assets held for trade and their accounting policies refer to Notes 4 and 9 “Financial Instruments”.

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



# Notes to the Financial Statements (Continued)

*For the year 2018 (Expressed in million RMB unless otherwise indicated)*

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

### 12. Long-term equity investment (Continued)

#### (1) 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.

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

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

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



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

### 12. Long-term equity investment (Continued)

#### (2) Subsequent measurement and recognition method of gains and losses

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

#### ① 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.

#### ② Long-term equity investments accounted by equity method

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



# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

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

### 12. Long-term equity investment (Continued)

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

② Long-term equity investments accounted by equity method (Continued)

In the equity method, the investment income and other comprehensive income are recognized in accordance with the proportion of the net profit or loss and other comprehensive income of the invested entity attributable to the investor and adjusting the carrying value of long-term equity investment; It shall be decreased of the carrying value of long-term equity investment according to the portion of the declaration of dividend or cash dividends; It shall adjust the carrying value of long-term equity investment and recognize in capital reserve if there is any other changes besides net profit or loss, other comprehensive income and profit distribution of the owner's equity. The invested entity's profit or loss shall be adjusted on the basis of the fair value of all identifiable assets of the invested entity at the acquisition date and adjusted to comply with the accounting policies and accounting periods adopted by the investor. All inter-Group unrealized profits from the jointly ventures and associates attributable to the Group shall be eliminated to recognize the investment income. If there are differences in the accounting policies and accounting period between the company and the invested company, the financial statements shall be adjusted according to the company, and the investment income and other comprehensive income shall be recognized. However, if the unrealized inter- Group loss constitutes impairment of the transferred assets, the losses shall not be adjusted. The investor shall recognize the net losses of the invested entity to the extent that the carrying value of the long-term equity investment and other long-term rights and interests which substantially exist in the net investment to the invested entity is reduced to zero. Furthermore, if the investor has the obligation to reimburse extra losses, the extra obligation shall be recognized as provision and be recognized in investment loss. If the invested entity realizes any net profits in the subsequent periods, the investor shall not recognize its attributable share of profits unless the unrecognized attributable share of loss has been restored.

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



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

### 12. Long-term equity investment (Continued)

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

② Long-term equity investments accounted by equity method (Continued)

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.

③ 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.

④ 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.





# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

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

### 12. Long-term equity investment (Continued)

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

④ Disposal of long-term equity investments (Continued)

If the equity method is still adopted after the disposal of the rest equity, it shall adopt the same accounting policies to other comprehensive income of the equity by proportion, as the invested company disposing the related assets and liabilities. For the other changes of the owner's equity except for the net income or losses, other comprehensive income and profit distribution, originally recognized in the equity shall be transferred into profit or loss by the percentage disposed.

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

### 13. Property, plant and equipment

(1) 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 are likely to flow into the company and its cost can be measured reliably. The fixed assets are initially measured only when considering the influence of the cost and the expected impact of the disposal expenses.

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



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

### 13. Property, plant and equipment (Continued)

#### (2) 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.

#### (3) 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".

#### (4) 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 but 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.



# Notes to the Financial Statements (Continued)

*For the year 2018 (Expressed in million RMB unless otherwise indicated)*

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

### **13. Property, plant and equipment (Continued)**

#### (5) Other explanations

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

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

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

### **14. Construction in progress**

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

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

### **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.

# Notes to the Financial Statements (Continued)

*For the year 2018 (Expressed in million RMB unless otherwise indicated)*



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

### 15. Borrowing costs (Continued)

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

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

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

#### (1) Intangible assets

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

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



# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

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

### 16. Intangible assets (Continued)

#### (1) Intangible assets (Continued)

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

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

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

#### (2) Research and development expenditure

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

- (i) It is technically feasible to get the intangible asset ready for intended use or for sale;
- (ii) It is intended to get the intangible asset ready for use or sale;

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



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

### 16. Intangible assets (Continued)

#### (2) Research and development expenditure (Continued)

- (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.

#### (3) 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.



# Notes to the Financial Statements (Continued)

*For the year 2018 (Expressed in million RMB unless otherwise indicated)*

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

### 17. Impairment of non-current assets (Continued)

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.

### 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.

# Notes to the Financial Statements (Continued)

*For the year 2018 (Expressed in million RMB unless otherwise indicated)*



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

### **18. Projected liabilities (Continued)**

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**

The Group shall recognize the revenue when and, only when, the Group fulfills its performance obligations in a contract and the customer in the contract take the control of the right of the good or service.

Where there are two or more performance obligations included in a contract, the Group shall, on the commencement of the contract, apportion the transaction price to each individual performance obligation in accordance with the relative proportion of each individual selling price of the good or service promised by each individual performance obligation and recognize the income according to the transaction price apportioned to each individual performance obligation.

The transaction price is the amount of consideration that the Group expects to be entitled to collect for the transfer of a good or service to its customers, excluding payments collected on behalf of third parties. The transaction price recognized by the Group does not exceed the accumulated revenue amount that has been recognized when the relevant uncertainties disappear and the amount is highly unlikely to be returned. The amount expected to return to the customer as a liability will not be included in the transaction price. Where there is a significant financing element in a contract, the Group shall recognize the transaction price based on the cash amounts the Group should receive at the time when the Group acquires the control of a good or service. The difference between the transaction price recognized and the contract consideration shall be amortized by the effective interest rate method during the contract period. On the contract commencement date, the interval under the contract between the anticipated date customers acquire the control over the good or service and the date customers make payments for the good or service does not exceed one year, the Group shall not consider the significant financing element in the contract to determine the transaction price.





# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

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

### 19. Revenue (Continued)

If one of the following conditions is satisfied, it is believed that the Group performs its obligations within a certain period of time; otherwise it is believed that the Group performs its obligations at a certain point of time:

- ① Customers are acquiring and are consuming the economic benefits arising from the Group's contract obligation performances while the Group is performing its contract obligations;
- ② Customers are able to control the good under construction by the Group;
- ③ The effects of the good or service produced by the Group in the course of obligation performance are irreplaceable and the Group has the right to collect payments for the part of the performance that has been completed so far throughout the contract period.

For the contract obligations performed within a certain period of time, the Group shall recognize the revenue in accordance with the progress of the obligation performance. Where the progress of obligation performance cannot be reasonably determined and the cost incurred by the group can be expected to be compensated, the revenue can be recognized according to the amount of cost incurred until the progress of obligation performance can be reasonably determined.

For the obligations performed at a certain point of the time, the Group shall recognize revenue at the point when customers gain control of the right of a good or service. In determining whether a customer has acquired the control of the right of a good or service, the Group will consider the following indications:

- ① the Group has the right to receive cash as the consideration of the good or service immediately;
- ② the Group has transferred the legal title of the goods to the customer;
- ③ the Group has transferred the real good to customers;
- ④ the Group has transferred the substantial risks and rewards of the ownership of the good or the ownership of the good to its customers;
- ⑤ customers have accepted the good or service.

# Notes to the Financial Statements (Continued)

*For the year 2018 (Expressed in million RMB unless otherwise indicated)*



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

### 19. Revenue (Continued)

A contract asset is recognized when the group has transferred a good or service to its customers and has the right to receive consideration. The impairment loss of a contract asset is recognized on the basis of expected credit losses. An account receivable is recognized when the group has, unconditionally, the right to collect consideration from customers. A contractual liability is recognized when the Group has the obligation to transfer a good or service to its customers in consideration of its account receivables.

### 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.



# Notes to the Financial Statements (Continued)

*For the year 2018 (Expressed in million RMB unless otherwise indicated)*

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

### 20. Government grants (Continued)

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

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

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

Government grants related to the daily activities of the Group are included in other income in accordance with the nature of the economic business; government grants not related to 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.

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



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

### 21. Deferred income tax asset and liability

#### (1) 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.

#### (2) 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.



# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

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

### 21. Deferred income tax asset and liability (Continued)

#### (2) Deferred income tax asset and liability (Continued)

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

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

#### (3) Income tax expenses

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

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

### 22. Leases

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

# Notes to the Financial Statements (Continued)

*For the year 2018 (Expressed in million RMB unless otherwise indicated)*



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

### 22. Leases (Continued)

#### (1) 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.

#### (2) 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.

#### (3) Finance lease to a lessee

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

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



# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

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

### 22. Leases (Continued)

#### (4) Finance lease as a lessor

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

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

### 23. Contract liabilities

Contract liabilities reflect the obligation of the Group to transfer goods to customers due to the consideration received or receivable by the Group. Before the Group transfers the goods to the customer, the customer has already paid the contract consideration or the Group has obtained the unconditional right to receive the contract consideration. The Group confirms the contract liability according to the amount received or receivable, at the earlier of the actual payment and the due payment due by the customer.

### 24. 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 rend 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.

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



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

### 24. Employee benefits (Continued)

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 an 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.

### 25. Changes of significant accounting policies and estimates

#### (1) Changes in accounting policies

##### 1) Main content and reasons for the change

The following amendments and interpretations on Accounting Standards for Business Enterprises are introduced and issued by Ministry of Finance in Year 2017, effectively on January 1, 2018:

Amendments to ASBE No.14 Revenue

Amendments to ASBE No.22 Financial Instruments-Recognition and Measurement

Amendments to ASBE No.23 Financial Instruments-Transfer of Financial Assets

Amendments to ASBE No.24 Hedging Accounting





# Notes to the Financial Statements (Continued)

*For the year 2018 (Expressed in million RMB unless otherwise indicated)*

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

### 25. Changes of significant accounting policies and estimates (Continued)

#### (1) Changes in accounting policies (Continued)

##### 1) Main content and reasons for the change (Continued)

Amendments to ASBE No.37 Financial Instruments-Presentation and Disclosure

Interpretations of Accounting Standards for Business Enterprises No.9 – Accounting for net Investment loss under equity method

Interpretations of Accounting Standards for Business Enterprises No.10 – Depreciation method based on income derived from the use of fixed assets

Interpretations of Accounting Standards for Business Enterprises No.11 – Amortization method based on income derived from the use of intangible assets

Interpretations of Accounting Standards for Business Enterprises No.12 – Whether the provider of key management team members' service and the recipient are related parties

Notices on the revision of the format of Financial Statements for General Business Enterprises for Fiscal Year 2018 (<2018> No.15 Issued by Ministry of Finance)

Notices on the revision of the format of Consolidated Financial Statements for Fiscal Year 2018 (<2019> No.1 Issued by Ministry of Finance)

The new accounting policies have been applied by the Group, effectively 1 January 2018.

# Notes to the Financial Statements (Continued)

*For the year 2018 (Expressed in million RMB unless otherwise indicated)*



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

### 25. Changes of significant accounting policies and estimates (Continued)

- (1) Changes in accounting policies (Continued)
  - 2) Major effects due to the application of new Accounting Standards for Business Enterprise
    - A: The new accounting standards for revenue replace the Accounting Standards for Enterprises No. 14 – Revenue issued by the Ministry of Finance in 2006 and the Accounting Standards for Enterprises No. 15 – Construction Contract (collectively referred to as the “old revenue standards”).

According to the old revenue standards, the Group recognizes the revenue at the point when the Group transfers the risks and rewards of the ownership of a good or service to its customers. The Group recognizes the revenue from the sale of a good when all the following conditions are satisfied simultaneously: 1. when the substantial risks and rewards of the ownership of a good have been transferred to the buyer, 2. the amount of revenue and related cost can be measured reliably, 3. the relevant economic benefits are likely to be received by the Group, 4. the Group has neither retained the right to manage ownership of the good nor the right to effectively control the good which have been sold. The revenue from providing labour services or construction contracts shall be recognized by the method of percentage of completion on the balance sheet date.

The new accounting standards for revenue require the Group to recognize revenue when the control of a good or service is transferred to its customers:



# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

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

### 25. Changes of significant accounting policies and estimates (Continued)

- (1) Changes in accounting policies (Continued)
  - 2) Major effects due to the application of new Accounting Standards for Business Enterprise (Continued)
    - A: (Continued)

The revenue of a good or service shall be recognized when the Group fulfilled its contractual obligations, which means a customer has acquired the control of the relevant good or service. When certain conditions are met, the Group shall be regarded to perform its obligations within a certain period of time, otherwise, it shall be regarded to perform its obligations at a certain point of time. Where there are two or more performance obligations included in a contract, the Group shall, on the commencement of the contract, apportion the transaction price to each individual performance obligation in accordance with the relative proportion of each individual selling price of the good or service promised by each individual performance obligation and recognize the income according to the transaction price apportioned to each individual performance obligation. The transaction price is the amount of consideration that the Group expects to be entitled to collect for the transfer of a good or service to its customers, excluding payments collected on behalf of third parties. The transaction price recognized by the Group does not exceed the accumulated revenue amount that has been recognized when the relevant uncertainties disappear and the amount is highly unlikely to be returned. Where there is a significant financing element in a contract, the Group recognizes the transaction price based on the cash amounts the Group should receive at the time when the Group acquires the control of a good or service. The difference between the transaction price recognized and the contract consideration shall be amortized by the effective interest rate method during the contract period.

# Notes to the Financial Statements (Continued)

*For the year 2018 (Expressed in million RMB unless otherwise indicated)*



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

### 25. Changes of significant accounting policies and estimates (Continued)

- (1) Changes in accounting policies (Continued)
  - 2) Major effects due to the application of new Accounting Standards for Business Enterprise (Continued)
    - A: (Continued)

The Group has changed its relative accounting policies in accordance with the standards set out in the new Accounting Standards for Business Enterprises – Revenue.

In accordance with the new accounting standards – Revenue, the Group shall report its contractual assets or contractual liabilities on balance sheet based on the relationship between the Group's performance obligations and customer's payments. Meanwhile, the new revenue accounting standards require the Group to disclose more information regarding revenue, such as relative accounting policies, significant judgments (i.e. measures for variable consideration, methods for allocating transaction prices to individual performance obligation, assumptions for estimating the price related to each individual performance obligation), information related to customer contracts (i.e. revenue recognized for current period, outstanding balance for contracts, performance obligations), asset information related to costs in the contracts).

The Group reviews the sources of income and the procedures to perform customer contracts to assess the impact of the new revenue standards on the Group's financial statements. The group's revenue is mainly from sales of steel and steel products, but the revenue is still recognized at the time when the goods are delivered to its customers. The adoption of new accounting standards has no significant impact on the group's presentation and disclosure of financial information.



# Notes to the Financial Statements (Continued)

*For the year 2018 (Expressed in million RMB unless otherwise indicated)*

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

### 25. Changes of significant accounting policies and estimates (Continued)

(1) Changes in accounting policies (Continued)

2) Major effects due to the application of new Accounting Standards for Business Enterprise (Continued)

B: Financial Instruments

The new financial instrument standards are revised based on, issued by the Ministry of Finance in 2006, Accounting Standards for Enterprises No. 22 – Recognition and Measurement of Financial Instruments, Accounting Standards for Enterprises No. 23 – Transfer of Financial Assets, Accounting Standards for Enterprises No. 24 – Hedge Accounting, and Accounting Standards for Enterprises No. 37 revised by the Ministry of Finance in 2014. – Disclosure of financial instruments (collectively known as “the old financial instruments Standards”).

The new financial instrument standards classify financial assets into three basic categories: (1) financial assets measured at amortized cost; (2) financial assets measured at fair value through other comprehensive income; and (3) financial assets measured at fair value through profits and losses. The new standard requires that the Group classifies a financial asset based on the Group’s business model for managing the asset and the contractual cash flow characteristics of the asset. The three categories of holdings-to-maturity investments, loans and receivables, and financial assets available for sale classified in the old Financial Instruments Standards are no longer existed.

Starting from January 1, 2018, the Group has only designated these financial assets or liabilities that are actively traded in the open market with quoted price as the financial assets or liabilities that are measured at fair value through profit and loss and no any other financial assets or liabilities have been designated as the financial assets or liabilities measured at fair value through profit and loss.

# Notes to the Financial Statements (Continued)

*For the year 2018 (Expressed in million RMB unless otherwise indicated)*



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

### 25. Changes of significant accounting policies and estimates (Continued)

(1) Changes in accounting policies (Continued)

2) Major effects due to the application of new Accounting Standards for Business Enterprise (Continued)

B: Financial Instruments (Continued)

The “incurred loss” model under the old financial instrument standards is replaced by the “expected credit loss” model introduced in the new financial instrument standards. The “expected credit loss” model requires the Group to continuously evaluate the credit risk of its financial assets, so the new “expected credit loss” model will result in an allowance for credit losses being recorded on financial assets regardless of whether there has been an actual loss event.

The “expected credit loss” model is applied to the following accounts:

- Financial assets measured at amortized cost;
- Contractual assets;
- Debt investments with fair value through other comprehensive income;
- Leases;

The “expected credit loss” model does not apply to investments in equity instruments and the adoption of new accounting standards has no significant impact on the group’s presentation and disclosure of financial information.



# Notes to the Financial Statements (Continued)

*For the year 2018 (Expressed in million RMB unless otherwise indicated)*

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

### 25. Changes of significant accounting policies and estimates (Continued)

(1) Changes in accounting policies (Continued)

2) Major effects due to the application of new Accounting Standards for Business Enterprise (Continued)

B: Financial Instruments (Continued)

The Group has retrospectively adjusted the classification and measurement of financial instruments (including impairments) in accordance with the new Financial Instruments standards, except for certain specific circumstances, and allocated the difference between the original book value of financial instruments and the new book value recorded on 1 January 2018 due to implement the new Financial Instruments standards into 31 December 2017 of other comprehensive income for year 2018. At the same time, the group did not adjust the comparative financial information.

