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馬 鞍 山 鋼 鐵 股 份 有 限 公 司

Maanshan Iron & Steel Company Limited

(A joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 00323)

SUMMARY OF 2016 ANNUAL RESULTS ANNOUNCEMENT

1. IMPORTANT NOTICE

- 1.1** This summary of 2016 annual results announcement is from the full text of the annual report. To fully understand the business performance, financial situation and future outlook of the Company, investors should read the full text of the annual report for details, which is also published on the Stock Exchange of Hong Kong Limited and the websites designated by China Securities Regulatory Commission, including the website of the Shanghai Stock Exchange.
- 1.2** The board of directors (the “Board”), the supervisory committee, the directors, the supervisors and senior management of the Company warrant that there are no false representations or misleading statements contained in, or material omissions from, this report; and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this report.
- 1.3** All members of the Board attended the Board meeting.
- 1.4** Ernst & Young Hua Ming LLP audited and issued a standard unqualified opinion on the annual financial statements of the Company.
- 1.5 Profit distribution plan or plan for the capitalization of capital reserve during the reporting period considered by the Board**

The Board suggests that no dividends shall be distributed for the year of 2016 and no capital surplus shall be transferred to share capital. The distribution plan is going to be submitted to the Annual General Meeting for approval.

2. COMPANY PROFILE

2.1 Stock Information

| Type of shares | Place of listing | Stock abbreviation | Stock Code |
|----------------|--|-----------------------|------------|
| A Share | The Shanghai Stock Exchange | Magang stock | 600808 |
| H Share | The Stock Exchange of Hong Kong Limited | Maanshan Iron & Steel | 00323 |

Contact people and details

Representative for Securities Affairs

| | |
|----------------|--|
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2.2 Introduction of the Company's Major Businesses during the Reporting Period

As one of the largest iron and steel producers and sellers in China, the Company's major businesses are production and sales of iron and steel products; the main production processes include iron making, steelmaking, steel rolling, etc. Major product of the Company is steel, which can be roughly divided into three types, i.e. plates, long products and wheels and axles.

- Plates: Major products include thin plates and medium plates. Thin plates can be further categorized into hot and cold-rolled thin plates, galvanized plates and coil-coating plates.
- Long products: Major products include section steel and wire rod.
- Wheels and axles: Major products include train wheels, axles and rings

During the reporting period, the major businesses, main products and the usages, operation modes, major driving factors of performance did not experience substantial changes.

During the reporting period, the iron and steel industry to which the Company belongs was at its maturity stage, in which time the market demand had slightly recovered. The supply-side reform achieved initial success but the overcapacity contradiction was still highlighted.

3 MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS

3.1 Major Accounting Data and Financial Indicators for the past three years

Unit: RMB

| | 2016 | 2015 | Increase/ decrease compared to previous year (%) | 2014 |
|---|-----------------------|----------------|--|----------------|
| Total Assets | 66,245,531,030 | 62,454,465,955 | 6.07 | 68,511,174,810 |
| Revenue | 48,275,100,310 | 45,108,926,739 | 7.02 | 59,820,938,286 |
| Net profit attributable to owners of the parent company | 1,228,892,407 | -4,804,299,674 | - | 220,616,025 |
| Net profit excluding non-recurring gains or losses attributable to owners of the parent company | 1,409,936,906 | -5,129,504,672 | - | -154,967,147 |
| Net assets attributable to owners of the parent company | 19,764,171,955 | 18,455,838,015 | 7.09 | 23,295,565,989 |
| Net cash flows from operating activities | 4,619,861,014 | 5,865,332,053 | -21.23 | 2,912,853,829 |
| Basic earnings per share (RMB/share) | 0.160 | -0.624 | - | 0.029 |
| Diluted earnings per share (RMB/share) | 0.160 | -0.624 | - | 0.029 |
| | | | Increased by 29.44 percentage points | |
| Return on net assets (weighted average) % | 6.43 | -23.01 | | 0.95 |

3.2 Major Financial Data by Quarter During the Reporting Period

Unit: RMB'000

| | 1st Quarter (Jan-Mar) | 2nd Quarter (Apr-Jun) | 3rd Quarter (Jul-Sep) | 4th Quarter (Oct-Dec) |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
| Revenue | 9,225,770 | 11,775,393 | 11,990,240 | 15,283,697 |
| Net profit attributable to owners of the parent company | -348,163 | 800,916 | 306,676 | 469,463 |
| Net profit excluding non-recurring gains or losses attributable to owners of the parent company | -403,012 | 872,800 | 240,399 | 699,750 |
| Net cash flows from operating activities | 2,385,380 | -1,858,164 | 1,752,732 | 2,339,913 |

4. SHARE CAPITAL AND SHAREHOLDERS

4.1 Numbers of Shareholders and Holdings of Top Ten Shareholders

| | | | |
|--|---------|--|---------|
| Number of Ordinary Shareholders by the End of Reporting Period (Accounts) | 262,775 | Number of Ordinary Shareholders at the End of Last Month Before the Disclosure Date of Annual Report (Accounts) | 248,732 |
|--|---------|--|---------|

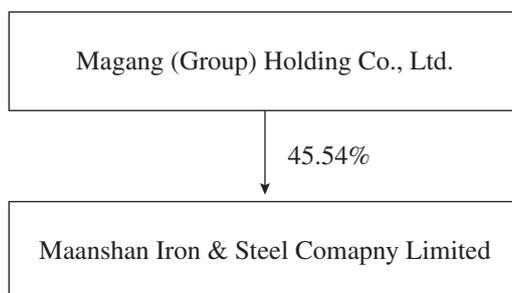
Holdings of Top Ten Shareholders

| Shareholders' Names (Full Names) | Increase and Decrease Within the Reporting Period | No. of Shares at the End of Period | Percentage (%) | No. of Shares under Restricted Condition for Sales | Pledge or Frozen Situations | | Shareholder's Nature |
|---|---|------------------------------------|----------------|--|-----------------------------|-------------|-------------------------|
| | | | | | Share Status | No. | |
| Magang (Group) Holding Co., Limited | – | 3,506,467,456 | 45.54 | – | Pledged | 800,000,000 | State-owned shareholder |
| Hong Kong Securities Clearing Company Nominees Limited | 606,000 | 1,710,814,900 | 22.22 | – | unknown | unknown | unknown |
| Central Huijin Investment Ltd. | unknown | 142,155,000 | 1.85 | – | unknown | unknown | State-owned shareholder |
| China Securities Finance Corporation Limited | unknown | 88,096,538 | 1.14 | – | unknown | unknown | State-owned shareholder |
| Bosera Funds – Agricultural Bank of China (ABC) – Bosera China Securities Finance Asset Management Plan | unknown | 33,609,200 | 0.44 | – | unknown | unknown | unknown |
| E Fund – ABC – E Fund China Securities Finance Asset Management Plan | unknown | 33,609,200 | 0.44 | – | unknown | unknown | unknown |
| Dacheng Fund – ABC – Dacheng China Securities Finance Asset Management Plan | unknown | 33,609,200 | 0.44 | – | unknown | unknown | unknown |
| Harvest Fund – ABC – Harvest China Securities Finance Asset Management Plan | unknown | 33,609,200 | 0.44 | – | unknown | unknown | unknown |
| GF Fund Management – ABC – GF China Securities Finance Asset Management Plan | unknown | 33,609,200 | 0.44 | – | unknown | unknown | unknown |
| Zhong Ou Fund – ABC – Zhong Ou China Securities Finance Asset Management Plan | unknown | 33,609,200 | 0.44 | – | unknown | unknown | unknown |

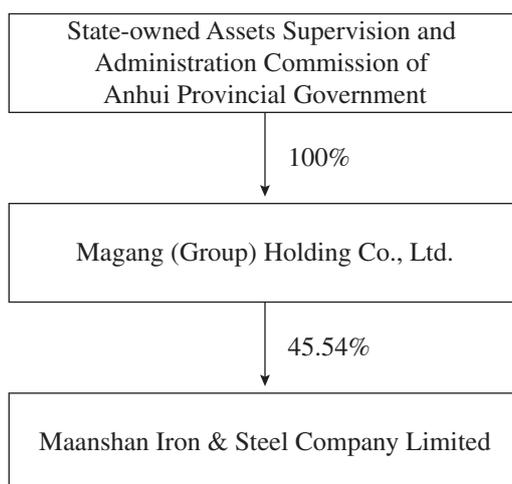
Notes on the above shareholders' affiliated relation or concerted action

Magang (Group) Holding Co., Ltd. has no affiliated relation with any of the other foregoing shareholders, nor is it a person acting in concerted action; however, it is not in the knowledge of the Company whether there is any affiliated relation among other foregoing shareholders and whether they are persons acting in concerted action.

4.2 Block Diagram of Property Rights and Controlling Relations between the Company and Controlling Shareholders



4.3 Block Diagram of Property Rights and Controlling Relations between the Company and Actual Controllers



5. DISCUSSION AND ANALYSIS ON OPERATION

Business Environment

- *The Steel Product Market*

In 2016, the prices of steel in domestic market fluctuated and rose. In 2016, the average monthly value of China Steel Price Index (CSPI) was 75.88 points, representing an increase of 9.45 points or 14.23%.

Overall, the prices of long products and plates products fluctuated and rose. The trend of plates products price is superior to that of the long products price.

- ***The market of raw materials and fuels***

In 2016, the overall trend of iron ore price is similar to that of the steel price, only the rebound rate is slightly lower. The prices of coke surged in the second and third quarter and were finally down in the fourth quarter. According to the statistics of Chinese Customs, the average CIF price of imported iron ore nationwide was US\$56.30/ton in 2016, dropped by 6.9% from the previous year.

To sum up, the impact of increasing steel prices was greater than that of its raw materials. It was the major external factor resulting in common improvement in production and operation of iron and steel enterprises.

- ***Import and Export Market***

Under the influence of improvement in domestic steel market and the intensified friction in steel international trade, China's net export of steel dropped in 2016. According to the statistics of Chinese Customs, the annual export of steel amounted to 108,430,000 tonnes, representing a decrease of 3.5% from the previous year; while the import of steel amounted to 13,210,000 tonnes, representing an increase of 3.4% from last year. The net export of equivalent crude steel was approximately 98,550,000 tonnes, representing a decrease of 4.7% from the previous year. With the rise of international trade protectionism, it becomes more difficult for exporting China's iron and steel products.

During the reporting period, the Group produced 17,640,000 tonnes of pig iron, 18,630,000 tonnes of crude steel and 17,690,000 tonnes of steel, representing a year-on-year decrease of 2.05%, 1.01% and 3.17% respectively (of which the Company produced 13,810,000 tonnes of pig iron, 14,640,000 tonnes of crude steel and 13,740,000 tonnes of steel, representing a year-on-year increase of 4.31%, 2.67% and 1.78% respectively). Principal activities of the Company during the reporting period were as follows:

- 1) Focused on production and maintained stable operation. The iron-making system achieved continuously stable and balanced production by improving the "physical examination" rules and security early-warning mechanism of blast furnace operation; the steel rolling system advanced specialized production and optimized work allocation of production lines to effectively release the capacity of superior production lines; optimizing the management and control system of the utility energy system to promote the economical operation of systematic energy with manufacturing units; developed precision management for key production line equipments and explored comprehensive efficiency ratings of key production line equipments by strengthening the control of equipment status of the equipment system. The Company was awarded the title of The Tenth Nationwide Equipment Management Outstanding Unit.

- 2) Closely monitored market demand and spared no efforts in product structure adjustment. By expanding the proportion of high value-added products, the production and sales volume of auto sheet exceeded 2,000,000 tonnes and the Company realized an increase of 38.6% in high grade silicon steel production (W470 above); the sales volume of newly developed products was 386,000 tonnes, representing an increase of 38% as compared to last year.
- 3) Strengthened the management of intellectual property and brand building. The Company's three products: low-alloy high-strength hot-rolled H-shaped steel for structure, hot-rolled H-shaped steel for oceanographic platforms and hot-rolled ridged steel bars for reinforced concrete were awarded the "Golden Cup Prize of Quality Metal Products" in which the hot-rolled H-shaped steel for oceanographic platforms was awarded "Superb Quality Award".
- 4) Actively promote outstanding performance management mode. The Company won the Sixteenth National Quality Award presented by China Quality and Assurance Committee; and the title of "Enterprise with Quality and Creditability in China 2016" presented by China Entry & Exit Inspection and Quarantine Association.
- 5) Continued benchmarking and cost reduction. The Company strengthened cost management control measures and promoted benchmarking of processes and production lines.
- 6) Strengthened marketing operation to create efficiency. Improved market research and decision-making capacity and constructed a new marketing model for the market. Innovated marketing mechanism, improved pricing strategy, developed sales channels to focus on regional markets, expanded E-business sales and optimized export arrangement. Developed 175 new clients throughout the year and increased the direct supply ratio of plates and strips to 66%; sold 520,000 tonnes of steel on E-business platforms and exported 1,210,000 tonnes of steel.
- 7) Implemented optimization of human resources. The Company enhanced productivity of employees resulting in significant reduction on salary costs and labor costs in the year.
- 8) Strengthened safe production responsibility mechanism, promoted the construction of safe production standardization and maintained stable status of safe production.
- 9) Strictly implemented rigid requirements of environmental protection and strengthened the efforts of environmental governance. The Company gained the title of "Clean Production Environmental-Friendly Enterprise" presented by the China Iron and Steel Association.

5.1 Analysis of Principal Operation

Analysis of the change in items of the income statement and cash flows statement

Unit: RMB

| Items | Amount of the current year | Amount of the same period of last year | Change (%) |
|---|----------------------------------|---|---------------|
| Revenue | 48,275,100,310 | 45,108,926,739 | 7.02 |
| Cost of Sales | 42,557,487,675 | 45,488,440,552 | -6.44 |
| Taxes and surcharges | 432,096,408 | 201,228,046 | 114.73 |
| Selling expenses | 694,782,730 | 635,859,844 | 9.27 |
| General and administrative expenses | 1,780,281,484 | 1,538,609,887 | 15.71 |
| Financial expenses | 793,650,976 | 813,036,439 | -2.38 |
| Impairment losses | 1,064,257,636 | 1,619,389,979 | -34.28 |
| Gain on the changes in fair value | 4,051,190 | 819,265 | 394.49 |
| Investment income | 291,396,463 | 93,725,198 | 210.91 |
| Non-operating income | 205,202,902 | 384,059,748 | -46.57 |
| Non-operating expenses | 84,618,416 | 17,538,205 | 382.48 |
| Income tax expense | 111,880,234 | 377,912,379 | -70.40 |
| Net profit attributable to owners of the parent company | 1,228,892,407 | -4,804,299,674 | - |
| Net profit attributable to non-controlling interests | 27,802,899 | -300,184,707 | - |
| Exchange differences on translation of foreign operation | 46,990,704 | -28,291,071 | - |
| Net cash flows from operating activities | 4,619,861,014 | 5,865,332,053 | -21.23 |
| Net cash flows used in investing activities | -1,937,596,411 | -3,621,073,001 | - |
| Net cash flows used in financing activities | -2,090,939,141 | -1,554,872,283 | - |
| Research and development expenditure | 752,570,000 | 672,210,000 | 11.95 |

- The year-on-year increase of revenue was mainly caused by rising price of steel products in 2016.
- The year-on-year decrease of costs of sales was mainly caused by declining production costs resulted from the Company's continuous cost reduction and efficiency enhancement and the production suspension in Ma Steel (Hefei) Iron & Steel Co., Ltd.
- Taxes and surcharges increased by 114.73% over the previous year, mainly due to inclusion of the property tax, land use tax, vehicle and vessel use tax, stamp duty and other taxes arising from operating activities in this item, since 1 May 2016.
- Impairment losses declined by 34.28% over the previous year, mainly due to rising price of steel product this year and reducing provision for inventory impairment in the current year.

- Gain on the changes in fair value increased by 394.49% over the previous year, mainly due to fair value fluctuation of the currency forward contract this year.
- Investment income increased by 210.91% over the previous year, mainly due to this year's increase in net profit of the associate companies and joint ventures as compared with last year.
- Non-operating income dropped by 46.57% over the previous year, mainly due to this year's reduction in the government's financial subsidies as compared with last year.
- Non-operating expense rose by 382.48% over the previous year, mainly due to this year's increase in losses of fixed asset disposal, caused by engineering construction, technological transformation and demolition, etc.
- Income tax expense decreased by 70.40% over the previous year, mainly due to declined deferred income tax expense this year as compared with last year.
- Net profit attributable to owners of the parent company amounted to RMB1,228,892,407, and the profits increased by RMB6,033,192,081 over the previous year, mainly because of rising steel price leading to an increase in gross profit margin this year.
- Net profit attributable to non-controlling interests amounted to RMB27,802,899, and the profits increased by RMB327,987,606 over the previous year, mainly due to rising profit of non-wholly-owned subsidiaries this year as compared with last year.
- Exchange differences on translation of foreign operation amounted to RMB46,990,704, rising by RMB75,281,775 over the previous year, mainly due to appreciation of the accounting currency against RMB for overseas subsidiaries.

1. Analysis of Sales and Cost

(1) Analysis of Principal Operation by Industry, Products and Regions

Unit: RMB million

| Industry | Revenue | Principal operation by industry | | | | |
|----------------|---------|---------------------------------|------------------|---|---|---|
| | | Cost of sales | Gross profit (%) | Increase/ (decrease) of revenue when compared with same period of last year (%) | Increase/ (decrease) of cost of sales when compared with same period of last year (%) | Increase/ (decrease) of gross profit margin when compared with same period of last year (%) |
| Iron and Steel | 46,095 | 40,197 | 12.80 | 7.57 | -7.02 | Increased by 13.68 percentage points |

Principal operation by product

| Product | Revenue | Cost of sales | Gross profit (%) | Increase/ (decrease) of revenue when compared with same period of last year (%) | Increase/ (decrease) of cost of sales when compared with same period of last year (%) | Increase/ (decrease) of gross profit margin when compared with same period of last year (%) |
|------------------|----------------|----------------------|-------------------------|--|--|--|
| Long products | 17,713 | 16,198 | 8.55 | 1.37 | -9.77 | Increased by 11.28 percentage points |
| Steel plates | 25,908 | 21,736 | 16.10 | 13.50 | -5.54 | Increased by 16.91 percentage points |
| Wheels and axles | 1,462 | 1,251 | 14.43 | -9.25 | -7.88 | Decreased by 1.27 percentage points |

Principal operation by region

| Region | Revenue | Cost of sales | Gross profit (%) | Increase/ (decrease) of revenue when compared with same period of last year (%) | Increase/ (decrease) of cost of sales when compared with same period of last year (%) | Increase/ (decrease) of gross profit margin when compared with same period of last year (%) |
|------------------------|----------------|----------------------|-------------------------|--|--|--|
| Anhui | 18,980 | 17,035 | 10.25 | 1.57 | -13.09 | Increased by 15.14 percentage points |
| Jiangsu | 7,680 | 6,940 | 9.64 | 17.31 | 5.90 | Increased by 9.75 percentage points |
| Shanghai | 7,554 | 6,524 | 13.64 | 19.64 | 7.96 | Increased by 9.35 percentage points |
| Zhejiang | 2,829 | 2,540 | 10.22 | 1.29 | -8.96 | Increased by 10.11 percentage points |
| Guangdong | 1,619 | 1,381 | 14.70 | 23.40 | 4.15 | Increased by 15.77 percentage points |
| Other Mainland regions | 5,938 | 4,971 | 16.28 | 5.58 | -8.05 | Increased by 12.40 percentage points |
| Overseas and Hong Kong | 3,675 | 3,166 | 13.85 | -4.12 | -16.00 | Increased by 12.18 percentage points |

Explanations on principal operation by industry, products and Regions

During the reporting period, the group's revenue from principal operation was RMB47,324 million, wherein the iron & steel income was RMB46,095 million, accounting for 97% of the principal operation revenue.

(2) Analysis of Production and Sales Volumes

| Product | Production Volume | Sales Volume | Inventory | Year-on-year increase/decrease of production volume (%) | Year-on-year increase/decrease of sales volume (%) | Year-on-year increase/decrease of inventory (%) |
|------------------|-------------------|------------------|----------------|---|--|---|
| Long products | 8,380,000 tonnes | 8,279,000 tonnes | 212,000 tonnes | -6.57 | -7.45 | 90.99 |
| Steel plates | 9,169,000 tonnes | 9,202,000 tonnes | 50,000 tonnes | 0.47 | 1.41 | -39.76 |
| Wheels and axles | 142,000 tonnes | 144,000 tonnes | 5,000 tonnes | -18.39 | -17.24 | -28.57 |

(3) Analysis of costs

Unit: RMB million

| By industry | Cost components | By industry | | | | Change in proportion of amount in 2016 against amount in 2015 (%) |
|----------------|-----------------|----------------|-----------------------------|-----------------|-----------------------------|---|
| | | Amount in 2016 | % of total cost in 2016 (%) | Amounts in 2015 | % of total cost in 2015 (%) | |
| Iron and Steel | Raw materials | 31,495 | 74.01 | 30,252 | 66.51 | 4.11 |
| Iron and Steel | Salary | 3,273 | 7.69 | 3,410 | 7.50 | -4.02 |
| Iron and Steel | Depreciation | 3,245 | 7.63 | 3,365 | 7.40 | -3.57 |
| Iron and Steel | Fuels | 3,260 | 7.66 | 4,145 | 9.11 | -21.35 |
| Iron and Steel | Others | 1,284 | 3.01 | 2,058 | 4.52 | -37.61 |

(4) Analysis of Major Customers and Major Suppliers

The amount of total sales to the top five customers was RMB4,557 million, accounting for 9% of the annual sales. Among the sales to the top five customers, the amount of sales to the related parties was nil, accounting for 0% of the annual sales.