C: Interpretations of Accounting Standards for Business Enterprises No.9–No.12

The Group has adjusted its accounting policies in accordance with the Interpretations of Accounting Standards for Business Enterprises No.9-No.12, which discusses the accounting treatments for net investment losses under the equity method, the depreciation and amortization methods for fixed and intangible assets, and the disclosure of related parties related to the services of the key managers.

The adoption of the new Interpretations of Accounting Standards for Business Enterprises No.9- No.12 has no significant impact on the group's presentation and disclosure of financial information.

# Notes to the Financial Statements (Continued)

*For the year 2018 (Expressed in million RMB unless otherwise indicated)*



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

### 25. Changes of significant accounting policies and estimates (Continued)

- (1) Changes in accounting policies (Continued)
  - 2) Major effects due to the application of new Accounting Standards for Business Enterprise (Continued)
    - D: Presentation and disclosure

The Group has prepared the interim financial report for year 2018 in accordance with the financial statement format stipulated in [2018] No.15 Notice issued by Ministry of Finance and retrospective adjusted the presentation of the relevant financial statements.

The presentation and disclosures are the followings:

Accounts which are affected on Consolidated Statement of Financial Position and Statement of Financial Position of Parent Company:





# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

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

### 25. Changes of significant accounting policies and estimates (Continued)

#### (1) Changes in accounting policies (Continued)

Items	Consolidated Balance Sheet					2018-1-1
	2017-12-31 before retroactively adjusting the new report format	Impact of consolidation under the common control	Impact of new report format changes	2017-12-31 after retroactively adjusting the new report	Impact of changes in accounting policies on new income and new financial instruments	
<b>Assets :</b>						
Notes receivable	9,693	1,196	(10,889)			
Accounts receivable	2,463	20	(2,483)			
Notes receivable and accounts receivable			13,372	13,372	1	<b>13,373</b>
Other receivables	261	5		266	(4)	<b>262</b>
Available-for-sale financial assets	719			719	(719)	
Other equity investment					506	<b>506</b>
Other non-current financial assets					39	<b>39</b>
Construction in progress	1,040	23	9	1,072		<b>1,072</b>
Construction material	2	7	(9)			
Deferred income tax assets	1,713	201		1,914	97	<b>2,011</b>
<b>Liability:</b>						
Notes payable	240	21	(261)			
accounts payable	8,436	662	(9,098)			
Notes payable and accounts payable		683	8,676	9,359		<b>9,359</b>
Advances from customers	5,581	1,066		6,647	(6,647)	
Contract liabilities					6,647	<b>6,647</b>
Other payables	1,544	1,110	131	2,785		<b>2,785</b>
interests payable	93		(93)			
Dividends payable		38	(38)			
Deferred income tax liabilities	6			6	52	<b>58</b>
<b>Shareholders' equity:</b>						
Other comprehensive income	(3)			(3)	(247)	<b>(250)</b>
Undistributed profit	7,604	(8,262)		(658)	115	<b>(543)</b>

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



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

### 25. Changes of significant accounting policies and estimates (Continued)

#### (1) Changes in accounting policies (Continued)

Items	Balance Sheet					2018-1-1
	2017-12-31 before retroactively adjusting the new report format	Impact of consolidation under the common control	Impact of new report format changes	2017-12-31 after retroactively adjusting the new report	Impact of changes in accounting policies on new income and new financial instruments	
<b>Assets :</b>						
Notes receivable	9,632		(9,632)			
Accounts receivable	3,121		(3,121)			
Notes receivable and accounts receivable			12,753	12,753		<b>12,753</b>
Other receivables	258			258	(3)	<b>255</b>
Available-for-sale financial assets	719			719	(719)	
Other equity investment					506	<b>506</b>
Other non-current financial assets					39	<b>39</b>
Construction in progress	947		2	949		<b>949</b>
Construction material	2		(2)			
Deferred income tax assets	1,648			1,648	97	<b>1,745</b>
<b>Liability:</b>						
Notes payable	240		(240)			
accounts payable	8,271		(8,271)			
Notes payable and accounts payable			8,511	8,511		<b>8,511</b>
Advances from customers	4,869			4,869	(4,869)	
Contract liabilities					4,869	<b>4,869</b>
Other payables	1,393		85	1,478		<b>1,478</b>
interests payable	85		(85)			
Dividends payable						
Deferred income tax liabilities	6			6	52	<b>58</b>
<b>Shareholders' equity:</b>						
Other comprehensive income	(3)			(3)	(247)	<b>(250)</b>
Undistributed profit	7,510			7,510	115	<b>7,625</b>



# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

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

### 25. Changes of significant accounting policies and estimates (Continued)

#### (1) Changes in accounting policies (Continued)

Accounts which are affected on Consolidated Income Statement and Income Statement of Parent Company:

Items	Consolidated Income Statement			
	2017 Before the change of accounting policy	Impact of consolidation under the common control	Impact of changes in accounting policies	2017 After the change of accounting policy
Administrative expenses	1,807	105	(323)	1,589
Research and development expenses		3	323	326

Items	Income Statement of Parent Company			
	2017 before the change of accounting policy	Impact of consolidation under the common control	Impact of changes in accounting policies	2017 after the change of accounting policy
Administrative expenses	1,758		(323)	1,435
Research and development expenses			323	323

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

### 26. Corrections of prior year errors

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

# Notes to the Financial Statements (Continued)

*For the year 2018 (Expressed in million RMB unless otherwise indicated)*



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

### 27. 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:

#### (1) Write-down of inventories

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

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

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



## Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

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

#### 27. Critical accounting judgments and estimates (Continued)

##### (2) Impairment of non-current assets

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

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

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

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

##### (3) 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.

# Notes to the Financial Statements (Continued)

*For the year 2018 (Expressed in million RMB unless otherwise indicated)*



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

### 27. Critical accounting judgments and estimates (Continued)

#### (4) 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.

#### (5) 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.

#### (6) Early retirement pension and supplementary social pension

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



# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

## 5. TAXATION

### Main taxes and tax rates

Type of tax	Specific tax rate
Value added tax ("VAT")	Output VAT is calculated based on taxable income, according to the applicable tax rate, and deducting the VAT from the difference after deduction of input tax in current period
City construction and Education surtax	Paid circulating tax: 7%, 3%, 2%
Enterprise income tax	Taxable income: 25%
Custom duty	FOB: 5%–15%
Environmental protection tax	Atmospheric pollutants: according to the pollution equivalent amount of the pollutant discharge amount*1.2; Water pollutants: the pollution equivalent amount of the pollutant discharge amount *1.4; Solid waste: according to the discharge of solid waste *25; Noise: Over-standard noise synthesis coefficient *350, 700, 2800 or 1400.

## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unless otherwise specified, the current year refers to the year 2018, last year refers to the year 2017.

### 1. Cash and cash equivalents

Items	31 December	1 January 2018/ 31 December
	2018	2017
Cash		
Bank deposits	2,015	2,439
Other cash balance	139	231
Total	2,154	2,670

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 2. Financial assets at fair value through profit or loss

<b>Items</b>	31 December 2017
Future contract	7
Total	7

### 3. Derivative financial assets

<b>Items</b>	31 December 2018	1 January 2018
Future contract	1	7
Total	1	7

### 4. Notes receivable and account receivable

<b>Items</b>	31 December 2018	1 January 2018	31 December 2017
Notes receivables	7,184	10,891	10,891
Account receivables	2,460	2,482	2,481
Total	9,644	13,373	13,372





# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 4. Notes receivable and account receivable (Continued)

#### 4.1. Note receivable

##### (1) Classification of notes receivable

Items	31 December	1 January 2018/ 31 December
	2018	2017
Bank Acceptance Notes	6,837	9,908
Commercial Acceptance Notes	347	983
Total	7,184	10,891

##### (2) Notes receivable of the Company pledged at the end of the year

Items	Pledged Notes by End of 31 December
	2018
Bank Acceptance Notes	261
Total	261

*Note:* The group has pledged notes receivable which values RMB261 million to the bank to gain the short-term loan of RMB250 million, of which the pledge period is from January 25, 2018 to January 24, 2019.

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 4. Notes receivable and account receivable (Continued)

#### 4.1. Note receivable (Continued)

- (3) 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	25,455	
Commercial Acceptance Notes	603	
Total	26,058	

- (4) No notes receivable were transferred to accounts receivable due to insolvency of the issuer as of December 31, 2018.

#### 4.2. Accounts receivable

- (1) Classification of Accounts Receivable

Items	31 December 2018				Net Book Value
	Book Value		Bad Debt Provision		
	Amount	Percentage (%)	Amount	Percentage (%)	
Accounts receivable subject to separate assessment for bad debts provision	83	3.26	82	98.80	1
Account receivable for which bad debt is prepared based on group combination including: Risk-free group combination	2,460	96.74	1	0.04	2,459
Risk group combination on the basis of aging-matrix	828	32.56			828
Total	2,543	100.00	83	3.26	2,460



# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 4. Notes receivable and account receivable (Continued)

#### 4.2. Accounts receivable (Continued)

##### (1) Classification of Accounts Receivable (Continued)

Items	1 January 2018				
	Book Value		Bad Debt Provision		Net Book Value
	Amount	Percentage (%)	Amount	Percentage (%)	
Accounts receivable subject to separate assessment for bad debts provision	68	2.66	67	98.53	1
Account receivable for which bad debt is prepared based on group combination including: Risk-free group combination	2,489	97.34	8	0.32	2,481
Risk group combination on the basis of aging-matrix	949	37.13			949
	1,540	60.21	8	0.52	1,532
<b>Total</b>	<b>2,557</b>	<b>100.00</b>	<b>75</b>	<b>2.93</b>	<b>2,482</b>

Items	31 December 2017				
	Book Value		Bad Debt Provision		Net Book Value
	Amount	Percentage (%)	Amount	Percentage (%)	
Accounts receivable with amounts that are individually significant and subject to separate assessment for bad debts provision	2,173	84.98	66	3.04	2,107
Account receivable for which bad debt is prepared based on group combination	20	0.78	9	45.00	11
Accounts receivable with amounts that are individually insignificant and subject to separate assessment for bad debts provision	364	14.24	1	0.27	363
<b>Total</b>	<b>2,557</b>	<b>100.00</b>	<b>76</b>	<b>2.97</b>	<b>2,481</b>

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 4. Notes receivable and account receivable (Continued)

#### 4.2. Accounts receivable (Continued)

- (2) Accounts receivable subject to separate assessment for bad debts provision

Debtors	31 December 2018			reason
	Book Value	Bad Debt		
		Provision	Percentage (%)	
Anshan Zhongyou Tianbao Steel Tube Co., Ltd.	67	66	99	Business is in trouble. It does not have repayment ability
Dongbei Special Steel Group Dalian material trading Co., Ltd	15	15	100	The company has gone into liquidation
Other	1	1	100	The production line is discontinued etc.
<b>Total</b>	<b>83</b>	<b>82</b>	<b>-</b>	<b>-</b>

- (3) Accounts Receivable for which bad debts prepared based on aging-matrix risk group combination

Aging	31 December 2018			1 January 2018		
	Book Value	Bad Debt		Book Value	Bad Debt	
		Provision	Percentage (%)		Provision	Percentage (%)
Within 1 year	1,625	0		1,521		0
1 to 2 years	5	3.2		3		3.2
2 to 3 years	1	9.9		15	7	49.9
3 to 4 years		28.9				28.9
4 to 5 years		37.7				37.7
Over 5 years	1	1	100.00	1	1	100.00
<b>Total</b>	<b>1,632</b>	<b>1</b>	<b>-</b>	<b>1,540</b>	<b>8</b>	<b>-</b>



# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 4. Notes receivable and account receivable (Continued)

#### 4.2. Accounts receivable (Continued)

##### (4) Accounts Receivable classified by aging

<b>Aging</b>	<b>31 December 2018</b>	1 January 2018
Within 1 year	<b>2,402</b>	2,432
1 to 2 years	<b>17</b>	20
2 to 3 years	<b>17</b>	32
3 to 4 years	<b>32</b>	72
4 to 5 years	<b>74</b>	
Over 5 years	<b>1</b>	1
<b>Total</b>	<b>2,543</b>	2,557

##### (5) Bad debt provision at the end of the year

Type	31 December 2017	Changes in accounting policies	1 January 2018	Increase/Decrease			31 December 2018
				Bad debt provision	Reverse	Resale or verification	
accounts receivable	76	-1	75	9		1	<b>83</b>

##### (6) Accounts receivable written off this year

<b>Items</b>	<b>Write-off</b>
Anshan Huafeng Refractory Material Co., Ltd.	1

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 4. Notes receivable and account receivable (Continued)

#### 4.2. Accounts receivable (Continued)

- (7) 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 RMB1,184 million, which accounted for 46.56% of the closing balance of the total accounts receivable. The closing balance of corresponding bad debt provision amounted to 0.

### 5. Prepayments

- (1) Prepayment classified by aging

Aging	31 December 2018		1 January 2018/ 31 December 2017	
	Balance	Percentage (%)	Balance	Percentage (%)
Within 1 year	1,382	98.16	1,110	99.02
1 to 2 years	22	1.56	8	0.71
2 to 3 years	4	0.28		
Over 3 years			3	0.27
Total	1,408	100.00	1,121	100.00

- (2) The condition of prepayment of the top five debtors by the balances at the end of the period

The prepayment balance of the top five debtors is RMB1,002 million in total, accounting for 71.16% of the prepayment balance at the end of the year.



# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 6. Other account receivables

Items	31 December 2018	1 January 2018	31 December 2017
Interest receivable			
Dividend receivable			
Other	50	262	266
Total	50	262	266

#### 6.1. The condition of Other Accounts Receivable

##### (1) Classification of Other Accounts Receivable

Items	31 December 2018				Net Book Value
	Book Value		Bad Debt Provision		
	Amount	Percentage (%)	Amount	Percentage (%)	
Other accounts receivable subject to separate assessment for bad debts provision	9	14.06	9	100.00	
Other account receivable for which bad debt is prepared based on group combination	55	85.94	5	9.09	50
including: Risk-free group combination	33	51.56			33
Risk group combination on the basis of aging-matrix	22	34.38	5	22.73	17
Total	64	100.00	14	21.88	50

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 6. Other account receivables (Continued)

#### 6.1. The condition of Other Accounts Receivable (Continued)

##### (1) Classification of Other Accounts Receivable (Continued)

Items	1 January 2018				
	Book Value		Bad Debt Provision		Net Book Value
	Amount	Percentage (%)	Amount	Percentage (%)	
Other accounts receivable subject to separate assessment for bad debts provision	68	2.66	67	98.53	1
Other account receivable for which bad debt is prepared based on group combination	276	100.00	14	5.09	262
including: Risk-free group combination	216	78.18			216
Risk group combination on the basis of aging-matrix	60	21.82	14	23.33	46
<b>Total</b>	<b>276</b>	<b>100.00</b>	<b>14</b>	<b>5.09</b>	<b>262</b>

Items	31 December 2017				
	Book Value		Bad Debt Provision		Net Book Value
	Amount	Percentage (%)	Amount	Percentage (%)	
Other accounts receivable with amounts that are individually significant and subject to separate assessment for bad debts provision	234	84.73			234
Other account receivable for which bad debt is prepared based on group combination	15	5.45	10	66.67	5
Accounts receivable with amounts that are individually insignificant and subject to separate assessment for bad debts provision	27	9.82			27
<b>Total</b>	<b>276</b>	<b>100.00</b>	<b>10</b>	<b>3.64</b>	<b>266</b>





## Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

### 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 6. Other account receivables (Continued)

6.1. The condition of Other Accounts Receivable (Continued)

(2) Other Accounts Receivable classified by nature

<b>Type</b>	<b>31 December 2018</b>	31 December 2017
Petty cash	14	18
Angang Guangzhou Automobile Steel Co., Ltd. loans	33	213
Export tax rebate		21
The service fee of land acquisition	9	9
Other	8	15
<b>Total</b>	<b>64</b>	276

(3) Other Accounts Receivable classified by aging

<b>Aging</b>	<b>31 December 2018</b>	1 January 2018/ 31 December 2017
Within 1 year	43	254
1 to 2 years	1	8
2 to 3 years	7	
3 to 4 years		
4 to 5 years		
Over 5 years	13	14
<b>Total</b>	<b>64</b>	276

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 6. Other account receivables (Continued)

6.1. The condition of Other Accounts Receivable (Continued)

(4) Bad debt provision at the end of the year

Type	31 December 2017	Changes in accounting policies	1 January 2018	Increase/Decrease			31 December 2018
				Bad debt provision	Reverse	Resale or verification	
Other Accounts Receivable	10	4	14	1	1		14

(5) The condition of other accounts receivable of the top five debtors by the balances at the end of the period

The total amount of top five other accounts receivable according to closing balance of debtors of the Group for the year was RMB55 million, which accounted for 85.94% of the closing balance of the total other accounts receivable. The closing balance of corresponding bad debt provision amounted to RMB10 million.



# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 7. Inventory

#### (1) Classification of Inventory

Items	31 December 2018		
	Book Value	Inventory falling Price Reserves	Carrying Value
Raw materials	3,150	63	3,087
Work in progress	3,689	381	3,308
Finished goods	4,599	161	4,438
Goods shipped in transit			
Revolving materials	810	8	802
Spare parts	1,295	49	1,246
Materials in transit	199		199
Work in progress–outsourced	45		45
<b>Total</b>	<b>13,787</b>	<b>662</b>	<b>13,125</b>

Items	1 January 2018/31 December 2017		
	Book Value	Inventory falling Price Reserves	Carrying Value
Raw materials	3,251	70	3,181
Work in progress	3,292	409	2,883
Finished goods	3,989	202	3,787
Goods shipped in transit	23		23
Revolving materials	856	9	847
Spare parts	1,358	122	1,236
Materials in transit	284		284
Work in progress–outsourced	28		28
<b>Total</b>	<b>13,081</b>	<b>812</b>	<b>12,269</b>

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 7. Inventory (Continued)

#### (2) Changes in Inventory falling price reserves

Items	31 December 2017	Increment of	Decrement of	31 December 2018
		the year	the year	
		Inventory falling price reserves	Written Back	
Raw materials	70	164	171	63
Work in progress	409	193	221	381
Finished goods	202	77	118	161
Revolving materials	9		1	8
Spare parts	122	1	74	49
Total	812	435	585	662

*Note:* 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.



## Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

### 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 8. Other current assets

Item	31 December 2018	1 January 2018/ 31 December 2017
The amount of input tax to be deducted and certified	165	116
Input tax retained	361	184
Total	526	300

#### 9. Available-for-sale financial assets

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

Item	31 December 2018
Listed investment	39
including: Hong Kong	
Mainland	39
Non-listed investment	680
Total	719

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

31 December 2018			
Item	Book Balance	Impairment	Net Book Value
Equity Instruments Available for Sale	874	155	719
including: Measured at fair value	39		39
Measured at cost	835	155	680
Total	874	155	719

- (3) Available-for-sale financial assets measured at fair value at the end of the period

The Classification of Available-for-sale Financial Assets	Equity Instruments Available for Sale
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 2018 (Expressed in million RMB unless otherwise indicated)

## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

- (4) Available-for-sale financial assets measured at cost at the end of the period

The invested entity	Book Balance	Impairment provision	Net Book Value	Share Percentage (%)	Cash Dividend
WISDRI Engineering & Research Incorporation Limited Company ("WISDRI")	135		135	6	13
Tianjin Tiantie	185	155	30	5	
Heilongjiang Longmay Mining Group Co., Ltd. (hereinafter referred to as "Longmay Group")	245		245	1	
Anshan Falan Packing Material Co. Ltd. (hereinafter referred to as "Anshan Falan")	21		21	15	
Dalian Shipbuilding Industry Co., Ltd Shipyard Company (hereinafter referred to as "Dalian Shipyard")	151		151	15	
China Shipbuilding Industry Equipment and Materials Bayuquan Co., Ltd (hereinafter referred to as "China Shipbuilding")	10		10	10	
Dalian Shipbuilding Industry Group Steel Co., Ltd (hereinafter referred to as "Dalian Steel")	69		69	15	
Guoqi Automobile Lightweight (Beijing) Technology Research Institute Co., Ltd. (hereinafter referred to as "Guoqi Lightweight")	3		3	7	
Changsha Baosteel steel processing & Distribution Co., Ltd. (hereinafter referred to as "Changsha steel")	14		14	14	1
Shanghai Ouye Chemical Po Electronic Commerce Co., Ltd. (hereinafter referred to as "Shanghai Ouye")	2		2	10	
<b>Total</b>	<b>835</b>	<b>155</b>	<b>680</b>	<b>-</b>	<b>14</b>

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

- (4) Available-for-sale financial assets measured at cost at the end of the period (Continued)

*Note:* Since January 1, 2018, the Group has implemented the new Financial Instruments Standards. The Group has designated the investments in equity instruments originally classified as available for sale as financial assets measured at fair value through profit and loss and the changes of their fair value are recorded into profits and losses, as well as financial assets measured at fair value through other comprehensive income, and has presented them on the balance sheet as other investments in equity instruments and finance assets held for trade. For the financial assets held for trade is held for a long time period, these financial assets are reclassified as other non-current financial assets at the end of the financial period (see notes 6, 11 and 12).





# Notes to the Financial Statements (Continued)

For the year 2018 (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	1 January 2018/ 31 December 2017	Increase/Decrease		Investment income under the equity method	Other comprehensive Income Adjustment
		Increase	Decrease		
<b>1. Jointly venture</b>					
TKAS Auto Steel Company Limited ("ANSC-TKS")	737			114	
The iron and Steel shares – Dalian ship heavy industry steel processing Distribution Co. Ltd. ("ANSC – Dachuan")	228				
Guangzhou automobile Steel Changchun FAM Steel Processing and Distribution Group Limited ("Changchun FAM")	312			3	
	98		103	5	
Sub-total	1,375		103	122	
<b>2. Associated venture</b>					
Angang Group Finance Co., Ltd ("Angang Finance")	1,353			141	3
Anshan Anshan Iron Oxide Powder Co., Ltd. ("iron oxide powder company")				2	
Guangzhou Nansha Steel Logistical Co., Ltd. ("Nansha Logistical")	58			-2	
Anshan Iron and steel solid gold (Hangzhou) metal materials Co., Ltd. ("AISSG")	98			1	
Guangzhou Bao Steel Processing Co. ("Guangzhou steel")	65			23	
Meizhou GAC Automobile Spring Co., Ltd. ("Meizhou Motor Company")		21		-3	
Chaoyang Zhong'an Water Co.,Ltd. ("Zhong'an Water")	32			2	
Sub-total	1,606	21		164	3
Total	2,981	21	103	286	3

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 10. Long-term equity investment (Continued)

Details of long-term equity investments (Continued)

The Invested Entity	Increase/Decrease			Closing Value	Closing Value of the Provision for Impairment
	Other Equity Changes	Declaration of Cash Dividends or Profits	Provision for impairment Loss		
<b>1. Cooperative enterprise</b>					
ANSC-TKS		(240)	(11)	600	
ANSC – Dachuan				228	
Guangzhou automobile Steel			(4)	311	
Changchun FAM minor total		(240)	(15)	1,139	
<b>2. Associated venture</b>					
Angang Finance iron oxide powder company		(121)		1,376	2
Nansha Logistical				56	
AISSG				99	
Guangzhou steel		(9)		79	
Meizhou Motor Company				18	
Zhong'an Water				34	
minor total		(130)		1,664	
Total		(370)	(15)	2,803	



## Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

### 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 11. Other investments in equity instruments

- (1) Details of other investments in equity instruments

The Invested Entity	Book Balance	
	31 December 2018	1 January 2018
WISDRI	351	340
Tianjin Tiantie		
Longmay Group	38	14
Anshan Falan	24	24
Dalian Shipyard	18	43
China Shipbuilding	5	5
Dalian Steel	63	65
Guoqi Lightweight	3	3
Changsha steel	13	10
Shanghai Ouye	2	2
Jindian (Hangzhou) Technology Co., Ltd. ("Jindian")	2	
Total	519	506

- (2) Analysis of Other equity instruments

Item	31 December 2018
Stock investment including: Hong Kong Mainland China	
Non-stock investment	519
Total	519

*Note:* The Group's Investments in equity instruments, without quoted price in the open market, are the investments that the Group plans to hold for a long time. Therefore, the Group designates them as financial assets measured at fair value and the changes of their fair value are recorded in other comprehensive income.

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 11. Other investments in equity instruments (Continued)

(3) Non-tradable investments in equity instruments current year

Item	Recognized dividend income current year	Accumulated gain	Accumulated loss	other comprehensive income transfer to retained earnings.	Designation Reason (measured at fair value and the changes of their value are recorded in other comprehensive income.)	Reason (other comprehensive income transfer to retained earnings)
WISDRI	6	217				
Tianjin Tiantie			(185)			
Longmay Group*			(207)			
Anshan Falan	2	3				
Dalian Shipyard			(133)			
China Shipbuilding			(5)			
Dalian Steel			(6)			
Guoqi Lightweight Changsha steel*	1		(3)			
Shanghai Ouye Jindian						
<b>Total</b>	<b>9</b>	<b>220</b>	<b>(539)</b>		<b>-</b>	<b>-</b>

### 12. Other non-current financial assets

Invested Entity	Book Balance	
	31 December 2018	1 January 2018
ZhuYe Group	35	39
<b>Total</b>	<b>35</b>	<b>39</b>



# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 13. Fixed assets

#### (1) Analysis of fixed assets

Item	Houses and Buildings	Machineries and Equipment	Others	Total
① Original Cost				
Balance at 1 January 2018/ 31 December 2017	31,837	77,323	5,632	114,792
Increase in the period	350	2,266	263	2,879
(1) Purchase	38		1	39
(2) Transform from projects under construction	477	2,032	231	2,740
(3) Increase from business combination	38	96		134
(4) Others	(203)	138	31	(34)
Decrease in the period	128	412	66	606
(1) Disposal or scrap	128	403	65	596
(2) Others		9	1	10
Balance at 31 December 2018	32,059	79,177	5,829	117,065
② Accumulated depreciation				
Balance at 1 January 2018/ 31 December 2017	10,832	45,226	4,644	60,702
Increase in current period	731	2,557	284	3,572
(1) Depreciation for current period	722	2,526	268	3,516
(2) Increase from business combination	13	43		56
(3) Others	(4)	(12)	16	
Decrease in current period	77	336	61	474
(1) Disposal or scrap	77	328	60	465
(2) Others		8	1	9
Balance at 31 December 2018	11,486	47,447	4,867	63,800

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 13. Fixed assets (Continued)

#### (1) Analysis of fixed assets (Continued)

Item	Houses and Buildings	Machineries and Equipment	Others	Total
③ Provision for impairment				
Balance at 1 January 2018/ 31 December 2017	539	2,532	144	3,215
Increase	(6)	6	1	1
(1) Provision for current period				
(2) Others	(6)	6	1	1
Decrease	5	10		15
(1) Dispose or scrap	5	10		15
(2) Others				
Balance at 31 December 2018	528	2,528	145	3,201
③ Book Value				
Book value at 31 December 2018	20,045	29,202	817	50,064
Book value at Balance at 1 January 2018/31 December 2017	20,466	29,565	844	50,875

#### (2) Temporarily idle fixed assets

Items	Cost	Accumulated Depreciation	Provision for impairment	Carrying Value	Notes
Houses and buildings					
Machineries and Equipment	13	13		0	
Transport					
Others					
Total	13	13		0	



## Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

### 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 13. Fixed assets (Continued)

- (3) There is no fixed assets leased in by financial lease at the end of the period.
- (4) Fixed assets leased out by operating lease

Type	31 December	1 January 2018/ 31 December
	2018	2017
Buildings and Plants	21	22
Machineries and Equipment	7	7
Total	28	29

#### 14. Construction in progress

Items	31 December	1 January 2018/ 31 December
	2018	2017
Construction in progress	1,447	1,063
Construction materials	11	9
Total	1,458	1,072

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 14. Construction in progress (Continued)

#### 14.1. Construction in progress

##### (1) Details of constructions in progress

Items	31 December 2018			1 January 2018/31 December 2017		
	Book balance	Impairment Provision	Book value	Book balance	Impairment Provision	Book value
Resource storage and operation center of Mountain Ling stockyard block ore pellet yard shed closed project	52		52			
The three area of the converter workshop environmental renovation project				109		109
4300 thick plate line new pre Straightening machine and cold straightening machine project	273		273	229		229
60 thousand m <sup>3</sup> /h oxygen generating unit project				167		167
Development guarantee condition engineering	41		41	40		40
Chemical Industry Department Coal Tar Processing Product Quality Upgrade and Variety Structure Adjustment Project	133		133			
New slab surface cleaning device project of No.3 Plant of Steelmaking Plant	64		64			
New 40,000 tons/year needle coke project of Chemical Industry Department	218		218			
Premium steel rope project	60		60	7		7
Bayuquan Iron and Steel Branch Intelligent Energy Control and Control Platform Project	112		112			
Bayuquan Project	60		60			
3800 medium plate project				119		119
Others	440	6	434	399	7	392
<b>Total</b>	<b>1,453</b>	<b>6</b>	<b>1,447</b>	<b>1,070</b>	<b>7</b>	<b>1,063</b>





# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 14. Construction in progress (Continued)

#### 14.1. Construction in progress (Continued)

##### (2) Changes in major constructions in progress

Items	Items Budget	1 January 2018/31 December 2017	Increase of the period	Transferred into fixed assets	Other decrease	Closing balance
Resource storage and operation center of Mountain Ling stockyard block ore pellet yard shed closed project	90		52			52
The three area of the converter workshop environmental renovation project	1,000	109	1	110		
4300 thick plate line new pre straightening machine and cold straightening machine project	325	229	45			274
60 thousand m3/h oxygen generating unit project	387	167	8	175		
Development guarantee condition engineering	42	40	1			41
Chemical technology coal tar processing product quality upgrade and variety structure adjustment project	150		133			133
New slab surface cleaning device project of No.3 Plant of Steelmaking Plant	148		64			64
New 40,000 tons/year needle coke project of Chemical Industry Department	450		218			218
Premium steel rope project	135	7	53			60
Bayuquan Project	120		112			112
Reconstruction project of adding activated carbon flue gas desulfurization and denitration device to the squid ring No. 1 sintering machine	230		60			60
3800 medium plate project	1,900	119	58	177		
Others	14,261	392	2,331	2,278	12	433
<b>Total</b>		<b>1,063</b>	<b>3,136</b>	<b>2,740</b>	<b>12</b>	<b>1,447</b>

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 14. Construction in progress (Continued)

#### 14.1. Construction in progress (Continued)

##### (2) 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
Resource storage and operation center of Mountain Ling stockyard block ore pellet yard shed closed project	1	1	4.34	57	95	Self-financing
The three area of the converter workshop environmental renovation project	36			99	100	Self-financing
4300 thick plate line new pre straightening machine and cold straightening machine project				84	99	Self-financing and government financing
60 thousand m3/h oxygen generating unit project	21			82	100	Self-financing
Development guarantee condition engineering				97	99	Self-financing and government financing
Chemical technology coal tar processing product quality upgrade and variety structure adjustment project	2	2	4.34	87	95	Self-financing
New slab surface cleaning device project of No.3 Plant of Steelmaking Plant	1	1	4.34	42	99	Self-financing
New 40,000 tons/year needle coke project of Chemical Industry Department				48	80	Self-financing
Premium steel rope project				44	80	Self-financing
Bayuquan project				93	93	Self-financing
Reconstruction project of adding activated carbon flue gas desulfurization and denitration device to the squid ring No. 1 sintering machine				26	50	Self-financing
3800 medium plate project	572			94	100	Self-financing
Others	402	10	4.34/4.66	61	61	Self-financing
<b>Total</b>	<b>1035</b>	<b>14</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>



# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 14. Construction in progress (Continued)

#### 14.1. Construction in progress (Continued)

##### (3) Provision of Impairment

Items	1 January 2018/ 31 December 2017	Increase in Current Period Impairment Recognized	Decrease in Current Period Reversal	31 December 2018
	Chaoyang Iron and Steel Steel Slag Comprehensive Treatment Project	1		1
Chaoyang Iron and Steel Coking Phenol Cyanide Wastewater Reconstruction Project				
Chaoyang Iron and Steel Hot Rolling Pickling Board Production Line Project	6			6
Energy Technology Zero Solid Engineering		1	1	
<b>Total</b>	<b>7</b>	<b>1</b>	<b>2</b>	<b>6</b>

#### 14.2. Construction materials

Items	31 December 2018	1 January 2018/ 31 December 2017
Special material		
Special equipment	11	9
<b>Total</b>	<b>11</b>	<b>9</b>

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 15. Intangible assets

Items	Land Use Right	Non- Patented Technology	Software	Trademark Right	Total
<b>1. Cost</b>					
(1) 31 December 2017/ 1 January 2018	8,305	42	61	5	8,413
(2) Increase:	14		13		27
① Purchase			13		13
② Internal R&D					
③ Enterprise merger	14				14
④ Others					
(3) Decrease:					
① Disposition					
② Enterprise merger					
(4) The balance at the end of the year	8,319	42	74	5	8,440
<b>2. Accumulative amortization</b>					
(1) The balance at the beginning of the year	1,849	42	53	5	1,949
(2) Increase:	172		4		176
① Counting and Drawing	169		4		173
② Enterprise merger	3				3
(3) Decrease					
① Disposition					
② Enterprise merger					
(4) 31 December 2018	2,021	42	57	5	2,125
<b>3. Provision for impairment</b>					
(1) 31 December 2017					
(2) Increase:					
① Counting and Drawing					
(3) Decrease					
① disposition					
(4) 31 December 2018					
<b>4. Book value</b>					
(1) 31 December 2018	6,298		17		6,315
(2) 31 December 2017	6,456		8		6,464



## Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

### 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 16. Deferred income tax assets and deferred income tax liabilities

##### (1) Recognized deferred income tax assets

Items	31 December 2018		1 January 2018		31 December 2017	
	Deferred income tax assets	Temporary difference or deductible loss	Deferred income tax assets	Temporary difference or deductible loss	Deferred income tax assets	Temporary difference or deductible loss
Provision for impairment	196	783	248	995	247	990
Deductible loss	172	692	1,272	5084	1,272	5,084
Unrealized inter-group profit	25	100	71	283	71	283
Termination benefits	46	186	60	240	60	240
Accumulated depreciation of fixed assets	32	127	32	129	32	129
Salaries payable	31	122	47	189	47	189
Employee training expenses	10	40	13	54	13	54
Deferred income	123	494	136	543	136	543
Profit or loss arising from fair value changes of other equity instruments	135	539	96	381		
Changes for fair value of financial assets (liabilities) held for trade	1	3				
Others	10	40	36	144	36	145
<b>Total</b>	<b>781</b>	<b>3,126</b>	<b>2,011</b>	<b>8,042</b>	<b>1,914</b>	<b>7,657</b>

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 16. Deferred income tax assets and deferred income tax liabilities (Continued)

(2) Recognized deferred income tax liabilities

Items	31 December 2018		1 January 2018		31 December 2017	
	Deferred Income Tax Liabilities	Taxable Temporary Difference	Deferred Income Tax Liabilities	Taxable Temporary Difference	Deferred Income Tax Liabilities	Taxable Temporary Difference
Valuation of trading financial instruments and derivative financial instruments – conversion of equity	17	68				
Changes in fair value of available-for-sale financial assets included in other comprehensive income						2
Capitalized borrowing costs	3	10	6	24	6	24
Profit or loss arising from fair value changes of other equity instruments	54	220	52	208		
Unrealized internal-group profit	3	12				
<b>Total</b>	<b>77</b>	<b>310</b>	<b>58</b>	<b>232</b>	<b>6</b>	<b>26</b>



## Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

### 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 16. Deferred income tax assets and deferred income tax liabilities (Continued)

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

Items	31 December 2018	1 January 2018/ 31 December 2017
Deductible loss		1,228
Total		1,228

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

Items	31 December 2018	1 January 2018/ 31 December 2017
2017		
2018		
2019		644
2020		584
2021		
2022		5
Total		1,233

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 17. Other non-current assets

Items	31 December 2018	1 January 2018/ 31 December 2017
Prepayment for Construction Projects	1,141	856
Total	1,141	856

### 18. Short-term loans

Items	31 December 2018	1 January 2018/ 31 December 2017
Pledged loans	250	200
Guaranteed loans	1,000	1,000
Credit loans	11,930	13,300
Total	13,180	14,500

*Note:* The guaranteed loans of the short-term loans are mainly used to replenish liquid capital, which is guaranteed by Angang group. The pledge of the pledged loans is the notes receivable, note 6(4).