The amount of the total purchase from the top five suppliers was RMB8,863 million, accounting for 35% of the annual purchase. Among the purchase from the top five suppliers, the amount of purchase from the related parties was RMB2,862 million, accounting for 11% of the annual purchases.

Other explanations

Amongst the key suppliers was Magang (Group) Holding Co., Ltd., the controlling shareholder of the Company. Beyond that, in 2016, there were no directors or supervisors or their connected persons or any shareholders (to the best knowledge of the board of directors, holding 5% or above of the shares in our company) having any beneficial interests in the top five suppliers or customers of our company.

2. Expenses

During the reporting period, there was no significant change in the Group's selling expenses, general and administration expenses and financial expenses.

3. Research and Development (R&D) Expenditure

R&D expenditure breakdown

Unit: RMB million

| | |
|---|--------|
| Expensed R&D expenditure in 2016 | 752.57 |
| Capitalized R&D expenditure in 2016 | – |
| Total R&D expenditure | 752.57 |
| Total R&D expenditure as a percentage of revenue (%) | 1.56 |
| Number of the Company's R&D staff | 3,787 |
| Percentage of R&D staff number to the Company's total number of employees (%) | 11.80 |
| Percentage of capitalized R&D expenditure (%) | – |

4. Cash Flows

- Net cash inflow from operating activities was approximately RMB4.6 billion, and the significant difference from the net profit in the reporting period is caused by provision for inventory impairment and depreciation expense this year.
- Net cash inflow from operating activities amounted to RMB4,619,861,014, down by 21.23% over the last year, mainly due to a substantial rise of the note endorsement and transfer settlement in sales activities this year, leading to declined cash inflow from operating activities and increasing inventory compared with the last year.
- Net cash outflow from investing activities amounted to RMB1,937,596,411, while net cash outflow of last year amounted RMB3,621,073,000, mainly due to a reduction in both the net cash outflow from financial asset investment and the cost of construction in progress this year.
- Net cash outflow from financing activities amounted to RMB2,090,939,141, while net cash outflow of last year amounted to RMB1,554,872,283, mainly due to a reduction in the company's direct financing this year, as well as payment of corporate bonds due within one year.

5.2 Analysis of Assets and Liabilities

Assets and liabilities

Unit: RMB'000

| Item | Closing balance of 2016 | Percentage of closing balance of 2016 in total assets (%) | Closing balance of 2015 | Percentage of closing balance of 2015 in total assets (%) | Year-on-year change (%) |
|---|-------------------------|---|-------------------------|---|-------------------------|
| Financial assets measured at fair value | | | | | |
| through profit or loss | 555,322 | 0.84 | 1,005,271 | 1.61 | -44.76 |
| Interest receivable | 4,045 | 0.01 | 1,600 | - | 152.81 |
| Prepayments | 925,051 | 1.40 | 634,407 | 1.02 | 45.81 |
| Other receivables | 127,615 | 0.19 | 190,348 | 0.30 | -32.96 |
| Inventories | 10,548,062 | 15.92 | 6,018,496 | 9.64 | 75.26 |
| Financial assets purchased under agreements to resell | 230,047 | 0.35 | - | - | - |
| Loans and advances to customers | 1,555,213 | 2.35 | 732,914 | 1.17 | 112.20 |
| Available-for-sale financial investments | 577,948 | 0.87 | 128,934 | 0.21 | 348.25 |
| Construction in process | 2,258,191 | 3.41 | 4,245,763 | 6.80 | -46.81 |
| Deposits and balances from banks and other financial institutions | 3,708,225 | 5.60 | 1,901,390 | 3.04 | 95.03 |
| Repurchase agreements | 596,566 | 0.90 | - | - | - |
| Bills payable | 3,584,228 | 5.41 | 5,343,906 | 8.56 | -32.93 |
| Advances from customers | 3,682,322 | 5.56 | 2,602,554 | 4.17 | 41.49 |
| Payroll and benefits payable | 550,445 | 0.83 | 274,615 | 0.44 | 100.44 |
| Taxes payable | 274,232 | 0.41 | 149,898 | 0.24 | 82.95 |
| Dividends payable | 8,714 | 0.01 | 6,526 | 0.01 | 33.53 |
| Other payables | 1,912,575 | 2.89 | 1,258,464 | 2.02 | 51.98 |
| Non-current liabilities due within one year | 3,211,056 | 4.85 | 5,084,859 | 8.14 | -36.85 |
| Accrued liabilities | 29,580 | 0.04 | 22,233 | 0.04 | 33.05 |
| Other current liabilities | 2,273,058 | 3.43 | - | - | - |
| Long-term payroll and benefits payable | 159,173 | 0.24 | 28,857 | 0.05 | 451.59 |
| Special reserve | 27,970 | 0.04 | 14,374 | 0.02 | 94.59 |
| General reserve | 153,395 | 0.23 | 102,539 | 0.16 | 49.60 |
| Retained profits | -190,569 | -0.29 | -1,368,605 | -2.19 | - |

- The financial assets measured at fair value through profit or loss decreased by 44.76% over the previous year, mainly due to a reduction of banking financial products held by the finance company, a subsidiary of the Company.
- Interest receivable increased by 152.81% compared with the end of last year, mainly due to a rise in the interests receivable for loans granted by the finance company to entities beyond the group.
- Prepayments increased by 45.81% compared with the end of last year, mainly due to an increase in the advance payments for purchasing the raw materials and fuels.

- Other receivables decreased by 32.96% compared with the end of last year, mainly due to the decline in the receivable deposits for steel futures trading.
- Inventories increased by 75.26% compared with the end of last year, mainly due to rising price of raw materials, fuel and the cost of finished products.
- Financial assets purchased under agreements to resell was RMB230,047,000 and nil at the end of last year, mainly because the finance company increased reverse repurchase business this year.
- Loans and advances to customers increased by 112.20% compared with the end of last year, mainly because the finance company increased the bill discount amount to third parties.
- Available-for-sale financial investments increased by 348.25% compared with the end of last year, mainly because the finance company purchased policy financial bonds and corporate bonds, plus the interbank deposit this year.
- Construction in process decreased by 46.81% compared with the end of last year, mainly because the company's 4 # blast furnace, as well as the public and ancillary supporting project are transferred to fixed assets upon completion.
- Deposits and balances from banks and other financial institutions rose by 95.03% compared with the end of last year, mainly because Magang (Group) Holding Co., Ltd. and its subsidiaries increased asset deposit into the finance company.
- Repurchase agreements was RMB596,565,698 and nil at the end of last year, mainly due to inter-bank discount of bills and bonds by the finance company to other financial institutions this year.
- Bills payable decreased by 32.93% compared with the end of last year, mainly caused by more frequent receivable note endorsement and transfer, to reduce issuance of notes payable.
- Advances from customers increased by 41.49% compared with the end of last year, mainly due to the rise in steel price and the increase in customers' advance payment for steel this year.

- Payroll and benefits payable increased by 100.44% compared with the end of last year, mainly due to increasing performance bonuses for the improved operation of the Company.
- Taxes payable increased by 82.95% compared with the end of last year, mainly due the increase of value add tax and other taxes for this year's increase of income.
- Dividends payable increased by 33.53% compared with the end of last year, mainly due to the increase in the payable dividends of subsidiaries to minority shareholder.
- Other payables increased by 51.98% compared with the end of last year, mainly because the Group imported iron ore by means of forfeiting this year, and changed the creditor from the holding subsidiary Ma Steel (Hong Kong) Co., Ltd. in prior years to a commercial bank in current year.
- Non-current liabilities due within one year decreased by 36.85% compared with the end of last year, mainly due to this year's payment of corporate bonds due within one year.
- Accrued liabilities increased by 33.05% compared with the end of last year, mainly due to increase in the provision for a pending litigation of Ma Steel Wharton Holding Co., Ltd. and the provision for mine rehabilitation in Australia.
- Other current liabilities amounted to RMB2,273,058,356 and nil at the end of last year, mainly due to this year's issuance of RMB2 billion short-term financing bills due within one year.
- Long-term payroll and benefits payable increased by 451.59% compared with the end of last year, mainly due to employee benefits of the retired staff caused by de-capacity and human resource optimization this year.
- Special reserve rose by 94.59% compared with the end of last year, mainly because of changes in production safety expense of the company's subsidiaries Chang Jiang Steel & Iron and Hefei Steel & Iron and net change in the Company's portion of special reserve in associate companies.
- General reserve increased by 49.60% compared with the end of last year, mainly due to the increase in loan granting and bill discount business of the finance company.
- Retained profits amounted to RMB-190,568,622 at the end of current year and -1,368,605,137 at the end of last year, mainly due to the group's profit for this year.

5.3 Operational Information Analysis of the Industry

Operation Information

2016 is the first year to settle the work of iron and steel overcapacity, and in the domestic steel and iron industry, crude steel capacity of more than 65 million tons is resolved. Meanwhile, fixed asset investment in the steel and iron industry stood at RMB513.9 billion, down by 8.6% compared with the last year, which is conducive to solve the severe overcapacity. However, because of low industrial concentration, and the problem of overcapacity is still rather serious; international steel trade frictions are intensified, original fuel prices rise sharply, “ground steel strip” chaos is serious, and the market environment remains to be further improved.