### 19. Financial liabilities at fair value through profit or loss

Items	31 December 2017
Future contract	13
Total	13





# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 20. Derivative financial liabilities

<b>Items</b>	<b>31 December 2018</b>	1 January 2018
Future contract	3	13
Total	3	13

### 21. Notes payable and account payable

<b>Items</b>	<b>31 December 2018</b>	1 January 2018/ 31 December 2017
Notes payable	1,400	262
Account payable	7,663	9,097
Total	9,063	9,359

#### 21.1. Notes payable

<b>Items</b>	<b>31 December 2018</b>	1 January 2018/ 31 December 2017
Bank acceptance	1,400	262
Trade acceptance		
Total	1,400	262

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

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 21. Notes payable and account payable (Continued)

#### 21.2. Account payable

##### (1) Aging of account payable

Items	31 December 2018		1 January 2018/ 31 December 2017	
	Balance	Percentage	Balance	Percentage
Within 1 year	7,563	98.70	9,006	99.00
1 to 2 years	15	0.20	10	0.11
2 to 3 years	5	0.07	22	0.24
Over 3 years	80	1.03	59	0.65
<b>Total</b>	<b>7,663</b>	<b>100.00</b>	9,097	100.00

##### (2) Significant account payable aging over 1 year

Creditors	Balance owe	Aging
Tangyuan Tianyu Coal & Coke Energy Co., Ltd.	61	3-4year, More than 5 years
<b>Total</b>	61	-

### 22. Advances from customers

Items	31 December 2017
Selling of product	6,635
Others	12
<b>Total</b>	6,647



## Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

### 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 23. Contract liabilities

<b>Items</b>	<b>31 December 2018</b>	1 January 2018
Selling of product	<b>4,781</b>	6,635
Others	<b>14</b>	12
<b>Total</b>	<b>4,795</b>	6,647

#### 24. Employee benefits payable

(1) Employee benefits payable

<b>Items</b>	1 January 2018/ 31 December 2017	Increase	Decrease	<b>31 December 2018</b>
Short-term remuneration	114	3,748	3,771	<b>91</b>
After-service benefits defined contribution plans	134	730	864	
Termination benefits	117	282	307	<b>92</b>
<b>Total</b>	365	4,760	4,942	<b>183</b>

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 24. Employee benefits payable (Continued)

(2) The situation about short-term remuneration

Items	1 January	Increase	Decrease	31 December
	2018/ 31 December			2017
1. Salaries, bonus and allowance	46	2,804	2,815	35
2. Staff welfare			290	290
3. Social insurance	2	263	263	2
Including: Medical insurance	2	205	205	2
Staff and workers' injury insurance		54	54	
Maternity insurance		2	2	
Others		2	2	
4. Housing fund		259	259	
5. Labor union fee and staff training fee	66	63	75	54
6. Short paid absences				
7. The short-term profit sharing plan				
8. Others		69	69	
<b>Total</b>	<b>114</b>	<b>3,748</b>	<b>3,771</b>	<b>91</b>



## Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

### 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 24. Employee benefits payable (Continued)

##### (3) Defined Contribution Plans

Items	1 January 2018/ 31 December 2017	Increase	Decrease	31 December 2018
1. Basic pension insurance		550	550	
2. Unemployment insurance		13	13	
3. Occupational pension contribution	134	167	301	
Total	134	730	864	

#### 25. Taxes payable

Items	31 December 2018	1 January 2018/ 31 December 2017
	VAT	304
Environmental protection tax	20	
Resource tax	1	1
Corporate income tax	176	12
City maintenance and construction tax	9	27
Property tax	13	13
Land use tax	37	36
Individual income tax	9	12
Educational surcharges	6	19
Others	14	7
Total	589	495

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 26. Other payable

<b>Items</b>	<b>31 December 2108</b>	1 January 2018/ 31 December 2017
Interests payable	9	93
Dividend payable		38
Other payable	2,277	2,654
<b>Total</b>	<b>2,286</b>	2,785

#### 26.1. Interest payable

<b>Items</b>	<b>31 December 2018</b>	1 January 2018/ 31 December 2017
Staging interest maturity of long-term borrowings	7	8
Interest for corporate bonds	2	36
Others		49
<b>Total</b>	<b>9</b>	93

#### 26.2. Dividend payable

<b>Items</b>	<b>31 December 2018</b>	1 January 2018/ 31 December 2017
Others		38
<b>Total</b>		38



## Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

### 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 26. Other payable (Continued)

##### 26.3. Other payable

##### (1) Classification of other payable by nature

Items	31 December	1 January
	2018	2018/ 31 December 2017
Construction payable	827	265
Quality assurance	556	484
Performance assurance	220	146
Deposit for steel shelves	22	44
Freight charges	23	12
The special funds paid by Anshan Iron and Steel Group Company	337	328
Handling fee for payment of medium-term bills		18
Land use payable		29
Borrowing	81	998
Others	211	330
<b>Total</b>	<b>2,277</b>	2,654

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 26. Other payable (Continued)

#### 26.3. Other payable (Continued)

(2) Significant balances of other payable aging over 1 year

Creditors	Balance	Reason	Whether paid after balance sheet date
Acre Coking & Refractory (Dalian) Engineering Technology Corporation	33	Project quality assurance	No
Angang Group Engineering Technology Co., LTD	33	Project quality assurance	No
MCC heavy industry equipment Co., Ltd.	19	Project quality assurance	No
Air Liquide (Hangzhou) Co., Ltd.	16	Project quality assurance	No
Mitsubishi Hitachi Electric Gas Turbine Service (Nanjing) Co., Ltd.	15	Project quality assurance	No
Anshan Iron and Steel Group Automation Company	12	Project quality assurance	No
Angang Construction Group Co., Ltd.	11	Project quality assurance	No
<b>Total</b>	<b>139</b>	-	-





# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 27. Non-current liabilities due within 1 year

Items	31 December 2018	1 January 2018/ 31 December 2017
Long-term loans due within 1 year (Note. 6.(29))	2,648	787
Total	2,648	787

### 28. Other current liabilities

Items	31 December 2018	1 January 2018/ 31 December 2017
Short-term financing bond		1,500
Total		1,500

(1) Increase or decrease in bonds payable

Type of bond	Par value	Issuance date	Bond duration	Issuance amount	1 January 2018/ 31 December 2017
17 SCP001		1,500	2 May 2017	270 days	1,500

Type of bond	Current issue	Accrued interest at face value	Amortization with the Premium or Discount of Bonds	Exchange conversion	Repayment this year	31 December 2018
17 SCP001					1,500	

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 29. Long-term loans

#### (1) Classification of Long-term loans

Item	31 December 2018	1 January 2018/ 31 December 2017
Guaranteed loans	360	833
Credit loans	4,583	2,859
Subtotal	4,943	3,692
Less: long-term loans due within 1 year <i>(Note: 6(27))</i>	2,648	787
Total	2,295	2,905

*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%–4.90%

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

Item	31 December 2018	1 January 2018/ 31 December 2017
Within 1 year	2,648	787
1 year to 2 year (include 2 year	1,003	2,545
2 year to 3 year (include 3 year	1,203	–
3 year to 5 year (include 5 year	89	360
Total	4,943	3,692



## Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

### 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 30. Bonds payable

##### (1) Bonds payable

Items	31 December 2018	1 January 2018/ 31 December 2017
Medium term note	149	2,004
Convertible bond	1,425	
total	1,574	2,004

##### (2) Increase or decrease in bonds payable

Type of bonds	Par value	Issuance date	Bond duration	Issuance amount	1 January 2018/ 31 December 2017
16MTN001	1,000	27 July 2016	5 years	1,000	99
16MTN002	2,000	3 August 2017	5 years	2,000	1,180
16MTN003	1,000	31 August 2017	5 years	1,000	725
Convertible bond in 2018 (note 1)	1,512	25 May 2018	5 years	1,299	0
Total	5,512	–	–	5,299	2,004

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 30. Bonds payable (Continued)

#### (2) Increase or decrease in bonds payable (Continued)

Type of bond	Current issue	Accrued interest at face value	Amortization with the Premium or Discount of Bonds	Exchange conversion	Repayment this year	31 December 2018
16MTN001		(1)			100	
16MTN002			1	(10)	1090	100
16MTN003			1	(6)	682	49
Convertible bond in 2018 (note 1)	1,299		(32)	(94)		1,425
<b>Total</b>	<b>1,299</b>	<b>2</b>	<b>(49)</b>	<b>(94)</b>	<b>1,872</b>	<b>1,574</b>

*Note 1:* The company issued a five-year zero-rate convertible bond on May 25, 2018 with a total principal amount of HK\$1.85 billion. The bond conversion period is from July 5, 2018 to May 15, 2023. The price of the H Shares to be issued will be initially at HK\$9.54 per H Share, and will be adjusted to HK\$9.20 per H Share after the dividend on June 29, 2018. On the issue date, the convertible bonds embedded in the derivative financial instruments are initially recognized at fair value, and the portion of the issue price that exceeds the initial recognition as a derivative financial instrument is recognized as a debt instrument.

*Note 2:* The maturity dates of the above-mentioned bonds payable are between two and five years.



## Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

### 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 31. Long-term employee benefits payable

<b>Items</b>	<b>31 December 2018</b>	1 January 2018/ 31 December 2017
Termination benefits	<b>97</b>	126
Total	<b>97</b>	126

#### 32. Deferred income

<b>Items</b>	1 January 2018/ 31 December 2017	Increase	Decrease	<b>31 December 2018</b>	Cause of formation
Government grants	682	35	87	<b>630</b>	
Total	682	35	87	<b>630</b>	

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 32. Deferred income (Continued)

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

Items	1 January 2018/31 December 2017	New grants	Belong to Non- business income	Belong to Other income	Other decrease	31 December 2018	Associated with the asset/ income
The government grants related to environmental protection	214	5		41		178	Asset
The government grant related to scientific research	308	22		32		298	Assets/Income related
Others	160	8	4	10		154	Assets/Income related
<b>Total</b>	<b>682</b>	<b>35</b>	<b>4</b>	<b>83</b>		<b>630</b>	<b>-</b>

### 33. Other non-current liabilities

Items	31 December 2018	1 January 2018/ 31 December 2017
Embedded derivative financial instruments	139	
<b>Total</b>	<b>139</b>	



# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 34. Share capital

Items	1 January 2018/ 31 December 2017		Changes of the period (+,-)				31 December 2018		
	Balance	Proportion	New shares issued	Bonus issue	Shares transferred from reserves	Others	Subtotal	Balance	Proportion
Shares unrestricted on sale									
1. Ordinary A shares	6,149	85						6,149	85
2. Foreign shares listed overseas	1,086	15						1,086	15
<b>Total</b>	<b>7,235</b>	<b>100</b>						<b>7,235</b>	<b>100</b>

### 35. Capital reserve

Items	1 January 2018/ 31 December 2017		Increase of the period	Decease of the period	31 December 2018
Share premium	41,705		2	6,427	35,280
Other capital reserve	375				375
<b>Total</b>	<b>42,080</b>		<b>2</b>	<b>6,427</b>	<b>35,655</b>

*Note 1:* The changes of capital reserve during this period was caused by the merge of “Angang Energy Technology Co. Ltd.” (formerly known as Angang Steel Gas Co., Ltd., here-in-after referred to as “Energy Technology”) and Anshan Iron and Steel Group Chaoyang Co., Ltd. (here-in-after referred to as “Chaoyang Iron and Steel”) under the same control.

*Note 2:* The board of directors proposes to use the existing total share capital of 7,234,807,847 shares as the base to convert 3 shares for every 10 shares with the capital reserve fund on 18 March 2019. This proposal still needs to be submitted to the shareholders meeting in 2018 for approval.

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 36. Other comprehensive income

Items	31 December, 2017	Changes in accounting policies	1 January, 2018	Amount for the period before tax	The amount of this year			31 December 2018	
					Minus: transform into profit or loss from other comprehensive income	Minus: income tax expenses	The After- tax amount attributed to the parent company		The after- tax amount attributed to minority shareholders
<b>1. Other comprehensive income will not reclassified into the gains and losses</b>		(246)	(246)	8			2	6	(240)
Profit or loss arising from fair value changes of other equity instruments		(246)	(246)	8			2	6	(240)
<b>2. Other comprehensive income will reclassified into the gains and losses</b>	(3)	(1)	(4)	3				3	(1)
The share which enjoyed by the invested unit reclassified into profit or loss in other comprehensive income under the equity method	(4)		(4)	3				3	(1)
Profit or loss arising from fair value changes of available-for-sale financial assets	1	(1)							
<b>Total</b>	(3)	(247)	(250)	11			2	9	(241)





## Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

### 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 37. Special reserve

<b>Items</b>	1 January 2018/ 31 December 2017	Increase of the period	Decease of the period	<b>31 December 2018</b>
Safety production expenses	57	89	97	<b>49</b>
Total	57	89	97	<b>49</b>

#### 38. Surplus reserve

<b>Items</b>	1 January 2018/ 31 December 2017	Increase of the period	Decease of the period	<b>31 December 2018</b>
Statutory surplus reserve	3,580	48		<b>3,628</b>
Total	3,580	48		<b>3,628</b>

*Note:* According to the company law and the regulation of company constitution, the company no longer draws surplus reserves when the accumulated statutory surplus reserve has reached 50% of the registered capital.

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 39. Undistributed profit

Items	This year	Last year
Opening balance	7,604	2,484
Changes in accounting policies	115	
Business combination under the same control	(8,262)	(9,258)
Opening balance	(543)	(6,774)
Increase of the period	7,952	6,638
Including: Net profit transferred this period	7,952	6,638
Other adjustment factors		
Decrease of the period	1,773	522
Including: Extraction of surplus reserve this period	115	x
Extraction of general risk provisions in this period		
Distribution of cash dividend this period	1,678	522
Conversed capital		
Other decreases	47	
Closing balance	5,636	(658)

*Note 1:* According to the resolution of the 2017 Annual General Meeting of Shareholders on June 5, 2018, the Company distributed cash dividends to all shareholders at RMB0.232 per share, which was based on the current total share capital of 7,234,807,847 shares (RMB1,678 million). What's more, the dividend has been fully issued as of December 31, 2018.

*Note 2:* The other undistributed profit that decreased 47 million was perpetual bond (equity instrument) dividend which was paid by Chaoyang Iron & Steel Co. Ltd., a subsidiary of the Company, according to the "Debt-to-equity swap agreement" signed by Chaoyang Iron and Steel and Anshan Iron and Steel Group Co. Ltd, this type of perpetual debt was converted into an investment in common stock of Chaoyang Iron and Steel on 31 May 2018.

*Note 3:* The board of directors proposed to distribute a cash dividend of RMB2.2 (including tax) to every 10 shares of the company based on the existing total share capital of 7,234,807,847 shares, with a total distribution profit of RMB1,592 million on 18 March 2019. The proposal is still subject to approval by the shareholders meeting in 2018. Cash dividends proposed after the balance sheet date are not recognized as liabilities on the balance sheet date.



## Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

### 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 40. Operating income and operating costs

(1) Classified by production

Items	This year		Last year	
	Income	Cost	Income	Cost
Prime operating	104,849	87,845	91,370	78,391
Other operating	308	281	313	316
Total	105,157	88,126	91,683	78,707

*Note:* The Group is classified into an operating segment based on the type of business: production and sale of steel products.

(2) Classified by region

Items	This year	Last year
Foreign transaction income from the within borders	99,371	85,210
Foreign exchange income from outside borders	5,786	6,473
Total	105,157	91,683

(3) Classified by the time when the revenue is confirmed

Items	This year	Last year
Confirm at a certain point	105,157	91,683
Total	105,157	91,683

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 41. Tax and surcharges

<b>Items</b>	<b>This year</b>	Last year
City maintenance and construction tax	<b>267</b>	196
Educational surcharge and local educational surcharge	<b>191</b>	140
Land use tax	<b>398</b>	417
Property tax	<b>149</b>	150
Stamp tax	<b>83</b>	67
Resources tax	<b>3</b>	3
Environmental protection tax	<b>92</b>	0
Other tax	<b>1</b>	4
Total	<b>1,184</b>	977

Note: Please refer to Note 5. Tax for details of various taxes and additional payment standards.

### 42. Marketing expenses

<b>Items</b>	<b>This year</b>	Last year
Delivery expense	<b>2,458</b>	2,003
Packing expense	<b>76</b>	59
Sales and service expense	<b>75</b>	95
Employee benefits	<b>195</b>	168
Warehouse storage expense	<b>48</b>	46
Agency fee for commissioned sales	<b>23</b>	33
Insurance expense	<b>9</b>	8
Others	<b>183</b>	158
Total	<b>3,067</b>	2,570



## Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

### 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 43. Administrative expenses

<b>Items</b>	<b>This year</b>	Last year
Employee benefits	<b>708</b>	1,198
Amortization of intangible asset	<b>171</b>	167
Depreciation	<b>74</b>	57
Computer maintenance expense	<b>49</b>	51
Repair and maintenance	<b>50</b>	39
Afforestation fees	<b>22</b>	26
Accountancy fees	<b>22</b>	14
Others	<b>170</b>	37
Total	<b>1,266</b>	1,589

#### 44. Research and development costs

<b>Items</b>	<b>This year</b>	Last year
Raw material consumption fee	<b>162</b>	117
Labor cost	<b>154</b>	96
Depreciation	<b>64</b>	54
Subcontracting expenses	<b>96</b>	55
Travel expenses	<b>5</b>	3
Others	<b>2</b>	1
Total	<b>483</b>	326

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 45. Financial expenses

<b>Items</b>	<b>This year</b>	Last year
Interest expense	<b>1,430</b>	1,414
interests expense from the long-term loans and long-term bonds	<b>324</b>	365
The financial charges during the financial lease period		
Other interest expenditures	<b>1,106</b>	1,049
Interest income	<b>36</b>	59
Capitalized interest expense	<b>14</b>	38
Exchange gain or loss	<b>77</b>	8
Capitalized exchange gain or loss		
Others	<b>14</b>	6
Total	<b>1,471</b>	1,331

### 46. Impairment losses on asset

<b>Items</b>	<b>This year</b>	Last year
Provision for bad debts		69
Provision for written-down of inventories	<b>(75)</b>	106
Impairment Provision for available for sale financial assets		156
Impairment Provision for construction in progress	<b>1</b>	
Total	<b>(74)</b>	331



## Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

### 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 47. Impairment losses on credit

<b>Items</b>	<b>This year</b>	Last year
Notes receivable and account receivables	<b>9</b>	
Other receivables	<b>1</b>	
Total	<b>10</b>	

#### 48. Other income

<b>Items</b>	<b>This year</b>	Last year	Recorded into extraordinary gains and losses
The government grants related to environment protection	<b>40</b>	39	40
The government grants related to scientific research	<b>31</b>	25	31
Others	<b>12</b>	8	12
Total	<b>83</b>	72	83

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 49. Investment income

Items	This year	Last year
Long-term equity investment income under the equity method	286	352
Investment income from disposal of longterm equity investments	2	
The investment income during the holding of available-for-sale financial assets (Note)	9	
Investment income from disposal of available for sale financial assets (Note)		14
Others	18	67
<b>Total</b>	<b>315</b>	<b>433</b>

*Note:* Since January 1, 2018, the Group has implemented the new financial instrument standard which reclassifies the equity instruments that are previously classified as available-for-sale financial assets into financial assets recorded at fair value through profit or loss and financial assets included in other comprehensive income. Correspondingly, the relevant investment income was disclosed in the “Investment income of other equity instruments invested during the holding period” in 2018.

### 50. Changes in fair value gains and losses

Sources	This year	Last year
Financial assets at fair value through profit or loss	(4)	7
Including: Fair value gains arising from derivative financial instruments	1	7
Financial liabilities at fair value through profit or loss	64	(13)
Including: Fair value gains arising from derivative financial instruments	64	(13)
<b>Total</b>	<b>60</b>	<b>(6)</b>





## Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

### 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 51. Asset disposal income

<b>Items</b>	<b>This year</b>	Last year
Fixed asset disposal income	<b>6</b>	8
Total	<b>6</b>	8

#### 52. Non-operating income

<b>Items</b>	<b>This year</b>	Last year	Recorded into extraordinary gains and losses
Total gains from destroy or scrap of non-current assets	<b>25</b>	11	25
Government grant	<b>4</b>		4
Liquidated damages	<b>17</b>	2	17
Others	<b>10</b>	6	10
Total	<b>56</b>	19	56

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 52. Non-operating income (Continued)

Government grant recorded into profit/loss for current period

<u>Items</u>	<u>This year</u>	<u>Last year</u>	<u>Assets/ Income related</u>	<u>Whether subsidies affect the profit and loss of the year</u>
Shanghai Enterprise Development Support Fund	3		Income related	No
Shanghai Baoshan District Enterprise Support Fund	1		Income related	No
<b>Total</b>	<b>4</b>	–		–

### 53. Non-operating expenses

<u>Items</u>	<u>This period</u>	<u>Last period</u>	<u>Recorded into extraordinary gains and losses</u>
The loss on destroy or scrap of non-current assets	125	56	125
External donation	7		7
Others	4	9	4
<b>Total</b>	<b>136</b>	65	136



## Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

### 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 54. Income tax expenses

(1) Income tax expenses

<b>Items</b>	<b>This period</b>	Last period
Income tax during this period	<b>810</b>	61
Changes on deferred income tax expenses	<b>1,246</b>	(393)
Others		
<b>Total</b>	<b>2,056</b>	(332)

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

<b>Items</b>	<b>This period</b>
Total profit	<b>10,008</b>
Income tax expenses calculated at statutory/applicable tax rates	<b>2,502</b>
Effect of income not subject to tax	
Effect of adjustments for income tax for prior period	
Effect of income not subject to tax	<b>(106)</b>
Effect of additional deductible expenses	<b>11</b>
Effect of deductible loss of deferred income tax assets not recognized in prior periods	<b>(330)</b>
Effect of current unrecognised deductible temporary difference or deductible loss arising from deferred tax income assets	
Effect of current unrecognised deductible temporary difference or deductible loss arising from deferred tax income assets	
Others	<b>(21)</b>
<b>Income tax expenses</b>	<b>2,056</b>

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 55. The other comprehensive income

Please refer to Note 6(36).

### 56. Items on statements of cash flow

#### (1) Cash received from operating activities

<b>Items</b>	<b>This period</b>	Last period
Government grants	<b>34</b>	14
Rental income	<b>3</b>	8
Deposit income	<b>16</b>	7
Others	<b>19</b>	8
Total	<b>72</b>	37

#### (2) Cash paid for operating activities

<b>Items</b>	<b>This period</b>	Last period
Freight fee	<b>1,872</b>	1,580
Commission processing fee	<b>585</b>	263
Sewage fee	<b>23</b>	74
Computer maintenance fee	<b>104</b>	12
Security and firefighting expense	<b>14</b>	12
Green fee	<b>48</b>	45
Pipeline transportation fee	<b>64</b>	62
Intermediary fee	<b>23</b>	15
Purchases and sales business fee	<b>101</b>	209
Insurance fee	<b>42</b>	48
Other operating expenses	<b>1,018</b>	815
Total	<b>3,894</b>	3,135



## Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

### 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 56. Items on statements of cash flow (Continued)

(3) Cash received from investment activities

<b>Items</b>	<b>This period</b>	Last period
Income from test run	2	81
Interest income	39	66
Future contract income	91	98
Acquisition of FAW Angang to obtain net cash	35	
Total	167	245

(4) Cash paid for investment activities

<b>Items</b>	<b>This period</b>	Last period
Future contract loss	82	40
Disposal of net cash paid by “Angang Weifang”	1	
Total	83	40

(5) Cash received from financing activities

<b>Item</b>	<b>This period</b>	Last period
Received “Guangzhou Auto Steel” Repayment	180	87
Receive “Angang Holding” Repayment (Note)	200	13
Total	380	100

Note: It occurred before the merger date of the subsidiary-Chaoyang Iron and Steel

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 56. Items on statements of cash flow (Continued)

(6) Cash paid for financing activities

Items	This period	Last period
Intermediary fees for loans	3	5
Repay the "Angang Financial Company" and "Angang Holding" (Note)	500	150
Substitute funds		50
Total	503	205

Note: It occurred before the merger date of the subsidiary-Chaoyang Iron and Steel

### 57. Supplement of cash flow statement

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

Items	This period	Last period
<b>1. Reconciliation of net profit to cash flows from operating activities:</b>		
Net profit	7,952	6,645
Provision for impairment on asset	(74)	331
Provision for impairment on credit	10	
Depreciation of fixed assets	3,516	3,437
Amortization of intangible assets	173	167
Amortization of long-term deferred expense		
Loss on disposal of fixed assets, Intangible assets and other non-current assets ("-" for gains)	(6)	(7)
Loss on scrap of fixed assets	100	44
Loss on the change of fair value	(60)	7
Financial expenses	1,380	1,329
Investment loss	(315)	(433)
Decrease in deferred tax assets ("-" for increase)	1,230	(389)



## Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

### 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 57. Supplement of cash flow statement (Continued)

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

Items	This period	Last period
Increase in deferred tax liabilities (“-” for decrease)	16	(3)
Decrease in inventories (“-” for increase)	(583)	(1,277)
Decrease in operating receivables (“-” for increase)	(1,709)	(1,037)
Increase in operating payable (“-” for decrease)	(3,343)	(2,342)
Others	7	6
Net cash flow from operating activities	8,294	6,478
<b>2. Change in cash and cash equivalent</b>		
Cash at the end of the period	2,154	2,670
Less: cash at the beginning of the period	2,670	2,345
Add: cash equivalent at the end of the period		
Less: cash equivalent at the beginning of the period		
Net increase in cash and cash equivalents	(516)	325

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 57. Supplement of cash flow statement (Continued)

- (2) Net cash paid which is gained from subsidiaries during this period

<b>Items</b>	<b>Amount</b>
Cash or cash equivalents paid for this period due to business merger	1,554
Energy Technology	31
Chaoyang Steel	1,507
FAW Angang	16
Less: the cash and cash equivalents held by the company on the date of purchase	188
Energy Technology	42
Chaoyang Steel	94
FAW Angang	52
Plus: Cash or cash equivalents paid during the business combination in the last period	
Energy Technology	
Chaoyang Steel	
FAW Angang	
Net cash received from payment of subsidiaries	1,366





## Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

### 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 57. Supplement of cash flow statement (Continued)

- (3) Net cash received from disposal of subsidiaries during this period

<b>Items</b>	<b>Amount</b>
Cash or cash equivalents received from disposal of subsidiaries during this period	17
Including: Anshan Iron and Steel Processing and Distribution (Shanghai) Co. Ltd. (“Angang Shanghai”)	17
Anshan Iron and Steel Processing and Distribution (Weifang) Co. Ltd. (“Angang Weifang”)	
Less: Cash and cash equivalents held by the company on the date of loss of control	1
Including: Anshan Iron and Steel Processing and Distribution (Shanghai) Co. Ltd. (“Angang Shanghai”)	
Anshan Iron and Steel Processing and Distribution (Weifang) Co. Ltd. (“Angang Weifang”)	1
Add: The cash or cash equivalents received by the subsidiary during last period	
Including: Anshan Iron and Steel Processing and Distribution (Shanghai) Co. Ltd. (“Angang Shanghai”)	
Anshan Iron and Steel Processing and Distribution (Weifang) Co. Ltd. (“Angang Weifang”)	
Net cash received from disposal of subsidiaries	16

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 57. Supplement of cash flow statement (Continued)

#### (4) Composition of cash and cash equivalents

Items	31 December 2018	31 December 2017/ 1 January 2018
1. Cash at bank and on hands	2,154	2,670
Cash		
Bank deposits available	2,015	2,439
Other deposits available	139	231
2. Cash equivalents		
Of which: Bonds due within 3 months		
3. Closing balance of cash and cash equivalents	2,154	2,670

### 58. Restricted assets of ownership or use rights

Items	31 December 2018	Reason
Notes receivable	261	Pledged loan
Total	261	–



## Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

### 6. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### 59. Foreign currency monetary

Items	Foreign currency closing balance	Conversion calculation	Closing balance in CNY
Notes payable	1,626	0.8762	1,425
Other non-current liabilities (2018 convertible bonds – embedded derivative financial instruments)	159	0.8762	139
<b>Total</b>	<b>1,785</b>	<b>–</b>	<b>1,564</b>

#### 60. Government grants

(1) The basic situation of government grants

Items	The basic situation of government grants identified at the beginning of the year		Government grants included in the profit or loss
	Amounts	items	
The government grants related to environmental protection	5	Deferred income \ other income	40
The government grants related to environmental protection	21	Deferred income \ other income	31
Others	5	Deferred income \ other income	12
Others	4	Non-operating income	4
<b>Total</b>	<b>35</b>	<b>–</b>	<b>87</b>

(2) Return of government grants

The Group has not received any government grants refund this year.

# Notes to the Financial Statements (Continued)

*For the year 2018 (Expressed in million RMB unless otherwise indicated)*



## 7. CHANGES IN CONSOLIDATION SCOPE

The company added 4 subsidiaries this year:

- ① Angang Chemical Technology Co., Ltd. (hereinafter referred to as “chemical technology”) which is a wholly-owned subsidiary;
- ② Angang Energy and Technology Co., Ltd. Co., Ltd. (hereinafter referred to as “Energy and Technology”) is acquired through business combination under common control.
- ③ Angang Group Chaoyang Iron&Steel Co., Ltd. (hereinafter referred to as “Angang Chaoyang”) is acquired through business combination under common control.
- ④ FAW Angang (Original name: Changchun FAW Anjing Steel Processing and Distribution Co., Ltd.) is acquired through business combination under not common control.

The company reduced 2 subsidiaries this year:

- ① Anshan Iron and Steel Processing and Distribution (Shanghai) Co., Ltd. (hereinafter referred to as “Angang Shanghai”) was liquidated and cancelled in December 2018;
- ② Anshan Iron and Steel Processing and Distribution (Weifang) Co., Ltd. (“Angang Weifang”) has filed for bankruptcy liquidation in December 2018, and the liquidation affairs were transferred to the bankruptcy administrator designated by the People’s Court.



# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

## 7. CHANGES IN CONSOLIDATION SCOPE (Continued)

### 1. Business combination not under the common control

- (1) Business combination not under the common control during the year

Acquiree	Time point at which the acquirer obtains equity	Consideration of equity interest	Ratio of Equity interest	Method of Obtaining equity interest
FAW Angang	2018-12-31	97	60%	Cash

Name of acquiree	Acquisition date	Basis for determining the purchase date	Acquiree's revenue from acquisition date to the end of the year	Acquiree's net profit from acquisition date to the end of the year
FAW Angang	2018-12-31	Equity transfer agreement	0	0

*Note:* Before the acquisition, the company was a joint venture with a 50% shareholding. After receiving 10% equity from other shareholders of the company this year, it obtained control.

- (2) Combination Cost

Combination Cost	FAW Angang
– Cash	16
– Fair value of non-cash assets	
– Fair value of debt issued or assumed	
– Fair value of equity securities issued	
– Fair value of contingent consideration	
– Fair value of the equity held before the acquisition date on the date of acquisition	81
– Other	
Total Combination Cost	97
Less: fair value share of Identifiable net assets acquired	123
The amount that Goodwill/consolidation cost is less than the fair value of the identifiable net assets acquired	(26)

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 7. CHANGES IN CONSOLIDATION SCOPE (Continued)

### 1. Business combination not under the common control (Continued)

- (3) Gains or losses arising from the re-measurement of equity held before the acquisition date at fair value

Name of acquiree	Book value of the original held equity on the acquisition date prior to the acquisition date	Fair value of the original held equity on the acquisition date prior to the acquisition date	Gains or losses arising from the re-measurement of equity originally held before the acquisition date at fair value	Method and main assumptions for determining the fair value of the original held equity on the acquisition date prior to the acquisition date	Amount of other comprehensive income related to the original shareholdings transferred to the investment income before the acquisition date
FAW Angang	103	81	22	Equity transfer agreement	



# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

## 7. CHANGES IN CONSOLIDATION SCOPE (Continued)

### 2. Business combination not under the common control

(1) Business combination under the common control during the year

Name of acquiree	Proportion of equity acquired in business combination (%)	The basis of Business combination under the common control	Acquisition date	Basis for determining the combining date
Energy and Technology	60	The ultimate controlling party is also Angang Group Corporation Limited	2018-6-30	Capital increase and share expansion agreement
Angang Chaoyang	100	The controlling party is Ansteel Group Corporation Limited before the combination	2018-9-30	Asset delivery agreement

Name of acquiree	Acquiree's revenue from the beginning of the current period to combining date	Acquiree's net profit from the beginning of the current period to combining date	Acquiree's revenue during the comparison period	Acquiree's net profit during the comparison period
Energy and Technology	51	1	24	
Angang Chaoyang	6,786	1,267	7,476	1,034

*Note:* Angang Energy and Technology Co., Ltd. gains control by increasing capital and acquiring shares.