Company Information

The Company is located in Eastern China, which is an area with net inflow of steel products. During the reporting period, the production capacity and utilisation rates were as follows:

| Product type | production capacity (‘000 tonnes) | Utilisation rate of production capacity (%) |
|------------------|--------------------------------------|---|
| Pig iron | 19,920 | 89 |
| Crude steel | 23,620 | 79 |
| Steel production | 21,270 | 83 |

Steel and Iron Industry Operational Information Analysis

1. Manufacturing and sales of steel material based on Processing Techniques

Unit: RMB Million

| Type based on processing | Production | | Sales | | Revenue | | Cost of sales | | Gross profit margin (%) | |
|-----------------------------|-----------------|------------|-----------------|------------|---------|--------|---------------|--------|----------------------------|-------|
| | volume (tonnes) | | volume (tonnes) | | | | | | | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Cold-rolled steel | 4,787,338 | 4,221,000 | 4,785,420 | 4,215,000 | 14,684 | 11,676 | 12,702 | 11,820 | 13.50 | -1.23 |
| Hot-rolled steel | 12,761,582 | 13,874,000 | 12,695,554 | 13,804,000 | 28,937 | 28,624 | 25,232 | 29,142 | 12.80 | -1.81 |
| Wheel and axles | 142,196 | 174,000 | 143,814 | 174,000 | 1,462 | 1,611 | 1,251 | 1,358 | 14.43 | 15.70 |

2. Performances of Steel Material Manufacturing and Sales Based on Forms of Finished

Unit: RMB Million

| Types based on forms of finished products | Production volume (tonnes) | | Sales volume (tonnes) | | Revenue | | Cost of sales | | Gross profit margin (%) | |
|---|----------------------------|-----------|-----------------------|-----------|-----------|--------|---------------|--------|-------------------------|-------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| | Long Products | 8,380,085 | 8,969,331 | 8,278,910 | 8,944,863 | 17,713 | 17,474 | 16,198 | 17,951 | 8.55 |
| Steel Plates | 9,168,835 | 9,126,341 | 9,202,064 | 9,073,868 | 25,908 | 22,826 | 21,736 | 23,011 | 16.10 | -0.81 |
| Wheels and axles | 142,196 | 174,000 | 143,814 | 174,000 | 1,462 | 1,611 | 1,251 | 1,358 | 14.43 | 15.70 |

3. Performances of Steel Material Sales Based on Sales Channels

Unit: RMB Million

| Based on sales channels | Revenue | | Percentage (%) in total revenue | |
|-------------------------|---------|--------|---------------------------------|-------|
| | 2016 | 2015 | 2016 | 2015 |
| Offline sales | 43,190 | 40,770 | 89.47 | 90.38 |
| Online sales | 1,890 | 1,140 | 3.92 | 2.53 |

4. Supply of iron ore

Unit: RMB Million

| Supply source of iron ore | Supply volume (tonnes) | | Expenses | |
|---------------------------|------------------------|------------|----------|-------|
| | 2016 | 2015 | 2016 | 2015 |
| Domestic source | 7,196,830 | 7,415,151 | 3,298 | 3,139 |
| Overseas import | 19,864,484 | 19,803,055 | 8,273 | 9,471 |

5.4 Investment Analysis

General analysis of external equity investment

Unit: RMB Million

| | |
|--|----------|
| Investment amount as at the end of the reporting period of the Company | 7,278.89 |
| Increase/decrease of investment amount | 321.69 |
| Investment amount as at the end of previous year of the Company | 6,957.20 |
| Increase/decrease in investment amount (%) | 4.62 |

(1) Significant Equity Investment

Information of companies newly established or with investment changes during the reporting period

| Name of Invested Company | Main Business | Equity Interest |
|---|--|------------------------|
| Ma Steel Rail Transportation Equipment Co., Ltd. | Railway freight car wheel axle, passenger car wheel axle, urban rail traffic wheel axle, high speed CHR unit wheel axle and locomotive wheel axle R&D, manufacturing, repair, sales, as well as bogie R&D, manufacturing, sales and related technical consulting service; wholesale and retail of railway vehicle parts, metal material, building material, chemical product (except for dangerous goods and easy-to-make drugs), hardware, electrical appliances & accessories, grease, housing and equipment rental; self-operation or agent of goods and technology import and export business. | 100% |
| Masteel America INC. | Pre-sale, in-sales and after-sales services in relation to exports of Magang's train wheels and H-shaped steel products to the markets in Americas | 100% |
| Mascometal Co., Ltd. | Development, manufacturing and sales of steel wire rods and bars used in automobile industry and finished iron and steel products, the provisions of after-sales services and related technical services, as well as trading businesses (excluding distribution) | 66% |
| Ma Steel (Cihu) Steel Processing & Distribution Co., Ltd. | Production, processing and sales of various steel plates, wire rods, profile products, providing product warehousing and after-sales service, housing rental business. | 92% |

In the reporting period, a wholly-owned subsidiary Masteel America INC. was established, with a total investment of USD500,000; and the Mascometal Co., Ltd. was established under joint investment of ASCO Industrial Corporation and Ma'anshan Yushan District Urban Development Investment Group Co., Ltd., with registered capital of Euro32 million.

In the reporting period, the wholly-owned subsidiary of Ma Steel Rail Transportation Equipment Co., Ltd. increased capital of RMB60 million.

Ma Steel (Wuhu) Processing and Distribution Co., Ltd., a subsidiary of the Group agreed to transfer 92% equity interest of Ma Steel (Cihu) Steel Processing & Distribution Co., Ltd. to the Company. Besides, Ma-Steel OCI chemical Co., Ltd. was established in February 2015, and the Company have increased the paid-in capital by amount RMB22.51 million under the capital installment during 2016, in the result of constant equity interest, which is 40%.

(2) Significant non-equity investment

Unit: RMB million

| Project Name | Budgeted Investment | New Investment | Project Progress |
|---|----------------------------|-----------------------|-------------------------|
| Product quality projects | 6,417 | 1,344 | 82% |
| Energy-saving and environment protection projects | 2,623 | 994 | 84% |
| Equipment advancement and other modification projects | 2,360 | 272 | 85% |
| Other projects | N/A | <u>416</u> | N/A |
| Total | | <u><u>3,026</u></u> | |

During the reporting period, there were additional investment in property, plant and equipment which amounted to RMB112 million, and intangible assets amounted to RMB2 million, except for the construction in progress investment mentioned above.

5.5 Analysis of the Group's major subsidiaries and investees

- Ma Steel (Hefei) Iron & Steel Co., Ltd. has a registered capital of RMB2,500 million, in which the Company holds a direct stake of 71%. It is mainly engaged in metallurgy and extended processing of ferrous metals and sale of resulting products and by-products; production and sale of coke and coke chemical products and energy, extended processing of iron and steel products, production and sale of metallic products. Net loss for the reporting period amounted to RMB544 million. As at the end of the reporting period, it had total assets amounting to RMB4,734 million and net assets of RMB2,137 million.

- Anhui Chang Jiang Iron and Steel Co., Ltd. has a registered capital of RMB1,200 million, in which the Company holds a direct stake of 55%. It is mainly engaged in ferrous metal smelting, the production and sales of screw threaded steel, round steel, section steel, angle steel, deformed steel, wire and rod, sales of iron ore and iron ore fines and scrap steel as well as import and export. As at the end of the reporting period, it recorded net profit of RMB296 million, total assets of RMB6,330 million and net assets of RMB2,508 million.
- Magang Group Finance Co., Ltd. has a registered capital of RMB1,000 million and 91% of its equity is directly owned by the Company. It is chiefly responsible for providing corporate finance, financial advisory, consulting and intermediary services to its members. It provides guarantee against borrowing, offers note acceptance and discount, lending and financial leasing services to its members. Its other activities include interlending, collection and payment for transactions between members, approved insurance brokerage, entrustment loans for members, internal transfer and bill settlement, design of settlement and liquidation plans, and taking deposits from members. In the reporting period, it posted a net profit of RMB109 million. At the end of the reporting period, its total asset value was RMB9,024 million and net asset was RMB1,586 million.
- The wholly-owned subsidiary MG-VALDUNES S.A.S., with registered capital of Euro40.2 million, is mainly specialized in design, manufacturing, processing, putting into production, repairing and maintaining of all kinds of products and facilities that are applied in railway transportation, urban transportation and mechanical industry; sales, import and export of various shapes of steel products. In the reporting period, the net losses amounted to RMB127 million; at the end of reporting period, the total assets stood at RMB534 million, and the net assets were RMB108 million.
- Anhui Masteel K. Wah New Building Materials Co., Ltd. has a registered capital of US\$8.389 million, in which the Company holds a direct stake of 70%. It is mainly engaged in the production, sale and transportation of slag comprehensive utilization products and the provision of related technological consultation services. Net profit for the reporting period was RMB19 million. As at the end of the reporting period, it had total assets amounting to RMB216 million and net assets of RMB129 million.
- Ma Steel (Wuhu) Processing and Distribution Co., Ltd. has a registered capital of RMB35 million, in which the Company holds direct and indirect stakes of 70% and 27.3%, respectively. It is mainly engaged in the processing and sale of metallic products, processing of automobile spare parts and sale of construction materials and chemical products. Net profit for the reporting period amounted to RMB39 million. As at the end of the reporting period, it had total assets amounting to RMB349 million and net assets of RMB115 million.
- Ma Steel (Yangzhou) Processing and Distribution Co., Ltd. has a registered capital of US\$20 million, in which the Company holds a direct stake of 71%. It is mainly engaged in the production, processing and sale of steel plates, wire rods and section steel, as well as provision of storage and after-sales services. Net profit for the reporting period amounted to RMB17 million. As at the end of the reporting period, it had total assets amounting to RMB293 million and net assets of RMB192 million.

- Maanshan Iron and Steel (Australia) Proprietary Limited, a wholly-owned subsidiary, has a registered capital of AU\$21.7379 million. It is mainly engaged in investment and trading. Net profit for the reporting period amounted to RMB23 million. As at the end of the reporting period, it had total assets amounting to RMB205 million and net assets of RMB199 million.
- Ma Steel (Hefei) Processing and Distribution Co., Ltd. has a registered capital of RMB120 million, in which the Company holds direct and indirect stakes of 61% and 25.48%, respectively. It is mainly engaged in processing and sale of steel plates and production and sale of construction steel framework products, as well as the provision of storage and transportation services. Net loss for the reporting period amounted to RMB31 million. As at the end of the reporting period, it had total assets amounting to RMB425 million and net assets of RMB165 million.
- Masteel (Hong Kong) Co., Ltd. has a registered capital of HK\$260 million, in which the Company holds a direct stake of 91%. It is mainly engaged in the production, sale and agency of steel products and trading of pig iron. Net profit for the reporting period amounted to RMB18 million. As at the end of the reporting period, it had total assets amounting to RMB1,310 million and net assets of RMB253 million.
- Maanshan BOC-Ma Steel Gases Company Limited has a registered capital of RMB468 million and the company directly holds 50% equity, to mainly produce, sell air or liquid form of air products, and engage in preparation for other industrial gas products. In the reporting period, the net profits amounted to RMB166 million; at the end of reporting period, the total assets stood at RMB729 million, and the net assets were RMB638 million.
- In 2016, Anhui Chang Jiang Iron and Steel Co., Ltd. had a revenue of RMB8,024 million and a profit of RMB826 million from its principal business while MG-VALDUNES S.A.S. had a revenue of RMB338 million and a loss of RMB63 million from its principal business. Ma Steel (Hefei) Iron & Steel Co., Ltd. had a revenue of RMB2,812 million and a profit of RMB69 million from its principal business.

6 DISCUSSION AND ANALYSIS ON THE COMPANY'S FUTURE DEVELOPMENT

6.1 Industry landscape and trend

China's iron and steel industry is now in the latter half period of the production and consumption peak curve and in the period of market pattern in-depth adjustment, showing apparent polarization. The iron and steel industry is still the basic industry of national economy, with certain room for further development. In 2016, BAOSTEEL Group and Wuhan Iron and Steel Group jointly reorganized to establish China BAOWU Steel Group which will dominate the market of domestic high-end auto plate, silicon steel and other fields, putting a significant competitive pressure on the plate products of the group.

At present, the group's product structure covers a wide range; therefore, in the future market competition, it may flexibly deploy resources, and produce the best varieties of steel according to market conditions. In addition, the company is located along the Yangtze River, with short-term and low shipping costs to all places, to ensure a prominent market competitiveness of products.

6.2 Corporate development strategy

Adhere to iron and steel industry as the core, pursue economies of scale, introduce EVI concept in an all-round way, combine product upgrading and service innovation, focus on brand strategy and low cost strategy, reinforce product, optimize structure, establish brand, create a steel and iron material service provider with unique characteristics, strive to ensure industrial competitiveness leading the industry, enhance overall business, environment, employee and social performance, and develop the company with a brand of "good benefit, eco-friendliness, employee morale, customer trust and social respect".

6.3 Business plan

In 2017, the group plans to produce pig iron of 18.22 million tons, crude steel of 19.17 million tons and steel of 18.24 million tons (of which the company plans to produce pig iron of 14.40 million tons, crude steel of 15.25 million tons and steel of 14.32 million tons), and there is no significant change compared with the current year.

6.4 Potential risks

1. *Risks of trade friction on steel exports*

In recent years, with the rapid growth of China's steel and iron product export, trade protection measures against China's steel export were increasing. In 2016, the United States launched the most severe "steel & iron 337 investigation" on China, to push trade protectionism to the peak, and the EU also quickly followed up, so as to severely hinder Chinese steel and iron product export to Europe, the United States and other major markets.

Countermeasures: actively respond and defend based on facts, and take trade friction solutions of investigation coordination, reasonable appeal, etc, to enhance competitiveness of company products in the international market.

2. *Capacity reduction policy and industrial risk*

The country will ban "ground steel strip" prior to the end of June 2017, and reduce steel and iron capacity of around 50 million tons again throughout the year, which is conducive to alleviate the situation of overcapacity, but in view of the promulgated environmental protection and relocation capacity planning program in some areas, the competition of domestic plate market will further intensify in the future, and exert a certain impact on the company.

Countermeasures: intensify development of top-quality end customers of plates, narrow down the ordinary steel market, optimize the layout of long material, and increase market share in East China.

3. *Risks of business models*

In recent years, direct supply ratio of the Company has been increasing, bringing certain efficiency to the Company, while certain risks come with excessive direct supply ratio: because downstream clients now don't have raw material inventory generally, once the downstream industry shrinks and production slack season comes, the Company's order will be in shortage.

Countermeasures: keep track of changed demand of end users in time, reasonably distribute resource ratio to direct supply, dealers and self marketing and ensure stable production and operation.

4. *Risk of significant fluctuations in RMB exchange rate*

With the US dollar entering into the rate hike cycle, significant fluctuations in the RMB exchange rate becomes inevitable. Not only will changes in exchange rate bring certain price risk to the import of iron ore and the export of steel but it may bring some risks to the Company's non-Renminbi debts.

Countermeasures: give full play to the financing advantage of the subsidiaries, actively adjust liabilities structure and funding status of the Company, increase steel exports to improve USD-denominated revenue and maintain balance between foreign exchange assets and liabilities of the Company.

7. SIGNIFICANT EVENTS

7.1 Plan or Proposal of Profit Distribution for Ordinary Shares, Plan or Proposal of Transferring Capital Reserve to Increased Equity for the past three years

In 2016, the Company realized net profit amounted to RMB1,363 million in accordance with China Accounting Standards. The undistributed accumulated loss was RMB126 million as at 31 December 2016 (31 December 2015: accumulated loss RMB1,489 million). As the Company's profit available for distribution to the shareholders was negative at the end of 2016, the Board suggests that no dividends shall be distributed for the year of 2016 and no capital surplus shall be transferred to share capital. The distribution plan is going to be submitted to the Annual General Meeting for approval. There was no profit distribution in 2014 and 2015.

7.2 Remunerations of the Auditors

During the year, Ernst & Young Hua Ming LLP was appointed as the auditors of the Company, who has completed the annual financial audit and relevant internal control audit and has issued relevant reports. The remuneration for Ernst & Young Hua Ming LLP amounted to RMB5.185 million. Of this fee, the annual audit fee (exclusive of taxes) amounted to RMB4.6 million (including an internal control audit fee of RMB600,000) and the fee for agreed-upon procedures of RMB585,000 (exclusive of taxes). The audit fee and agreed-upon procedures fee were already inclusive of disbursements incurred by the auditors. Meal and accommodation expenses incurred by auditors while performing professional services at the Company were borne by the Company.

7.3 Audit Committee

The Audit Committee of the board of directors held four meetings in 2016. The committee duly performed its duties of reviewing and monitoring the finance and internal control of the Group. It reviewed the 2015 annual accounts, the 2016 first quarterly accounts, the 2016 interim accounts and the 2016 third quarterly accounts of the Company. It reviewed the summary report presented by the external accounting firm as a result of a FY2015 auditing exercise on the Company and made an independent opinion on the Company's engagement of auditors, associated party transactions and external security.

The Company's 2016 annual accounts were reviewed by the Audit Committee.

7.4 Purchase, Sales or Redemption of Listed Securities of the Company

During the reporting period, the Company did not redeem any of its listed stocks, nor did the Group or its subsidiaries purchase or resale any of the listed stocks.

7.5 Pre-emptive Rights

According to Chinese laws and the Articles of Association of the Company, it is not required that the current shareholders shall purchase new shares based on their holding currencies before the Company issues new shares.

7.6 Public Float

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, as at the date of this announcement, the Company has fulfilled the public float requirement as prescribed by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

7.7 Report of the Supervisory Committee

The Supervisory Committee is of the view that the Company's operations were in compliance with the laws. The Company's financial situation, application of fund raising, associate transactions and acquisitions, and disposal of assets did not harm the interests of either the Company or the shareholders. The Supervisory Committee reviewed the Board's assessment report on the Company's internal control in 2016, and the formation and execution of the Company's internal control system. The Supervisory Committee is of the view that the Company has formed a comparatively sound internal control system and can execute the system effectively. The Company's assessment report on internal control reflected the Company's formation and execution of the internal control system truthfully and objectively.

7.8 Code on corporate governance practices

During the reporting period, the Company has complied with all the code provisions of the Code on Corporate Governance Practices set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

All of the Directors of the Company have confirmed in written that they have complied with the requirements under the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Rules Governing the Listing of Securities of the Hong Kong Stock Exchange.

8. MATTERS RELATING TO FINANCIAL REPORT

8.1 Auditor's Opinion

Financial Report: Audited

Auditor's Opinion: Unqualified standard opinion

8.2 Analysis and Explanation of the Company on the Reasons for and the Impact of the Changes to Accounting Policies and Accounting Estimates

8.2.1 Changes in accounting policies

Changes in tax disclosure

In 2016, the Group adjusted the "business tax and surcharges" item in the income statement to "tax and surcharges" in accordance with the requirements of "Value Added Tax Accounting Treatment Regulations" (Accounting [2016] No. 22). The real estate tax, land usage tax, vehicle and vessel tax, stamp tax and other related taxes relating to operating activities since 1 May 2016 were recorded in "tax and surcharges" item instead of "general administrative expenses"; For those occurred before 1 May 2016 were still recorded in "general administrative expenses". As a result of the above requirements, the contents disclosed in "tax and surcharges" and "general administrative expenses" in 2016 were different from those in 2015, but there was no impact on net profit and shareholders' equity for 2016 and 2015.

8.2.2 Changes to Accounting Estimates

In accordance with the CAS 4 – Fixed Assets and CAS 28 – Changes in Accounting Policy and Estimate and Correction of Errors, the subsidiary of the Company, Anhui Changjiang Iron and Steel Co., Ltd. adjusted the useful life of fixed assets to ensure the adjusted useful life to meet the estimates on the period that the future economic benefits by considering actual useful life of the fixed assets accordingly. On 14 March 2016, the change was approved by the board of directors in "Resolution of the Board of Directors of Changjiang Iron and Steel [2016] No.2". On 30 March 2016, the change was also reviewed and approved by the board of directors of the Company. The above changes of accounting estimates performed from 1 April 2016 has resulted in an increase of its net profit amounting to RMB82 million for 2016.

| Items | Estimated useful life before adjustment (number of years) | Estimated useful life after adjustment (number of years) | Remark |
|-------------------------------|---|--|--------------------|
| Buildings | 20 | 30 | Increased 10 years |
| Plant and machinery | 10 | 15 | Increased 5 years |
| Motor vehicles | 5 | 8 | Increased 3 years |
| Office (electronic) equipment | 10 | 5 | Decreased 5 years |

Save for the aforementioned changes, there is no change to the accounting policies and accounting estimates of the Group as compared to the financial report of last year.

8.3. Analysis and Explanation of the Company on the Reasons for and the Impact of the Correction to Significant Accounting Errors

During the reporting period, the Group did not have significant accounting errors that needs to restate its financial statements.

8.4 Change of consolidated scope as compared with that of the report of last year

In February 2016, the Company established a wholly-owned subsidiary, named Masteel America INC., with a registered capital of USD500,000. Except for the above, there was no change to the scope of financial statements consolidation of the Group compared with the latest financial report.

8.5 Scope of work on the Annual Results Announcement by Auditors

The figures in respect of the consolidated and company statements of financial position as at 31 December 2016, consolidated and company income statement, consolidated statement of changes in equity, consolidated statement of cash flows and the related notes thereto for the year ended 31 December 2016 as set out in the annual results announcement have been agreed by the Group's auditors, Ernst & Young Hua Ming LLP, to the amounts set out in the Group's financial statements for the year. The work performed by Ernst & Young Hua Ming LLP in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Ernst & Young Hua Ming LLP on the annual results announcement.

CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION

31 December 2016

Renminbi Yuan

| | | 31 December 2016 | 31 December 2015 | 31 December 2016 | 31 December 2015 |
|--|--------------|-----------------------|-----------------------|-----------------------|-----------------------|
| ASSETS | <i>Notes</i> | Group | Group | Company | Company |
| CURRENT ASSETS | | | | | |
| Cash and bank balances | | 5,312,101,041 | 5,142,711,482 | 3,851,576,750 | 4,531,034,025 |
| Financial assets measured at fair value | | | | | |
| through profit or loss | | 555,322,261 | 1,005,271,054 | 3,789,546 | 3,145,560 |
| Bills receivable | 4 | 3,608,459,121 | 4,689,129,290 | 3,518,320,171 | 3,751,615,186 |
| Trade receivables | 5 | 859,929,107 | 796,986,661 | 1,953,223,578 | 1,563,775,000 |
| Dividends receivable | | – | – | 5,672,730 | 7,225,723 |
| Interest receivable | | 4,044,939 | 1,600,176 | – | – |
| Prepayments | 6 | 925,051,274 | 634,407,421 | 649,277,673 | 371,248,500 |
| Other receivables | | 127,614,834 | 190,348,070 | 41,040,509 | 246,097,801 |
| Inventories | | 10,548,061,832 | 6,018,495,505 | 7,370,937,053 | 4,348,287,858 |
| Financial assets purchased under | | | | | |
| agreements to resell | | 230,047,000 | – | – | – |
| Loans and advances to customers | | 1,555,212,556 | 732,913,869 | – | – |
| Other current assets | | 692,471,233 | 948,518,258 | 294,632,327 | 557,052,098 |
| Total current assets | | 24,418,315,198 | 20,160,381,786 | 17,688,470,337 | 15,379,481,751 |
| NON-CURRENT ASSETS | | | | | |
| Available-for-sale financial investments | | 577,947,698 | 128,934,410 | 126,722,160 | 126,722,160 |
| Long term equity investments | | 1,239,776,313 | 1,029,853,507 | 7,152,166,287 | 6,830,479,397 |
| Investment properties | | 58,833,998 | 62,356,583 | 73,988,855 | 75,681,866 |
| Property, plant and equipment | | 35,522,601,715 | 34,605,411,096 | 27,272,692,483 | 25,954,686,393 |
| Construction in progress | | 2,258,191,398 | 4,245,762,868 | 1,629,607,224 | 4,025,657,145 |
| Intangible assets | | 1,821,768,927 | 1,891,358,160 | 933,763,504 | 971,003,316 |
| Deferred tax assets | | 348,095,783 | 330,407,545 | 261,808,739 | 314,216,637 |
| Total non-current assets | | 41,827,215,832 | 42,294,084,169 | 37,450,749,252 | 38,298,446,914 |
| TOTAL ASSETS | | 66,245,531,030 | 62,454,465,955 | 55,139,219,589 | 53,677,928,665 |

CONSOLIDATED AND COMPANY STATEMENTS OF FINANCIAL POSITION (CONTINUED)

31 December 2016

Renminbi Yuan

| LIABILITIES AND SHAREHOLDERS' EQUITY | Notes | 31 December 2016 Group | 31 December 2015 Group | 31 December 2016 Company | 31 December 2015 Company |
|--|-------|------------------------------|------------------------------|--------------------------------|--------------------------------|
| CURRENT LIABILITIES | | | | | |
| Deposits and balances from banks and other financial institutions | | 3,708,225,021 | 1,901,390,488 | - | - |
| Repurchase agreements | | 596,565,698 | - | - | - |
| Short term loans | | 6,942,952,420 | 6,791,359,472 | 4,617,240,417 | 831,000,000 |
| Bills payable | 7 | 3,584,228,362 | 5,343,906,398 | 2,766,056,791 | 3,981,623,516 |
| Accounts payable | 8 | 6,668,807,923 | 6,144,664,281 | 5,708,282,008 | 8,853,140,561 |
| Advances from customers | | 3,682,322,418 | 2,602,554,258 | 2,396,866,345 | 2,132,448,152 |
| Payroll and employee benefits payable | | 550,444,683 | 274,614,723 | 436,242,207 | 180,534,218 |
| Taxes payable | | 274,232,114 | 149,898,321 | 165,339,271 | 50,206,106 |
| Interest payable | | 107,691,398 | 150,829,308 | 104,959,511 | 147,852,499 |
| Dividends payable | | 8,713,584 | 6,525,534 | 6,525,534 | 6,525,534 |
| Other payables | | 1,912,575,078 | 1,258,463,513 | 1,502,658,072 | 1,001,923,405 |
| Non-current liabilities due within one year | | 3,211,056,320 | 5,084,859,415 | 4,448,099,900 | 5,084,859,415 |
| Accrued liabilities | | 29,580,435 | 22,232,713 | - | - |
| Other current liabilities | | 2,273,058,356 | - | 2,273,058,356 | - |
| Total current liabilities | | 33,550,453,810 | 29,731,298,424 | 24,425,328,412 | 22,270,113,406 |
| NON-CURRENT LIABILITIES | | | | | |
| Long term loans | | 5,163,168,960 | 6,655,171,584 | 7,113,168,960 | 9,289,847,408 |
| Bonds payable | | 3,987,666,667 | 3,979,666,667 | 3,987,666,667 | 3,979,666,667 |
| Deferred income | | 1,269,496,538 | 1,285,164,299 | 556,222,033 | 596,438,001 |
| Long-term employee benefits payable | | 159,173,203 | 28,857,389 | 127,425,119 | - |
| Deferred tax liabilities | | 35,065,411 | 32,704,732 | - | - |
| Total non-current liabilities | | 10,614,570,779 | 11,981,564,671 | 11,784,482,779 | 13,865,952,076 |
| Total liabilities | | 44,165,024,589 | 41,712,863,095 | 36,209,811,191 | 36,136,065,482 |
| SHAREHOLDERS' EQUITY | | | | | |
| Share capital | | 7,700,681,186 | 7,700,681,186 | 7,700,681,186 | 7,700,681,186 |
| Capital reserve | | 8,348,726,741 | 8,329,067,663 | 8,358,017,477 | 8,338,358,399 |
| Other comprehensive income | | (119,263,454) | (165,450,551) | - | - |
| Special reserve | | 27,969,571 | 14,374,213 | 3,827,107 | (1,517,185) |
| Surplus reserve | | 3,843,231,617 | 3,843,231,617 | 2,993,175,001 | 2,993,175,001 |
| General reserve | | 153,394,916 | 102,539,024 | - | - |
| Accumulated loss | | (190,568,622) | (1,368,605,137) | (126,292,373) | (1,488,834,218) |
| Equity attributable to owners of the parent company | | 19,764,171,955 | 18,455,838,015 | 18,929,408,398 | 17,541,863,183 |
| Non-controlling interests | | 2,316,334,486 | 2,285,764,845 | - | - |
| Total shareholders' equity | | 22,080,506,441 | 20,741,602,860 | 18,929,408,398 | 17,541,863,183 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 66,245,531,030 | 62,454,465,955 | 55,139,219,589 | 53,677,928,655 |

CONSOLIDATED AND COMPANY INCOME STATEMENT

For the year ended 31 December 2016

Renminbi Yuan

| | Notes | 2016 Group | 2015 Group | 2016 Company | 2015 Company |
|--|-------|----------------|-----------------|-----------------|-----------------|
| Revenue | 10 | 48,275,100,310 | 45,108,926,739 | 41,526,614,764 | 37,512,900,449 |
| Less: Cost of sales | 10 | 42,557,487,675 | 45,488,440,552 | 37,095,438,376 | 38,253,678,839 |
| Taxes and surcharges | | 432,096,408 | 201,228,046 | 333,846,959 | 133,209,086 |
| Selling expenses | | 694,782,730 | 635,859,844 | 311,149,677 | 353,703,599 |
| General and administrative expenses | | 1,780,281,484 | 1,538,609,887 | 965,419,904 | 1,082,550,309 |
| Financial expenses | 11 | 793,650,976 | 813,036,439 | 817,756,613 | 791,940,217 |
| Impairment losses | | 1,064,257,636 | 1,619,389,979 | 922,543,152 | 1,239,846,141 |
| Add: Gain/(loss) on the changes in fair value | | 4,051,190 | 819,265 | 3,789,546 | (538,440) |
| Investment income | | 291,396,463 | 93,725,198 | 253,435,060 | 193,417,900 |
| including: share of profits of associates and joint ventures | | 232,820,475 | 75,538,213 | 232,820,475 | 75,219,006 |
| Operating profit/(loss) | | 1,247,991,054 | (5,093,093,545) | 1,337,684,689 | (4,149,148,282) |
| Add: Non-operating income | 12 | 205,202,902 | 384,059,748 | 155,525,603 | 246,820,355 |
| including: profit from disposal of non-current assets | | 7,187,676 | 35,444,537 | 6,915,183 | 34,997,590 |
| Less: Non-operating expenses | 13 | 84,618,416 | 17,538,205 | 78,260,549 | 927,412 |
| including: loss from disposal of non-current assets | | 58,376,872 | 2,478,667 | 54,410,964 | – |
| Profit/(loss) before tax | | 1,368,575,540 | (4,726,572,002) | 1,414,949,743 | (3,903,255,339) |
| Less: Income tax expense | 14 | 111,880,234 | 377,912,379 | 52,407,898 | 269,300,783 |
| Net profit/(loss) | | 1,256,695,306 | (5,104,484,381) | 1,362,541,845 | (4,172,556,122) |
| Attributable to: | | | | | |
| Owners of the parent company | | 1,228,892,407 | (4,804,299,674) | | |
| Non-controlling interests | | 27,802,899 | (300,184,707) | | |
| Other comprehensive income, net of tax | | | | | |
| Total other comprehensive income attributable to owners of the parent company, net of tax | | | | | |
| Other comprehensive income to be reclassified to profit or loss in subsequent periods: | | | | | |
| Fair value changes of available-for-sale financial assets | | (803,607) | – | – | – |
| Exchange differences on translation of foreign operations | | 46,990,704 | (28,291,071) | – | – |
| Total other comprehensive income attributable to non-controlling interests, net of tax | | 912,309 | 1,725,489 | | |
| Total comprehensive income | | 1,303,794,712 | (5,131,049,963) | 1,362,541,845 | (4,172,556,122) |
| Attributable to: | | | | | |
| Owners of the parent company | | 1,275,079,504 | (4,832,590,745) | | |
| Non-controlling interests | | 28,715,208 | (298,459,218) | | |
| EARNINGS/(LOSS) PER SHARE: | 15 | | | | |
| Basic earnings/(loss) | | 15.96 cents | (62.39) cents | | |
| Diluted earnings/(loss) | | 15.96 cents | (62.39) cents | | |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