(2) Combination Cost

Combination Cost	Energy and Technology	Angang Chaoyang
-Cash	31	1,507
-Fair value of non-cash assets		4,908
-Fair value of debt issued or assumed		
-Fair value of equity securities issued		
-Contingent consideration		

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 7. CHANGES IN CONSOLIDATION SCOPE (Continued)

### 2. Business combination not under the common control (Continued)

- (3) Book value of the assets and liabilities of the acquiree on the acquisition date

Items	Energy and Technology		Angang Chaoyang	
	Combining date	31 December 2017	Combining date	31 December 2017
Assets:				
Cash at bank and on hand	42		94	234
Notes receivable	2	1	1,277	1,196
Accounts receivable	11	11	167	8
Prepayments	4	5	216	204
Other receivables			18	4
Inventories	2	3	763	624
Other current assets				20
Long-term equity investments			34	33
Fixed assets	6	6	2,808	2,862
Construction in progress		1	20	23
Construction materials			4	7
Intangible assets			260	265
Deferred income tax assets			213	200
Liabilities:				
Notes payable			67	22
Accounts payable	7	4	636	658
Advances from customers	4	4	1,107	1,066
Employee benefits payable			22	18
Tax payable	1		5	88
Dividends payable				38
Other payables			161	1,110
Non-current liabilities due within 1 year				350
Long-term loans			350	
Long-term employee benefits payable			1	3
Net asset	55	19	3,545	2,307
Less: minority interests				
Net asset acquired	55	19	3,545	2,307





# Notes to the Financial Statements (Continued)

*For the year 2018 (Expressed in million RMB unless otherwise indicated)*

## 7. CHANGES IN CONSOLIDATION SCOPE (Continued)

### 3. Changes in consolidation scope for other reasons

- ① Energy and Technology was established during the year, refer to Note 15(2).
- ② Angang Shanghai, a subsidiary of the Company, was liquidated in December 2018, so it was not included in consolidation scope at the end of December 2018.
- ③ In December 2018, Angang Weifang, a subsidiary of the Company, entered the bankruptcy liquidation procedure. The liquidation affairs were transferred to Shandong Guozong Law Firm (the liquidation trustee) on December 11, 2018, which was appointed by the Weicheng District People's Court in Weifang City. At the end of December 2018, it wasn't included in the scope of consolidation.

# Notes to the Financial Statements (Continued)

For the year 2018 (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	Registration place	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	Established
Ningbo Anshan Iron and Steel International Trade Co., Ltd. ("Ningbo Trade")	Ningbo	Ningbo	Steel trade	100	Established
Yantai Anshan Iron and Steel International Trade Co., Ltd. ("Yantai Trade")	Yantai	Yantai	Steel trade	100	Established
Angang Steel Distribution (Zhengzhou) Co., Ltd. ("Angang Zhengzhou")	Zhengzhou	Zhengzhou	Steel Processing and Distribution	100	Established
Anshan Iron and Steel Processing and Distribution (Guangzhou) Co., Ltd. ("Angang Guangzhou")	Guangzhou	Guangzhou	Steel Processing and Distribution	75	Established
Anshan Iron and Steel Processing and Distribution (Weifang) Co., Ltd. ("Angang Weifang")	Weifang	Weifang	Steel Processing and Distribution	51	Combination under common control



# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

## 8. INTERESTS IN OTHER ENTITIES (Continued)

### 1. Interest in the subsidiary (Continued)

Full Name of Subsidiaries	Principal place of business	Registration place	Nature of the business	Direct stake (%)	Acquisition
Anshan Iron and Steel Processing and Distribution (Tianjin) Co., Ltd. ("Angang Tianjin")	Tianjin	Tianjin	Steel Processing and Distribution	51	Combination under common control
Kobelco Angang Auto Steel Co Ltd ("Angang Kobelco")	Anshan	Anshan	Processing and sale of steel rolling	51	Established
ASPD-CC	Changchun	Changchun	Production, processing and steel products Sell products sales and distribution Technology research and development	100	Combination not under common control
Angang Steel Technology and Development Co., Ltd. ("Technology and Development")	Anshan	Anshan	Metallurgy and related materials, equipment Development and development	100	Established
Angang Chemical Technology Co., Ltd	Anshan	Anshan	Coking gas purification and production of coal products	100	Established
Energy and Technology	Anshan	Anshan	Production of dissolved acetylene; Sales of compressed gases, and liquefied gas	60	Combination under common control
FAW Angang	Changchun	Changchun	Steel Processing and Distribution	60	Combination not under common control
Angang Chaoyang	Chaoyang	Chaoyang	Steel rolling processing and sales	100	Combination under common control

Note: Angang Weifang hasn't been included in consolidation scope since December 2018, refer to 7(3).

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 8. INTERESTS IN OTHER ENTITIES (Continued)

### 2. Interests in joint ventures or associates

(1) The important joint ventures or associates

Name	Principal place of business	Registration place	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
Guangzhou Automobile Steel	Guangzhou	Guangzhou	Manufacturing Steel products	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
Guang Qi Bao Shang	Guangzhou	Guangzhou	Steel Processing and Distribution	30	Equity method
Meizhou Automobile	Meizhou	Meizhou	Automobile parts	25	Equity method
Chaoyang Zhongan Water Co., Ltd	Chaoyang	Chaoyang	Water production and supply	45	Equity method



# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

## 8. INTERESTS IN OTHER ENTITIES (Continued)

### 2. Interests in joint ventures or associates (Continued)

(2) The accounting information of the important joint ventures

Items	ANSC-TKS	
	31 December 2018/ the Date Occurred in this Period	31 December 2017/ the Date Occurred in last Period
Current assets	1,688	1,650
Including: Cash and cash equivalents	327	387
Non-Current assets	577	685
Total Assets	2,265	2,335
Current liabilities	942	759
Non-Current liabilities	3	5
Total Liabilities	945	764
Minority interests		
Subtotal of Shareholders' equity attributable to shareholders of parent Parent Company	1,320	1,571
The net assets calculated by the share percentage held	660	786
Adjusting events		
–goodwill		
–unrealized profit resulting from intra- group trade	(60)	(49)
–others		
The book value of equity investments in joint ventures	600	737

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 8. INTERESTS IN OTHER ENTITIES (Continued)

### 2. Interests in joint ventures or associates (Continued)

(2) The accounting information of the important joint ventures (Continued)

Items	ANSC-TKS	
	31 December 2018/ the Date Occurred in this Period	31 December 2017/ the Date Occurred in last Period
The fair value of the equity investments in joint ventures which exist the public offer		
Operating revenue	5,229	5,398
Finance costs	11	5
Income tax expenses	16	92
Net profit	228	481
Net profit from discontinued operations		
Other comprehensive income		
The total of comprehensive income	228	481
Dividends received from joint ventures this year	240	226



# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

## 8. INTERESTS IN OTHER ENTITIES (Continued)

### 2. Interests in joint ventures or associates (Continued)

(3) The accounting information of the important association

Items	Angang Finance	
	31 December 2018/ the Date Occurred in this Period	31 December 2017/ the Date Occurred in last Period
Current assets	5,938	11,963
Including: Cash and cash equivalents	5,598	11,915
Non- Current assets	19,827	15,119
Total Assets	25,765	27,082
Current liabilities	18,858	20,294
Non-Current liabilities	9	3
Total Liabilities	18,867	20,297
Minority interests	19	19
Subtotal of Shareholders' equity		
attributable to shareholders of parent		
Parent Company	6,879	6,766
The net assets calculated by the share		
percentage held	1,376	1,353
Adjusting events		
–goodwill		
–unrealized profit resulting from intra-		
group trade		
–others		
The book value of equity investments in		
associations	1,376	1,353

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 8. INTERESTS IN OTHER ENTITIES (Continued)

### 2. Interests in joint ventures or associates (Continued)

(3) The accounting information of the important association (Continued)

Items	Angang Finance	
	31 December 2018/ the Date Occurred in this Period	31 December 2017/ the Date Occurred in last Period
The fair value of the equity investments in associations which exist the public offer		
Operating revenue	1,097	991
Finance costs		
Income tax expenses	240	202
Net profit	712	611
Net profit from discontinued operations		
Other comprehensive income	16	(26)
The total of comprehensive income	728	585
Dividends received from associations this year	121	119

(4) The accounting information of the unimportant joint ventures and associations

Items	31 December 2018/ the Date Occurred in this Period	
	31 December 2017/ the Date Occurred in last Period	
Associations :		
The book value of equity investments	539	638
The followings are calculated by shares		
–Net profit	8	(20)
–Other comprehensive income		
–The total of comprehensive income	8	(20)
Joint ventures :		
The book value of equity investments	288	253
The followings are calculated by shares		
–Net profit	22	12
–Other comprehensive income		
–The total of comprehensive income	22	12





# Notes to the Financial Statements (Continued)

*For the year 2018 (Expressed in million RMB unless otherwise indicated)*

## 9. RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS

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

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

### **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.

# Notes to the Financial Statements (Continued)

For the year 2018 (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

##### (1) 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 U.S. dollar and the H.K. dollar. Besides the following assets or liabilities in U.S. dollar and the H.K. dollar by end of 31 December 2018, other assets and liabilities of the Group are denominated in RMB balances.

Unit: RMB

Items	31 December	31 December
	2018	2017/1 January 2018
Bank deposits (USD)	100,668.70	208,528.67
Bank deposits (HKD)	170.28	
Bond Payable (HKD)	1,625,867,493.32	
Other non-current liabilities (HKD)	158,667,974.88	

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 31 December 2018, the exchange risk's exposure of assets and liabilities listed in the original currency is in Note 6 (1,30 and 33).

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

Items	Middle Exchange Rate on the Reporting Date			Middle Exchange Rate on the Reporting Date
	2018	2017		2018
U.S. dollar	6.6118	6.7423	U.S. dollar	6.6118
H.K. dollar		0.8436	H.K. dollar	0.8436



# Notes to the Financial Statements (Continued)

For the year 2018 (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)

##### (1) Exchange risk (Continued)

##### C. Sensitivity analysis

On 31 December 2018, 1% increase in the foreign exchange rate would result in an increase (decrease) of RMB in shareholders' equity and net profit as follows:

*Unit: Million*

<u>Date</u>	<u>Item</u>	<u>The impact on net profit</u>	<u>The impact on shareholders' equity</u>
31 December 2018	USD		
	HKD	(13)	(13)
31 December 2017	USD		
	HKD		

By end of 31 December 2018, under the assumption that all other variables remain the same premise, if the RMB against the USD and HKD exchange rate reduced by 1% would result in the same amount of change in shareholders' equity and net profit on the table above, whereas in the opposite direction.

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

# Notes to the Financial Statements (Continued)

For the year 2018 (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)

##### (2) Interest rate risk

The Group's interest-bearing financial instruments on 31 December 2018 please refer to notes 6 (1,18,27,28,29 and 30).

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 31 December 2018, 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 RMB133 million decrease (last period: RMB144 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. The analysis of last period is based on the same assumptions.



# Notes to the Financial Statements (Continued)

*For the year 2018 (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 31 December 2018.

Due to the accounts receivables of the top five customers, which are accounted for 45% of the receivables and other receivables on the balance sheet date (last period: 47%), the Group may face a certain degree of credit risk concentration.

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

#### 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(29).

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 10. DISCLOSURE OF THE FAIR VALUE

### 1. The amount of asset and liability measured at fair value and the measurement hierarchies

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).

Item	The Fair Value on 31 December 2018			Total
	The Fair Value Measured at first Level	The Fair Value Measured at Second Level	The Fair Value Measured at Third Level	
<b>Continues fair value measurement:</b>				
Derivative financial assets	1			1
Other investments in equity instruments			519	519
Other non-current financial assets	35			35
Derivative financial liabilities	3			3
Other non-current liabilities (note)			139	139

Item	The Fair Value on 31 December 2017			Total
	The Fair Value Measured at first Level	The Fair Value Measured at Second Level	The Fair Value Measured at Third Level	
Continues fair value measurement:	7			7
The financial assets that are measured at fair value through profit and loss.	7			7
Available-for-sale financial assets	39			39
The financial liabilities that are measured at fair value through profit and loss.	13			13

Note: The other non-current liabilities refer to the portion of the 2018 convertible bond embedded in derivative instrument, which is measured by binomial options pricing model.



# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

## 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	Tie Xi District Anshan Liaoning Province	Production and sale of steel and metal products, steel filament Tubes, and metal structures	26,000	53.33	53.33

Note: Angang Group Corporation is the ultimate controlling party.

### 2. Information on the subsidiaries of the Parent Company

Disclosed in Note 8.(1) Subsidiaries.

### 3. Information on the joint ventures and associates of the group

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

### 4. Related parties without control relationship

Name of Enterprise	Relation with the Parent Company
Guangzhou Automotive Steel	Joint venture
ANSC-TKS	Joint venture
ANSC – Dachuan	Joint venture
Anshan Jingu	Associate
Angang Finance	Associate
Anshan Angang Vesuvius Refractory Co., Ltd.	Joint venture of Ansteel Group
Falan Packing	Fellow subsidiary
Angang Cast Steel Co., Ltd	Fellow subsidiary
Angang Mining	Fellow subsidiary
Angang Steel Rope Co., LT	Fellow subsidiary
Anshan Yingkou Harbor co., LT	Fellow subsidiary
Angang Refractory Co., Ltd	Fellow subsidiary
Angang Auto Transport Co., Ltd	Fellow subsidiary
Angang Cold Rolled Steel Plate Co., Ltd. Putian	Fellow subsidiary
Angang House Property Construction	Fellow subsidiary
Angang MingAuto Transport Co., Ltd	Fellow subsidiary

# Notes to the Financial Statements (Continued)

For the year 2018 (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 Parent Company
Anshan Iron and Steel Group Construction Supervision Co., Ltd.	Fellow subsidiary
Germany's neighboring Lugang (Anshan) Co., Ltd.	Fellow subsidiary
Anshan Jidong Cement Co., Ltd	Joint venture of the parent Parent Company
Angang Trade	Fellow subsidiary
Angang Heavy Machine Co., Ltd	Fellow subsidiary
Angang Lianzhong (Guangzhou) Stainless Steel Co., Ltd	Fellow subsidiary
Angang Engineering Technology Co., Ltd	Fellow subsidiary
Pangang Group Xichang Steel and Vanadium Co., Ltd.	Fellow subsidiary
Future Iron and Steel Research Institute Co., Ltd.	Fellow subsidiary
Angang Group Information Industry Co., Ltd	Fellow subsidiary
Angang Engineering Technology Development Co., Ltd	Fellow subsidiary
Angang Mining Construction Co., Ltd	Fellow subsidiary
Pangang Trade	Fellow subsidiary
Pangang Group Iron and Vanadium Titanium Resources Co. Ltd	Fellow subsidiary
Pangang Group Jiangyou Great Wall Special Steel Co., Ltd.	Fellow subsidiary
Chengdu western material federation Co., Ltd	Fellow subsidiary
Pangang Group Panzhihua Steel Vanadium Co., LT	Fellow subsidiary
Pangang Engineering Technology Co., Ltd	Fellow subsidiary
Angang Engineering Technology Development Co., Lt	Fellow subsidiary
Anshan Iron and Steel Group Corporation Labor Health Research Institute	Fellow subsidiary
Angang Group Zhongyuan Industry Development Co., Ltd.	Fellow subsidiary
Angang Yongan Commodity Trading Co., Ltd.	Fellow subsidiary
Angang Roller Co., Ltd.	Fellow subsidiary





# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

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

### 5. Related-party transactions

#### (1) Related-party transactions within Ansteel Group Corporation Limited

##### ① Related-party transactions on Procurement of Goods and Services

<b>Contents</b>	<b>Pricing Policy</b>	<b>This Year</b>	<b>Last Year</b>
Raw materials	Note. 1	16,435	15,431
Supplementary materials	Note. 2	3,042	2,078
Energy and power supplies	Note. 3	1,748	1,682
Support service	Note. 4	5,871	3,958
Total	–	27,096	23,149

##### ② Related-party transactions on Sales of Goods and Services

<b>Contents</b>	<b>Pricing Policy</b>	<b>This Year</b>	<b>Last Year</b>
Product	Note. 5	3,406	1,350
Scrap steel and material	Note. 5	330	282
General services	Note.6	1,045	1,035
Fuel	Note. 7		86
Powder mine	Note. 8	80	
Total	–	4,861	2,753

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

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



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

### 5. Related-party transactions (Continued)

- (1) Related-party transactions within Ansteel Group Corporation Limited (Continued)
- ② Related-party transactions on Sales of Goods and Services (Continued)

*Note: 1 (Continued)*

The price of iron concentrate plus the processing costs for the preceding month (T-1) (in particular such processing costs shall not be higher than the processing costs of the products of the same category produced by the Company). The price of Premium products of Mineral ore from Karara Mining Limited ((iron grade $\geq$  67.2%) is not higher than the average monthly price of such product sold to independent third parties in Mainland China for the corresponding period (i.e. the month in which freight was loaded at the port of origin). The sales volume of premium products of Mineral ore made by Karara Mining Limited to independent third parties in Mainland China shall not be less than 30% of the total sales volume of premium products of Karara Mining Limited for a given period. The price of Standard grade products of (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 2018 (Expressed in million RMB unless otherwise indicated)

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

### 5. Related-party transactions (Continued)

(1) Related-party transactions within Ansteel Group Corporation Limited (Continued)

② Related-party transactions on Sales of Goods and Services (Continued)

*Note: 2:* The steel products are determined according to the price of the sales of Angang Steel to third parties after deducting the commission fee of RMB20–35/ton; The purchasing prices of ancillary materials are not higher than the average prices charged to independent customers;

*Note: 3:* Mainly at state prices, or operating costs plus 5% of gross profit margin;

*Note: 4:* 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;

*Note: 5:* 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;

*Note: 6:* At the state prices, or operating costs plus 5% of gross profit margin, or market prices;

*Note: 7:* Calculating according to the cost of purchasing plus agency fee (RMB5 per ton);

*Note: 8:* Calculated according to the settlement price of the purchase plus the port fee.

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



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

### 5. Related-party transactions (Continued)

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

① Related-party transactions on Procurement of Goods and Services

<b>Contents</b>	<b>Pricing Policy</b>	<b>This Year</b>	<b>Last Year</b>
Raw materials	market price	431	169
<b>Total</b>	–	<b>431</b>	<b>169</b>

(3) Guarantee of loans

<b>warrantor</b>	<b>Warrantee</b>	<b>Amount Guarantee</b>	<b>Starting date</b>	<b>Expiring date</b>	<b>Whether the guarantee has been</b>
Ansteel Group Corporation Limited	The Company	500	24 May 2018	23 May 2019	No
Ansteel Group Corporation Limited	The Company	500	28 May 2018	27 May 2019	No
Ansteel Group Corporation Limited	The Company	350	1 January 2018	20 December 2018	Yes

(4) Other related-party transactions

① Service from sales agent

For the year 2018, the amount of domestic and export sales agent service provided Angang Trade were 134 million tons respectively (175 million tons respectively for the year 2017).



# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

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

### 5. Related-party transactions (Continued)

#### (4) Other related-party transactions (Continued)

##### ② Related-party transactions with the joint ventures and the associates

##### A. Statement of purchasing products

<b>Name of enterprise</b>	<b>Purchases in This Year</b>	Purchases in Last Year
ANSC-TKS	<b>693</b>	236
Iron Oxide Powder		2
Total	<b>693</b>	238

##### B. Statement of selling products

<b>Name of enterprise</b>	<b>Sales in This Year</b>	Sales in Last Year
ANSC-TKS	<b>3,747</b>	3,538
Guangzhou Automobile Steel	<b>415</b>	258
Anshan Jingu	<b>405</b>	423
Iron Oxide Powder	<b>16</b>	10
Changchun FAM	<b>25</b>	65
Total	<b>4,608</b>	4,294

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



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

### 5. Related-party transactions (Continued)

#### (4) Other related-party transactions (Continued)

#### ② Related-party transactions with the joint ventures and the associates (Continued)

#### C. Loan, deposit and interest payment to Angang Finance

Items	Annual interest rate	Opening balance	Increment	Decrement	Closing balance	Terms of credit
Loans	4.35-4.75	370	1,590	1,220	740	
Deposit	2,118	225,351	225,800	1,669	1,885	

In 2018, the Group's interest income of deposit in Angang Finance was RMB24 million (for the year end 2017: RMB17 million) and the interest expenditure for loans from Angang finance was RMB18 million (for the year end 2017: RMB106 million). After restate under the merger of same control, The highest daily deposit in Angang Finance in 2018 was RMB1,999 million (for the years end 2017: 1,995 million). If the impact of the merger under the same control is not restated, the maximum daily deposit of the Group's deposits at Angang Finance Company in 2018 is 1,999 million yuan (2017: 1,995 million yuan)

#### (5) Remuneration of the directors, supervisors and senior management

Items	2018	2017
Directors' fee	0.37	0.36
Other remuneration :	6.91	4.97
Salaries, allowances and non-cash amount of interest	5.08	3.75
Performance-related bonus		
Equity-settled share option expenses	0.82	0.47
Pension plan contributions	1.01	0.75
Total	7.28	5.33



# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

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

### 5. Related-party transactions (Continued)

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

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

Name	This Year					Total
	Directors' fees	Salaries, allowances and non-cash	Performance-related bonus	Equity-settled share option expense	Pension plan contribution	
<b>Executive directors:</b>						
Wang Yidong						
Li Zhen		0.86		0.14	0.17	1.17
Ma Lianyong		0.65		0.11	0.13	0.89
Xie Junyong		0.67		0.11	0.13	0.91
Li Zhongwu (Leave office)		0.08		0.01	0.02	0.11
Zhang Jingfan (Leave office)						0.00
Subtotal for executive directors		2.26		0.37	0.45	3.08
<b>Non-executive directors:</b>						
Wu Dajun	0.12					0.12
Ma Weiguo	0.12					0.12
Feng Changli	0.07					0.07
Luo Yucheng(Leave office)	0.06					0.06
Subtotal for non-executive directors	0.37					0.37
<b>Supervisors:</b>						
Lin Daqing						0.00
Liu Xiaohui						0.00
Yuan Peng		0.52		0.09	0.10	0.71
Subtotal for supervisor		0.52		0.09	0.10	0.71
<b>Senior management:</b>						
Xu Shishuai		1.16		0.18	0.23	1.57
Meng Jinsong		1.14		0.18	0.23	1.55
Subtotal for Senior management		2.30		0.36	0.46	3.12
<b>Total</b>	<b>0.37</b>	<b>5.08</b>		<b>0.82</b>	<b>1.01</b>	<b>7.28</b>

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



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

### 5. Related-party transactions (Continued)

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

Name	Last Year					Total
	Directors' fees	Salaries, allowances and non-cash amount of interest	Performance-related bonus	Equity-settled share option expenses	Pension plan contributions	
<b>Executive directors:</b>						
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 director		1.85		0.23	0.37	2.45
<b>Non-executive Directors:</b>						
Wu Dajun	0.12					0.12
Ma Weiguo	0.12					0.12
Luo Yuchen	0.12					0.12
Subtotal for non-executive director	0.36					0.36
<b>Supervisors:</b>						
Lin Daqing						
Liu Xiaohui						
Yuan Peng		0.33		0.04	0.07	0.44
Subtotal for supervisor		0.33		0.04	0.07	0.44
<b>Senior management:</b>						
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
<b>Total</b>	<b>0.36</b>	<b>3.75</b>		<b>0.47</b>	<b>0.75</b>	<b>5.33</b>

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





# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

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

### 5. Related-party transactions (Continued)

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

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

### 6. Balances of related-party transactions

- (1) Accounts receivable

Item	Related party	31 December 2018		31 December 2017/ 1 January 2018	
		Book Balance	Bad debt preparation	Book Balance	Bad debt preparation
Accounts receivable	Angang Group Corporation Limited	46		61	
Accounts receivable	ANSC-TKS	11		10	
Accounts receivable	Guangzhou automotive steel	1		10	
Accounts receivable	Angang Trade	508		647	
Accounts receivable	Angang Cast Steel Co., Ltd	55		46	
Accounts receivable	Angang Steel Rope Co., Ltd	54		46	
Accounts receivable	Angang Engineering Technology Co., Ltd	137		121	
Accounts receivable	Angang Lianzhong (Guangzhou) Stainless Steel Co., Ltd	1		2	
Accounts receivable	Angang Mining Co.	2		1	
Accounts receivable	Angang Group Zhongyuan Industry Development Co., Ltd.			2	
Accounts receivable	Pangang Group Xichang Steel and Vanadium Co., Ltd.	2			
Accounts receivable	Anshan Iron and Steel Processing and Distribution (Weifang) Co., Ltd.	5			
Accounts receivable	Angang Group Information Industry Co., Ltd	4		2	
Accounts receivable	Other Related Parties	1		1	
<b>Total</b>		<b>827</b>		<b>949</b>	

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



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

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

#### (1) Accounts receivable (Continued)

Item	Related party	31 December 2018		31 December 2017/ 1 January 2018	
		Book Balance	Bad debt preparation	Book Balance	Bad debt preparation
Other receivables	Guangzhou automotive steel	33		213	
Other receivables	Angang Steel Rope Co., Ltd			1	
Other receivables	Angang Group Zhongyuan Industry Development Co., Ltd.			1	
Other receivables	ANSC-TKS			1	
<b>Total</b>		<b>33</b>		<b>216</b>	
Prepayment	ANSC-TKS	17			
Prepayment	Guangzhou automotive steel	39			
Prepayment	Angang Trade	443		484	
Prepayment	Angang Engineering Technology Development Co., Ltd	3			
Prepayment	Angang Group Information Industry Co., Ltd	3			
Prepayment	Anshan steel cold rolled steel plate (Putian) Co., Ltd	26		68	
Prepayment	Angang Lianzhong (Guangzhou) Stainless Steel Co., Ltd	9		1	
Prepayment	Germany's neighboring Lugang (Anshan) Co., Ltd.	30			
Prepayment	Pangang Group Jiangyou Great Wall Special Steel Co., Ltd.	2		1	
Prepayment	Angang Auto Transport Co., Ltd	3		4	
<b>Total</b>		<b>576</b>		<b>559</b>	



# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

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

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

#### (2) Accounts payable

Items	Related parties	31 December	
		2018	2017/1 January 2018
Accounts payable	Angang Group Corporation Limited	20	123
Accounts payable	ANSC-TKS	103	134
Accounts payable	ANSC-TKS	42	46
Accounts payable	Anshan Jingu	4	
Accounts payable	Anshan Angang Vesuvius Refractory Co., Ltd	120	84
Accounts payable	Falan Packing	10	17
Accounts payable	Angang Steel Rope Co., Ltd	3	2
Accounts payable	Angang House Property Construction	11	4
Accounts payable	Angang Engineering Technology Development Co., Ltd	96	124
Accounts payable	Anshan Iron and Steel Group Corporation Labor Health Research Institute	4	
Accounts payable	Angang Trade	2,190	3,362
Accounts payable	Angang Auto Transport Co., Ltd	9	7
Accounts payable	Angang Group Zhongyuan Industry Development Co., Ltd.	79	84
Accounts payable	Anshan Yingkou Harbor co., LTD	2	10
Accounts payable	Angang Cast Steel Co., Ltd	4	6
Accounts payable	Angang Refractory Co., Ltd	10	1
Accounts payable	Germany's neighboring Lugang (Anshan) Co., Ltd.	48	21
Accounts payable	Pangang trade	15	12
Accounts payable	Pangang Group Iron and Vanadium Titanium Resources Co. Ltd	113	10
Accounts payable	Angang Mining Co.	29	43
Accounts payable	Angang Group Information Industry Co., Ltd	39	45
Accounts payable	Other Related Parties	1	
<b>Total</b>		<b>2,952</b>	<b>4,135</b>

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



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

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

#### (2) Accounts payable (Continued)

Items	Related parties	31 December	
		2018	2017/ 1 January 2018
Other payable	Angang Group Corporation Limited	81	998
Other payable	Angang Group Zhongyuan Industry Development Co., Ltd.	28	16
Other payable	Angang House Property Construction	4	
Other payable	Angang Engineering Technology Development Co., Ltd	228	91
Other payable	Angang trade	5	5
Other payable	Angang Group Information Industry Co., Ltd	121	44
Other payable	Angang Mining	12	4
Other payable	Angang Auto Transport Co., Ltd	2	4
Other payable	Anshan Iron and Steel Group Construction Supervision Co., Ltd.	2	
Other payable	Germany's neighboring Lugang (Anshan) Co., Ltd.	6	
Other payable	Anshan Angang Vesuvius Refractory Co., Ltd	5	2
Other payable	Pangang Engineering Technology Co., Ltd	3	3
Other payable	Other Related Parties	1	
<b>Total</b>		<b>497</b>	<b>1,168</b>



# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

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

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

#### (2) Accounts payable (Continued)

Items	Related parties	31 December	
		2018	2017/ 1 January 2018
Contract liabilities	ANSC-TKS	18	
Contract liabilities	Guangzhou automotive steel	17	
Contract liabilities	Anshan Jingu	12	
Contract liabilities	Anshan Jidong Cement Co., Ltd	1	
Contract liabilities	Falan Packing	8	
Contract liabilities	Angang Engineering Technology Development Co., Ltd	21	
Contract liabilities	Angang Group Zhongyuan Industry Development Co., Ltd.	77	
Contract liabilities	Pangang trade	10	
Contract liabilities	Pangang Group Jiangyou Great Wall Special Steel Co., Ltd.	3	
Contract liabilities	Angang trade	40	
Contract liabilities	Angang Mining Co.	9	
Contract liabilities	Angang Refractory Co., Ltd	1	
Contract liabilities	Germany's neighboring Lugang (Anshan) Co., Ltd.	198	
Contract liabilities	Other Related Parties	1	
Total		416	

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



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

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

#### (2) Accounts payable (Continued)

Items	Related parties	31 December	
		2018	2017/ 1 January 2018
Receivables in advance	ANSC-TKS		56
Receivables in advance	Anshan Jingu		15
Receivables in advance	Anshan Jidong Cement Co., Ltd		5
Receivables in advance	Falan Packing		10
Receivables in advance	Angang Group Zhongyuan Industry Development Co., Ltd.		43
Receivables in advance	Pangang Group Panzhihua Steel Vanadium Co., LTD		1
Receivables in advance	Pangang trade		1
Receivables in advance	Angang trade		73
Receivables in advance	Angang Mining		7
Receivables in advance	Germany's neighboring Lugang (Anshan) Co., Ltd.		168
Receivables in advance	Angang Engineering Technology Development Co., Ltd		21
Receivables in advance	Chengdu western material federation Co., Ltd		2
Receivables in advance	Other Related Parties		2
<b>Total</b>			<b>404</b>



## Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

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

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

##### (3) Other non-current assets

Item	Related parties	31 December	31 December
		2018	2017/ 1 January 2018
Other non-current assets	Angang Engineering Technology Development Co., Ltd	293	382
Other non-current assets	Angang trade	337	308
Other non-current assets	Angang Group Information Industry Co., Ltd	42	60
Other non-current assets	Future Iron and Steel Research Institute Co., Ltd.		2
Total		672	752

### 12. SHARE-BASED PAYMENT

As of December 31, 2018, there is no share-based payment transaction need to be disclosed.

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 13. COMMITMENTS

### (1) Significant commitment

Items	As of	As of
	31 December	1 January
	2018	2018
Investment contracts entered but not yet performed or performed partially		18
Construction and renovation contracts entered but not yet performed or performed partially	2,977	1,121
Total	2,977	1,139

### (2) Contingencies

As of December 31, 2018, there were no contingencies need to be disclosed

## 14. SUBSEQUENT EVENTS

As of December 31, 2018, there were no contingencies need to be disclosed.

## 15. OTHER SIGNIFICANT INSTRUCTIONS

### 1. Acquisition of Angang Gas Co. by increasing capital

On June 25, 2018, at the 36th meeting of the 7th board of directors, the company evaluated and approved the agreement of the increase of the capital and stock of Angang Gas Company Limited, signed with Angang Engineering Technology Development Co., Ltd. and Angang Gas Co.

According to the agreement, Angang Steel Company Limited increased Angang Gas Co.'s capital by cash of RMB31.39 million, equivalent to RMB30 million of the registered capital and accounting for 60% of the total registered capital of Angang Gas Co. Ltd; Angang Construction Co., Ltd. increased its capital to Angang Gas Co. in two ways- cash and undistributed profit. A total of RMB20.92 million, equivalent to RMB20 million of registered capital, was contributed to the target company, accounting for 40% of the total registered capital of Angang Gas Co. Ltd..





# Notes to the Financial Statements (Continued)

*For the year 2018 (Expressed in million RMB unless otherwise indicated)*

## 15. OTHER SIGNIFICANT INSTRUCTIONS (Continued)

### 2. The free transfer of state-owned shares of Anshan Steel Co. Ltd.

On July 4, 2018, the Company received the Notice of Angang Co. Ltd. on the Free Transfer of State-owned Shares of Anshan Steel Co. Ltd. from Angang Co. Ltd. intends to transfer 360,000,000 A shares (a 4.98% of the total shares of the company) held by its wholly-owned subsidiary Anshan Steel Co., Ltd. to Power China Co. Ltd. without charge. On September 18, 2018, the above-mentioned transfer of state-owned shares without charge was approved by the State-owned Assets Supervision and Administration Commission of the State Council. On October 24, 2018, the company completed the formalities of registration procedures of the the above-mentioned state-owned shares charge. After the completion of the free transfer registration, Anshan Steel Group Co. Ltd. remains the largest shareholder of the company (shareholding ratio: 53.33%), and Power China Co. Ltd. is the fourth largest shareholder of the company (shareholding ratio: 4.98%). This free transfer will not lead to the change in the controlling shareholder and actual controller of the company.

### 3. Preparation for the acquisition of Ansteel International Co. Ltd.

On July 12, 2018, at the 38th meeting of the 7th Board of Directors, the company evaluated and approved the agreement of "Proposal on taking stakes in Anshитай International Co., Ltd. (here-in-after referred to as Anshитай Company). The Company will use ¥86.961 Million in cash to subscribe for the 10 shares. After the subscription, the issued shares of Anshитай Company is 11 shares in total in which Angang Steel holds 10 shares, accounting for 90.91% of the sum of issued shares, and Angang Hong Kong Company holds 1 share, accounting for 9.09% of the total amount of issued shares. The project is in progress.

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 15. OTHER SIGNIFICANT INSTRUCTIONS (Continued)

### 4. Subscribing Chaoyang Steel

On July 17, 2018, at the 39th meeting of the 7th board of directors, the board of directors evaluated and approved the “proposal on the Company’s Acquisition of 100% Equity of Chaoyang Iron and Steel Group Co. Ltd. of Anshan Iron and Steel Group Co. Ltd.”

After being evaluated by China United Assets Appraisal Group Co. Ltd., which is qualified for asset valuation of China’s securities business, Chaoyang Steel’s assessment of the total equity of shareholders on May 31, 2018 was RMB5,903.85 million. The transaction was based on the 100% equity evaluation of Chaoyang Steel held by Anshan Iron and Steel Co. Ltd. issued by Zhonglian Assets Appraisal Group Co. Ltd. and the transaction price was determined to be ¥5,903.85 million. During the transition period, the increased net assets due to the realization of profits and other reasons or the reduced net assets due to operating losses and other reasons are enjoyed by the transferor. What’s more, The company adjusted the consideration to ¥510.88 million in the transition period.

### 5. Issue H shares convertible bonds

On October 10, 2017, at the 18th meeting of the 7th board of directors, the board of directors evaluated and approved the bill on the issue of H-share convertible bonds: in order to meet the company’s daily operational needs, adjust the debt structure, increase liquidity funds and so on. The company has issued HKD1.85 billion of convertible bonds on May 25, 2018. Convertible bonds have a maturity of 5 years with a 3-year repurchase. The bonds can be converted into H shares at the initial conversion price of HK\$9.54 per H share. After the dividend on June 29, 2018, the bonds are adjusted to HK\$9.20 per H share.

### 6. Establishing Anshan Iron and Steel Chemical Technology Co. Ltd

On December 1, 2017, at the 22nd meeting of the 7th Board of Directors, the board of directors evaluated and approved the bill on establishing Anshan Iron and Steel Chemical Technology Co. Ltd. on April 26, 2018, Anshan Iron and Steel Chemical Technology Co. Ltd was established and registered capital of 25 billion which is funded by cash and physical assets.



# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

## 16. NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

### 1. Notes receivable and account receivable

<b>Items</b>	<b>31 December 2018</b>	1 January 2018	31 December 2017
Notes receivables	<b>6,249</b>	9,632	9,632
Account receivables	<b>3,239</b>	3,121	3,121
<b>Total</b>	<b>9,488</b>	12,753	12,753

#### 1.1. Note receivable

##### (1) Classification of notes receivable

<b>Items</b>	<b>31 December 2018</b>	31 December 2017/ 1 January 2018
Bank Acceptance Notes	<b>5,903</b>	8,649
Commercial Acceptance Notes	<b>346</b>	983
<b>Total</b>	<b>6,249</b>	9,632

##### (2) Notes receivable of the Company pledged at the end of the year

<b>Items</b>	<b>Pledged Notes by End of 31 December 2018</b>
Bank Acceptance Notes	<b>261</b>
<b>Total</b>	<b>261</b>

*Note:* The group has pledged notes receivable which values RMB261 million to the bank to gain the short-term loan of RMB250 million, of which the pledge period is from January 25, 2018 to January 24, 2019.

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 16. NOTES TO PARENT COMPANY FINANCIAL STATEMENTS (Continued)

### 1. Notes receivable and account receivable (Continued)

#### 1.1. Note receivable (Continued)

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

<b>Items</b>	<b>Amount of Termination Confirmation</b>
Bank Acceptance Notes	23,019
Commercial Acceptance Notes	603
<b>Total</b>	<b>23,622</b>

- (4) No notes receivable were transferred to accounts receivable due to insolvency of the issuer as of December 31, 2018.

#### 1.2. Accounts receivable

- (1) Classification of Accounts Receivable

<b>Items</b>	<b>31 December 2018</b>				<b>Net Book Value</b>
	<b>Book Value</b>		<b>Bad Debt Provision</b>		
	<b>Amount</b>	<b>Percentage</b>	<b>Amount</b>	<b>Percentage</b>	
		(%)		(%)	
Accounts receivable subject to separate assessment for bad debts provision	68	2.06	67	98.53	1
Account receivable for which bad debt is prepared based on group combination	3,238	97.94		0.03	3,238
including: Risk-free group combination	2,231	67.49			2,231
Risk group combination on the basis of aging-matrix	1,007	30.45		0.10	1,007
<b>Total</b>	<b>3,306</b>	<b>100.00</b>	<b>67</b>	<b>2.06</b>	<b>3,239</b>



# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

## 16. NOTES TO PARENT COMPANY FINANCIAL STATEMENTS (Continued)

### 1. Notes receivable and account receivable (Continued)

#### 1.2. Accounts receivable (Continued)

##### (1) Classification of Accounts Receivable (Continued)

Items	1 January 2018				
	Book Value		Bad Debt Provision		Net Book Value
	Book Value	Percentage	Amount	Percentage	
	(%)		(%)		
Accounts receivable subject to separate assessment for bad debts provision	68	2.13	67	98.53	1
Account receivable for which bad debt is prepared based on group combination	3,120	97.87			3,120
including: Risk-free group combination	2,155	67.60			2,155
Risk group combination on the basis of aging-matrix	965	30.27			965
<b>Total</b>	<b>3,188</b>	<b>100.00</b>	<b>67</b>	<b>3.15</b>	<b>3,121</b>

Items	31 December 2017				
	Book Value		Bad Debt Provision		Net Book Value
	Amount	Percentage	Amount	Percentage	
		(%)		(%)	
Accounts receivable with amounts that are individually significant and subject to separate assessment for bad debts provision	3,054	95.80	66	2.16	2,988
Account receivable for which bad debt is prepared based on group combination					
Accounts receivable with amounts that are individually insignificant and subject to separate assessment for bad debts provision	134	4.20	1	0.74	133
<b>Total</b>	<b>3,188</b>	<b>100.00</b>	<b>67</b>	<b>2.10</b>	<b>3,121</b>

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 16. NOTES TO PARENT COMPANY FINANCIAL STATEMENTS (Continued)

### 1. Notes receivable and account receivable (Continued)

#### 1.2. Accounts receivable (Continued)

- (2) Accounts receivable subject to separate assessment for bad debts provision

Debtors	31 December 2018			Reason
	Book Value	Bad Debt Provision	Percentage (%)	
Anshan Zhongyou Tianbao Steel Tube Co., Ltd.	67	66	99	Business is in trouble. It does not have repayment ability
Other	1	1	100	The production line is discontinued etc.
<i>Total</i>	<b>68</b>	<b>67</b>	<b>--</b>	

- (3) Accounts Receivable for which bad debts prepared based on aging-matrix risk group combination

Aging	31 December 2018			1 January 2018		
	Book Value	Bad Debt Provision	Percentage (%)	Book Value	Bad Debt Provision	Percentage (%)
Within 1 year	1,002		0	965		0
1 to 2 years	5		3.2			
2 to 3 years			9.9			3.2
3 to 4 years			28.9			9.9
4 to 5 years			37.7			28.9
Over 5 years			100.00			37.7
<i>Total</i>	<b>1,007</b>		<b>-</b>	<b>965</b>		<b>-</b>



# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

## 16. NOTES TO PARENT COMPANY FINANCIAL STATEMENTS (Continued)

### 1. Notes receivable and account receivable (Continued)

#### 1.2. Accounts receivable (Continued)

##### (4) Accounts Receivable classified by aging

Aging	31 December 2018	1 January 2018
Within 1 year	3,181	3,076
1 to 2 years	17	17
2 to 3 years	16	17
3 to 4 years	17	77
4 to 5 years	74	
Over 5 years	1	1
Total	3,306	3,188

##### (5) Bad debt provision at the end of the year

Type	31 December 2017	Changes in accounting policies	1 January 2018	Increase/Decrease			31 December 2018
				Bad debt provision	Reverse	Resale or verification	
accounts receivable	67		67				67

##### (6) 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 RMB1,714 million, which accounted for 51.83% of the closing balance of the total accounts receivable. The closing balance of corresponding bad debt provision amounted to 0.

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 16. NOTES TO PARENT COMPANY FINANCIAL STATEMENTS (Continued)

### 2. Other account receivables

Items	31 December 2018	1 January 2018	31 December 2017
Interest receivable			
Dividend receivable			
Other	46	255	258
Total	46	255	258

#### (1) Classification of Other Accounts Receivable

Items	31 December 2018				
	Book Value		Bad Debt Provision		Net Book Value
	Amount	Percentage (%)	Amount	Percentage (%)	
Other accounts receivable subject to separate assessment for bad debts provision					
Other account receivable for which bad debt is prepared based on group combination including: Risk-free group combination	51	100.00	5	11.54	46
Risk group combination on the basis of aging-matrix	18	36.54	5	31.58	13
Total	51	100.00	5	11.54	46





# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

## 16. NOTES TO PARENT COMPANY FINANCIAL STATEMENTS (Continued)

### 2. Other account receivables (Continued)

#### (1) Classification of Other Accounts Receivable (Continued)

Items	1 January 2018				
	Book Value		Bad Debt Provision		Net Book Value
	Amount	Percentage (%)	Amount	Percentage (%)	
Other accounts receivable subject to separate assessment for bad debts provision					
Other account receivable for which bad debt is prepared based on group combination including: Risk-free group combination	258	100.00	3	1.55	255
Risk group combination on the basis of aging-matrix	44	17.05	3	9.09	41
<b>Total</b>	<b>258</b>	<b>100.00</b>	<b>3</b>	<b>1.55</b>	<b>255</b>

Items	31 December 2017				
	Book Value		Bad Debt Provision		Net Book Value
	Amount	Percentage (%)	Amount	Percentage (%)	
Other accounts receivable with amounts that are individually significant and subject to separate assessment for bad debts provision	233	90.28			233
Other account receivable for which bad debt is prepared based on group combination					
Accounts receivable with amounts that are individually insignificant and subject to separate assessment for bad debts provision	25	9.72			25
<b>Total</b>	<b>258</b>	<b>100.00</b>			<b>255</b>

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 16. NOTES TO PARENT COMPANY FINANCIAL STATEMENTS (Continued)

### 2. Other account receivables (Continued)

(2) Other Accounts Receivable classified by nature

<b>Type</b>	<b>31 December 2018</b>	31 December 2017/ 1 January 2018
Petty cash	13	18
Angang Guangzhou Automobile Steel Co., Ltd. loans	33	213
Export tax rebate		21
Other	5	6
Total	51	258

(3) Other Accounts Receivable classified by aging

<b>Aging</b>	<b>31 December 2018</b>	31 December 2017/ 1 January 2018
Within 1 year	38	247
1 to 2 years	1	7
2 to 3 years	7	
3 to 4 years		
4 to 5 years		
Over 5 years	5	4
Total	51	258



# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

## 16. NOTES TO PARENT COMPANY FINANCIAL STATEMENTS (Continued)

### 2. Other account receivables (Continued)

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

Type	31 December 2017	Changes in accounting policies	1 January 2018	Increase/Decrease			31 December 2018
				Bad debt provision	Reverse	Resale or verification	
Other accounts receivable		3	3	2			5

- (5) The condition of other accounts receivable of the top five debtors by the balances at the end of the period

The total amount of top five other accounts receivable according to closing balance of debtors of the Group for the year was RMB46 million, which accounted for 89.35% of the closing balance of the total other accounts receivable. The closing balance of corresponding bad debt provision amounted to RMB1 million.

### 3. Long-term equity investment

- (1) Types of long-term equity investments

The invested entity	31 December 2018			31 December 2017/1 January 2018		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Investments in subsidiaries	8,506		8,506	2,035		2,035
Investments in joint ventures and associates	2,769		2,769	2,949		2,949
Total	11,275		11,275	4,984		4,984

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 16. NOTES TO PARENT COMPANY FINANCIAL STATEMENTS (Continued)

### 3. Long-term equity investment (Continued)

#### (2) Investments in subsidiaries

The invested company	31 December	Increment	Decrement	Closing date	Provision for impairment	The closing date of provision for impairment
	2017/ 1 January 2018					
Angang Wuhan	177	60		237		
Angang Hefei	102			102		
Angang Guangzhou	90			90		
Shenyang Trading	121			121		
Shanghai Trading	103			103		
Tianjin Trading	103			103		
Guangzhou Trading	115			115		
Angang Shenyang	98	53		151		
Angang Weifang						
Angang Shanghai	19		19			
Tianjin Trade	27			27		
Angang Dalian	200	66		266		
Ningbo Trade	6			6		
yantai Trade	100			100		
Angang Kobelco	357			357		
ASPD-CC	244	88		332		
Technology and Development	50			50		
Angang Zhengzhou	123	26		149		
Angang Chaoyang	3,545			3,545		
Energy and Technology	33			33		
Chemical Technology	2,500			2,500		
FAW Angang	119			119		
<b>Total</b>	<b>2,035</b>	<b>6,490</b>	<b>19</b>	<b>8,506</b>		



## Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

### 16. NOTES TO PARENT COMPANY FINANCIAL STATEMENTS (Continued)

#### 3. Long-term equity investment (Continued)

- (3) Investments for the joint ventures and associates

*Note:* the same to 6(10) (except Chaoyang Zhongan Water Co., Ltd).

#### 4. Operating revenue and operating cost

- (1) Classified by production

Items	This year		Last year	
	Income	Cost	Income	Cost
Prime operating	95,359	81,006	82,254	71,235
Other operating	299	272	308	310
Total	95,658	81,278	82,562	71,545

*Note:* The Group is classified into an operating segment based on the type of business: production and sale of steel products.

- (2) Classified by region

Items	This year	Last year
Foreign transaction income from the within borders	89,872	76,089
Foreign exchange income from outside borders	5,786	6,473
Total	95,658	82,562

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 16. NOTES TO PARENT COMPANY FINANCIAL STATEMENTS (Continued)

### 4. Operating revenue and operating cost (Continued)

(3) Classified by the time when the revenue is confirmed

<b>Items</b>	<b>This year</b>	Last year
Confirm at a certain point	<b>95,658</b>	82,562
Total	<b>95,658</b>	82,562

### 5. Investment income

<b>Items</b>	<b>This period</b>	Last period
Long-term equity investment income measured at equity method	<b>284</b>	351
Long-term equity investment income measured at cost method	<b>43</b>	16
Investment income of other equity instruments invested in the holding period	<b>9</b>	
Disposal of available for sale financial assets investment returns		14
Others	<b>15</b>	67
Total	<b>351</b>	448



## Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)

### 17. NET CURRENT ASSETS

<b>Items</b>	<b>31 December 2018</b>	1 January 2018	31 December 2017
Current assets	<b>26,908</b>	30,002	30,005
Less: Current liabilities	<b>32,747</b>	36,451	36,451
Net current assets/(liabilities)	<b>(5,839)</b>	(6,449)	(6,446)

### 18. TOTAL ASSETS LESS CURRENT LIABILITIES

<b>Items</b>	<b>31 December 2018</b>	1 January 2018	31 December 2017
Total assets	<b>90,024</b>	94,806	94,886
Less: Current liabilities	<b>32,747</b>	36,451	36,451
Total assets less current liabilities	<b>57,277</b>	58,355	58,435

### 19. SUPPLEMENTARY DOCUMENTS

#### 1. Non-recurring gains and losses

<b>Items</b>	<b>This period</b>	Last period
Gains/losses from disposal of non-current assets	<b>(103)</b>	(44)
Government grant recorded into profit/loss for current period except that relevant to enterprise operation and in compliance with government policies	<b>86</b>	72
Net profit or loss of the subsidiary from business combination under the same control between the beginning of the financial year and the merger date	<b>1,268</b>	
Previous year net profit and loss of subsidiaries arising from business combination under the same control		1,034
Gain or loss from the changes of fair value of financial assets held for trade	<b>(5)</b>	
Changes in fair value of other non-current liabilities (embedded in derivative financial instruments)	<b>68</b>	

# Notes to the Financial Statements (Continued)

For the year 2018 (Expressed in million RMB unless otherwise indicated)



## 19. SUPPLEMENTARY DOCUMENTS (CONTINUED)

### 1. Non-recurring gains and losses (Continued)

Items	This period	Last period
Step-by-step realization of mergers under non-identical control, income from re-measurement of original equity at fair value	(22)	
Consolidation under non-identical control in a step-by-step manner, the consolidated capital is less than the gain from the fair value of the identifiable net assets of the investee when the investment is acquired.	26	
Disposal of investment income from subsidiaries	2	
Other non-operating income/loss not listed above	17	(2)
Subtotal	1,337	1,060
Less: Effect on taxation	17	7
Effect on minority interest (after tax)	1	
Total	1,319	1,053

The Company's confirmation of non-recurring profit and loss items is carried out in accordance with the provisions of the Interpretive Announcement No. 1 of the Company Information Disclosure of Public Offering Securities – Non-recurring Gains and Losses (CSRC Announcement [2008] No. 43).

### 2. Return on equity (ROE) and Earnings per Share (EPS)

Profit in this period	Weighted average (ROE) (%)	EPS(Yuan per share)	
		Basic EPS	Diluted EPS
Net profit attributable to ordinary shareholders	14.82	1.099	1.088
Net profit (exclusive of non-operating profit) attributable to ordinary shareholders	12.36	0.917	0.908

*Note:* The 1 January 2018 for the net asset used to calculate ROE is adjusted due to the application of new financial instrument standards. The effect of the application of new accounting standards on net asset refers to Note 4(25).





## Five-Year Summary

	<b>2018</b>	2017	2016	2015	2014
Operating revenue	<b>105,157</b>	91,683	62,599	51,534	73,768
Net profit	<b>7,952</b>	6,645	1,708	(4,597)	973
Total assets	<b>90,024</b>	94,886	93,127	86,244	89,989
Total liabilities	<b>37,559</b>	42,174	49,068	42,833	42,055
Net assets	<b>52,465</b>	52,712	44,059	43,411	47,934

# 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	During the reporting period, the operation scope of the Company added "sales of manganese iron ore, ilmenite, pig iron, ferroalloy and nonferrous metal; manufacturing of metal wire ropes and products thereof; importing of solid wastes that can be used as raw materials."
Changes of the Controlling Shareholder of the Company	None

## AUDITOR:

Name of auditor	ShineWing Certified Public Accountants (Special General Partnership)
Place of business of auditor	10/F, Block 8, Fuhua Mansion, No.8 Chaoyangmen Beidajie, Dongcheng District, Beijing, China Fan Jianping and Fu Yangyi

## 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:

“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 Co. Ltd* (鞍山鋼鐵集團有限公司), the controlling shareholder of the Company
“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)
“Anshan Iron & Steel Group Complex”	Angang Holding and the companies in which it holds 30% or above interests in (not including the Group)
“ANSI”	Angang New Steel and Iron Company Limited* (鞍鋼集團新鋼鐵有限責任公司), the former wholly-owned subsidiary of Angang Holding. In January 2006, the Company acquired the 100% equity interests in ANSI held by Angang Holding and cancelled the business registration of ANSI.
“Bayuquan Iron & Steel Branch Company”	Bayuquan Iron & Steel Branch Company* (鮫魚圈鋼鐵分公司) of Angang Steel
“Board”	the board of Directors of the Company
“Company” or “Angang Steel”	Angang Steel Company Limited* (鞍鋼股份有限公司)



“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)
“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
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Karara”	Karara Mining Limited (卡拉拉礦業有限公司*)
“Pangang Vanadium & Titanium”	Pangang Group Steel Vanadium & Titanium Co., Ltd.* (攀鋼集團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)
“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 Group Company, 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)



# 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 2018;
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*

18 March 2019

*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\*