Renminbi Yuan

| | Attributable to owners of the parent | | | | | | | Sub-total | Non-controlling interests | Total shareholder's equity |
|--|--------------------------------------|----------------------|----------------------------|-------------------|----------------------|--------------------|-------------------------------------|-----------------------|---------------------------|----------------------------|
| | Share capital | Capital reserve | Other comprehensive income | Special reserve | Surplus reserve | General reserve | (Accumulated loss)/ Retained profit | | | |
| 1. At 1 January 2016 | 7,700,681,186 | 8,329,067,663 | (165,450,551) | 14,374,213 | 3,843,231,617 | 102,539,024 | (1,368,605,137) | 18,455,838,015 | 2,285,764,845 | 20,741,602,860 |
| 2. Increase/(decrease) during the year | | | | | | | | | | |
| 1) Total comprehensive income | - | - | 46,187,097 | - | - | - | 1,228,892,407 | 1,275,079,504 | 28,715,208 | 1,303,794,712 |
| 2) Capital contribution and withdrawal | | | | | | | | | | |
| (i) Other | - | 15,146,295 | - | - | - | - | - | 15,146,295 | - | 15,146,295 |
| 3) Profits appropriation | | | | | | | | | | |
| (i) Transfer to surplus reserve | - | - | - | - | - | - | - | - | - | - |
| (ii) Transfer to general risk reserve | - | - | - | - | - | 50,855,892 | (50,855,892) | - | - | - |
| (iii) Distribution to shareholders | - | - | - | - | - | - | - | - | (2,455,170) | (2,455,170) |
| 4) Special reserve | | | | | | | | | | |
| (i) Additions | - | - | - | 93,143,099 | - | - | - | 93,143,099 | 10,212,952 | 103,356,051 |
| (ii) Utilization | - | - | - | (84,892,033) | - | - | - | (84,892,033) | (5,903,349) | (90,795,382) |
| (iii) Changes in the share of associates and JV's special reserve, net | - | - | - | 5,344,292 | - | - | - | 5,344,292 | - | 5,344,292 |
| 5) Others | - | 4,512,783 | - | - | - | - | - | 4,512,783 | - | 4,512,783 |
| 3. At 31 December 2016 | <u>7,700,681,186</u> | <u>8,348,726,741</u> | <u>(119,263,454)</u> | <u>27,969,571</u> | <u>3,843,231,617</u> | <u>153,394,916</u> | <u>(190,568,622)</u> | <u>19,764,171,955</u> | <u>2,316,334,486</u> | <u>22,080,506,441</u> |

For the year ended 31 December 2015

Renminbi Yuan

| | Attributable to owners of the parent | | | | | | | Sub-total | Non-controlling interests | Total shareholders' equity |
|--|--------------------------------------|----------------------|----------------------------|-------------------|----------------------|--------------------|-------------------------------------|-----------------------|---------------------------|----------------------------|
| | Share capital | Capital reserve | Other comprehensive income | Special reserve | Surplus reserve | General reserve | (Accumulated loss)/ Retained profit | | | |
| 1. At 1 January 2015 | 7,700,681,186 | 8,329,067,663 | (137,159,480) | 21,511,442 | 3,831,458,700 | 98,706,649 | 3,451,299,829 | 23,295,565,989 | 2,593,831,998 | 25,889,397,987 |
| 2. Increase/(decrease) during the year | | | | | | | | | | |
| 1) Total comprehensive income | - | - | (28,291,071) | - | - | - | (4,804,299,674) | (4,832,590,745) | (298,459,218) | (5,131,049,963) |
| 2) Capital contribution and withdrawal | | | | | | | | | | |
| (i) Capital contribution from non-controlling interests | - | - | - | - | - | - | - | - | 4,950,000 | 4,950,000 |
| 3) Profits appropriation | | | | | | | | | | |
| (i) Transfer to surplus reserve | - | - | - | - | 11,772,917 | - | (11,772,917) | - | - | - |
| (ii) Transfer to general risk reserve | - | - | - | - | - | 3,832,375 | (3,832,375) | - | - | - |
| (iii) Distribution to shareholders | - | - | - | - | - | - | - | - | (11,447,163) | (11,447,163) |
| 4) Special reserve | | | | | | | | | | |
| (i) Additions | - | - | - | 86,927,211 | - | - | - | 86,927,211 | 5,343,580 | 92,270,791 |
| (ii) Utilization | - | - | - | (89,739,688) | - | - | - | (89,739,688) | (8,454,352) | (98,194,040) |
| (iii) Changes in the share of associates and JV's special reserve, net | - | - | - | (4,324,752) | - | - | - | (4,324,752) | - | (4,324,752) |
| 3. At 31 December 2015 | <u>7,700,681,186</u> | <u>8,329,067,663</u> | <u>(165,450,551)</u> | <u>14,374,213</u> | <u>3,843,231,617</u> | <u>102,539,024</u> | <u>(1,368,605,137)</u> | <u>18,455,838,015</u> | <u>2,285,764,845</u> | <u>20,741,602,860</u> |

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

Renminbi Yuan

| | 2016 | 2015 |
|---|-------------------------|-------------------------|
| 1. Cash flows from operating activities | | |
| Cash received from sale of goods and rendering of services | 53,536,500,347 | 57,397,210,097 |
| Tax refunds received | 43,331,736 | 232,132,582 |
| Net decrease in deposits in central bank | – | 472,181,056 |
| Net increase in repurchase agreements of financial assets | 596,565,698 | – |
| Net increase in customer deposits and deposits from banks | 1,806,834,533 | 201,771,638 |
| Cash received for interest charges, fees and commissions | 68,966,168 | 86,197,602 |
| Cash received relating to other operating activities | 1,171,286,841 | 29,297,279 |
| | <u>57,223,485,323</u> | <u>58,418,790,254</u> |
| Sub-total of cash inflows | | |
| Cash paid for purchase of goods and services | (45,192,755,217) | (46,085,246,212) |
| Net increase in deposits in central bank | (103,901,102) | – |
| Net increase in financial assets purchased under agreements to resell | (230,047,000) | – |
| Net increase in loans and advances to customers | (852,919,383) | (99,710,592) |
| Cash paid to or on behalf of employees | (3,759,522,641) | (3,901,087,465) |
| Taxes and surcharges paid | (2,018,756,738) | (2,021,090,985) |
| Cash paid for interest charges, fees and commissions | (30,304,313) | (25,489,812) |
| Cash paid relating to other operating activities | (415,417,915) | (420,833,135) |
| | <u>(52,603,624,309)</u> | <u>(52,553,458,201)</u> |
| Sub-total of cash outflows | | |
| Net cash flows from operating activities | <u>4,619,861,014</u> | <u>5,865,332,053</u> |
| 2. Cash flows from investing activities | | |
| Cash received from disposal of investments | 458,563,915 | 4,301,307,391 |
| Cash received from investment income | 141,575,987 | 243,447,481 |
| Proceeds from disposal of items of property, plant and equipment, intangible assets, and other non-current assets | 21,243,569 | 22,510,647 |
| Cash received relating to other investing activities | 103,844,476 | 186,448,184 |
| | <u>725,227,947</u> | <u>4,753,713,703</u> |
| Sub-total of cash inflows | | |

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2016

Renminbi Yuan

| | 2016 | 2015 |
|--|-----------------------------|-----------------------------|
| 2. Cash flows from investing activities (continued) | | |
| Purchase of property, plant and equipment, intangible assets and other non-current assets | (2,130,913,649) | (2,772,760,636) |
| Cash paid for investments | (531,910,709) | (5,405,067,580) |
| Acquisition of a subsidiary and other operating units | – | (73,191,528) |
| Increase in restricted cash | – | (123,766,960) |
| | <u>(2,662,824,358)</u> | <u>(8,374,786,704)</u> |
| Sub-total of cash outflows | <u>(2,662,824,358)</u> | <u>(8,374,786,704)</u> |
| Net cash flows used in investing activities | <u>(1,937,596,411)</u> | <u>(3,621,073,001)</u> |
| 3. Cash flows from financing activities | | |
| Cash received from borrowings | 17,427,171,551 | 13,721,926,562 |
| Proceeds from issuance of bonds, net of issuance costs | – | 3,976,000,000 |
| Cash received from investors | – | 4,950,000 |
| Including: Capital injection from non-controlling interests | – | 4,950,000 |
| | <u>17,427,171,551</u> | <u>17,702,876,562</u> |
| Sub-total of cash inflows | <u>17,427,171,551</u> | <u>17,702,876,562</u> |
| Repayment of borrowings | (18,554,976,223) | (18,176,630,777) |
| Cash paid for distribution of dividends or profits and for interest expenses | (963,134,469) | (1,081,118,068) |
| Including: dividends paid to non-controlling interests by subsidiaries | (267,120) | (11,447,163) |
| | <u>(19,518,110,692)</u> | <u>(19,257,748,845)</u> |
| Sub-total of cash outflows | <u>(19,518,110,692)</u> | <u>(19,257,748,845)</u> |
| Net cash flows used in financing activities | <u>(2,090,939,141)</u> | <u>(1,554,872,283)</u> |
| 4. Effect of foreign exchange rate changes on cash and cash equivalents | <u>186,395,867</u> | <u>147,187,290</u> |
| 5. Net increase in cash and cash equivalents | 777,721,329 | 836,574,059 |
| Add: Cash and cash equivalents at the beginning of the year | <u>3,546,410,358</u> | <u>2,709,836,299</u> |
| 6. Cash and cash equivalents at the end of the year | <u><u>4,324,131,687</u></u> | <u><u>3,546,410,358</u></u> |

NOTES TO FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

1.1 Basis of preparation

The financial statements are prepared in accordance with “China Accounting Standards for Business Enterprises – General Principles” and other issued application guidance, interpretations and other related regulations issued later (collectively known as the “CAS”).

The consolidated financial statements are prepared on going concern basis.

As of 31 December 2016, the net current liabilities of the Group were RMB9,132,138,612. The directors of the Company have considered the availability of funding sources, including but not limited to an unused banking credit quota of RMB16.8 billion on 31 December 2016. After assessment, the Company’s board of directors believes that the Group has sufficient resources to continue as a going concern for no less than 12 months after the end of the reporting period. Therefore, the Company’s board of directors continues to prepare the Group’s financial statements for the year ended 31 December 2016 on a going concern basis.

The financial statements have been prepared under the historical cost convention, except for certain financial instruments measured at fair value. Provision for asset impairment is provided in accordance with related regulations.

1.2 Statement of compliance of the CAS

The financial statements have been prepared in accordance with the CAS, and present truly and completely, the financial position of the Company and the Group as of 31 December 2016, and the results of their operations and their cash flows for the year then ended.

2. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION

2.1 Change in the scope of consolidation

Newly established subsidiaries

In 2016, the Company established the following subsidiary, and included it in the scope of consolidation since then.

| | Date of establishment | Registered capital | Percentage of equity | Investment form | Capital paid as of year end |
|----------------------|-----------------------|--------------------|----------------------|-----------------|-----------------------------|
| MASTEEL AMERICA INC. | February 2016 | USD500,000 | 100% | Cash | USD500,000 |

3. OPERATING SEGMENT INFORMATION

Operating segment

The Group divides the operation services into two operating segments which are determined based on the internal organization structure, management requirements and internal reporting system:

- Production and sale of iron and steel products and related by-products: the Company and subsidiaries except for Masteel Group Financial Co., Ltd.
- Financial service: Masteel Group Financial Co., Ltd.

The Group did not consider financial service as individual reportable segments, as Masteel Financial Co., Ltd. mainly offers financial service to internal companies. Therefore, the Group focuses on the production and sale of steel and it is unnecessary for the Group to disclose more detailed information.

Other information

Product and service information

External principal operating income

| | 2016 | 2015 |
|------------------------------------|------------------------------|-----------------------|
| Sale of steel products | 45,084,086,119 | 41,911,446,585 |
| Sale of steel billets and pig iron | 1,011,424,422 | 941,516,355 |
| Sale of coke by-products | 276,107,588 | 423,297,920 |
| Others | 952,167,785 | 732,326,675 |
| | <u>47,323,785,914</u> | <u>44,008,587,535</u> |

Geographical information

External principal operating income

| | 31 December 2016 | 31 December 2015 |
|----------|------------------------------|-----------------------|
| The PRC | 43,649,644,385 | 40,175,752,326 |
| Overseas | 3,674,141,529 | 3,832,835,209 |
| | <u>47,323,785,914</u> | <u>44,008,587,535</u> |

Non-current assets

| | 31 December 2016 | 31 December 2015 |
|----------|------------------------------|-----------------------|
| The PRC | 40,595,765,043 | 41,601,037,262 |
| Overseas | 305,407,308 | 233,704,952 |
| | <u>40,901,172,351</u> | <u>41,834,742,214</u> |

The non-current asset information above is based on the locations of assets and excludes financial assets and deferred tax assets.

Major customer information

The Group has not placed reliance on any single external customer which accounted for 10% or more of its revenue.

4. **BILLS RECEIVABLE**

| | 31 December 2016 | 31 December 2015 |
|-----------------------|-----------------------------|----------------------|
| Bank acceptance bills | <u>3,608,459,121</u> | <u>4,689,129,290</u> |

The pledged bills receivable were as follows :

| | 31 December 2016 | 31 December 2015 |
|-----------------------|-----------------------------|----------------------|
| Bank acceptance bills | <u>738,206,842</u> | <u>1,277,158,488</u> |

As of 31 December 2016, the undue bills discounted or endorsed were as follows :

| | <u>31 December 2016</u> | | <u>31 December 2015</u> | |
|-----------------------|-----------------------------|---------------------------|-------------------------|--------------------|
| | Derecognized | Not derecognized | Derecognized | Not derecognized |
| Bank acceptance bills | <u>5,196,770,076</u> | <u>156,827,864</u> | <u>1,892,413,242</u> | <u>243,602,664</u> |

As of 31 December 2016 and 31 December 2015, there were no trade receivables transferred from bills receivable because of the drawers' inability to pay.

5. **TRADE RECEIVABLES**

The Group's trade receivables were interest-free with normal credit terms of 30 to 90 days.

The aging of trade receivables is analyzed as follows:

| | 31 December 2016 | 31 December 2015 |
|--------------------------------|-----------------------------|---------------------|
| Within one year | 756,196,252 | 665,862,003 |
| One to two years | 66,905,447 | 116,554,717 |
| Two to three years | 24,337,627 | 22,417,902 |
| Over three years | <u>33,219,589</u> | <u>11,348,434</u> |
| | 880,658,915 | 816,183,056 |
| Less: Provisions for bad debts | <u>20,729,808</u> | <u>19,196,395</u> |
| | <u>859,929,107</u> | <u>796,986,661</u> |

The balances of trade receivables are analyzed as follows:

| | 31 December 2016 | | | | 31 December 2015 | | | |
|---|--------------------|------------|-------------------------|-----------|--------------------|------------|-------------------------|-----------|
| | Book value | | Provision for bad debts | | Book value | | Provision for bad debts | |
| | Amount | Ratio (%) | Amount | Ratio (%) | Amount | Ratio (%) | Amount | Ratio (%) |
| Individually significant and assessed for impairment individually | 825,690,228 | 94 | (6,927,040) | 1 | 768,962,510 | 94 | (6,927,040) | 1 |
| Individually insignificant but assessed for impairment individually | 54,968,687 | 6 | (13,802,768) | 25 | 47,220,546 | 6 | (12,269,355) | 26 |
| | <u>880,658,915</u> | <u>100</u> | <u>(20,729,808)</u> | | <u>816,183,056</u> | <u>100</u> | <u>(19,196,395)</u> | |

As of 31 December 2016, those individually significant and assessed for impairment individually were as follows:

| | Book value | Provision for bad debts | Ratio (%) | Reason |
|------------|--------------------|-------------------------|-----------|--------|
| Company 1 | 117,299,709 | – | – | / |
| Company 2 | 48,312,244 | – | – | / |
| Company 3 | 35,735,250 | – | – | / |
| Company 4 | 29,169,562 | – | – | / |
| Company 5 | 24,738,742 | – | – | / |
| Company 6 | 21,908,132 | – | – | / |
| Company 7 | 21,573,834 | – | – | / |
| Company 8 | 20,666,702 | – | – | / |
| Company 9 | 20,279,298 | – | – | / |
| Company 10 | 18,563,390 | – | – | / |
| Company 11 | 17,592,138 | – | – | / |
| Company 12 | 17,075,094 | – | – | / |
| Company 13 | 17,025,890 | – | – | / |
| Company 14 | 15,632,872 | – | – | / |
| Company 15 | 13,653,503 | – | – | / |
| Other | 386,463,868 | (6,927,040) | 2 | Note 1 |
| | <u>825,690,228</u> | <u>(6,927,040)</u> | <u>1</u> | |

As of 31 December 2015, those individually significant and assessed for impairment individually were as follows:

| | Book value | Provision for bad debts | Ratio(%) | Reason |
|------------|--------------------|------------------------------------|-----------------|---------------|
| Company 1 | 172,899,586 | – | – | / |
| Company 2 | 48,310,741 | – | – | / |
| Company 3 | 47,432,229 | – | – | / |
| Company 4 | 41,970,793 | – | – | / |
| Company 5 | 38,765,157 | – | – | / |
| Company 6 | 34,432,434 | – | – | / |
| Company 7 | 20,279,298 | – | – | / |
| Company 8 | 19,769,588 | – | – | / |
| Company 9 | 18,718,442 | – | – | / |
| Company 10 | 18,349,530 | – | – | / |
| Company 11 | 18,015,133 | – | – | / |
| Company 12 | 16,839,663 | – | – | / |
| Company 13 | 16,186,229 | – | – | / |
| Company 14 | 15,007,817 | – | – | / |
| Company 15 | 13,132,791 | – | – | / |
| Other | 228,853,079 | (6,927,040) | 3 | <i>Note 1</i> |
| | <u>768,962,510</u> | <u>(6,927,040)</u> | <u>1</u> | |

Note 1: The company has confirmed that one of the company's trade receivables can not be recovered, therefore, full provision for the bad debts were made amounting to RMB6,927,040.

In 2016, provision for bad debts was RMB2,517,257 (2015: RMB2,638,179), and recovery or reversal of provision for bad debts was RMB927,877 (2015: Nil).

In 2016, trade receivables that had been written off was RMB55,967 (2015: Nil).

As of 31 December 2016 and 31 December 2015, there were no trade receivables that were derecognized due to the transfer of financial assets.

Top five trade receivables classified by debtors:

| 31 December 2016 | Relationship with the Group | Ending Balance | Aging | Percentage of trade receivables | Ending balance of Provision |
|-------------------------|------------------------------------|-----------------------|----------------|--|------------------------------------|
| Company 1 | Third Party | 117,299,709 | within 1 year | 14% | – |
| Company 2 | Third Party | 48,312,244 | within 3 years | 5% | – |
| Company 3 | Third Party | 35,735,250 | within 1 year | 4% | – |
| Company 4 | Third Party | 29,169,562 | within 1 year | 3% | – |
| Company 5 | Third Party | 24,738,742 | within 1 year | 3% | – |
| | | <u>255,255,507</u> | | <u>29%</u> | |

| 31 December 2015 | Relationship with the Group | Ending Balance | Aging | Percentage of trade receivables | Ending balance of Provision |
|-------------------------|------------------------------------|-----------------------|----------------|--|------------------------------------|
| Company 1 | Third Party | 172,899,586 | within 1 year | 21% | – |
| Company 2 | Third Party | 48,310,741 | within 2 years | 6% | – |
| Company 3 | Third Party | 47,432,229 | 1-2 years | 6% | – |
| Company 4 | Third Party | 41,970,793 | within 1 year | 5% | – |
| Company 5 | Third Party | 38,765,157 | within 1 year | 5% | – |
| | | <u>349,378,506</u> | | <u>43%</u> | |

As of 31 December 2016, the Group had no assets or liabilities deriving from transferring trade receivables in which the Group is continuingly involved (31 December 2015: Nil).

6. PREPAYMENTS

Aging analysis of the prepayments is as follows:

| | 31 December 2016 | | 31 December 2015 | |
|--------------------|--------------------|------------|--------------------|------------|
| | Balance | Ratio (%) | Balance | Ratio (%) |
| Within one year | 896,450,454 | 96 | 612,475,882 | 96 |
| One to two years | 14,669,580 | 2 | 12,687,989 | 2 |
| Two to three years | 5,222,283 | 1 | 2,180,048 | 1 |
| Over three years | 8,708,957 | 1 | 7,063,502 | 1 |
| | 925,051,274 | 100 | 634,407,421 | 100 |

Prepayments aged over one year were mainly unsettled prepayments for the material and equipment purchase. The goods were not yet delivered which resulted in the corresponding prepayments not being settled.

Top five prepayments classified by debtors:

| 31 December 2016 | Relationship with the Group | Ending Balance | Aging | Percentage of prepayments |
|------------------|-----------------------------|--------------------|---------------|---------------------------|
| Company 1 | Third Party | 164,095,911 | within 1 year | 18% |
| Company 2 | Third Party | 130,035,843 | within 1 year | 14% |
| Company 3 | Third Party | 104,989,589 | within 1 year | 11% |
| Company 4 | Associate | 100,000,000 | within 1 year | 11% |
| Company 5 | Third Party | 96,486,201 | within 1 year | 10% |
| | | 595,607,544 | | 64% |
| 31 December 2015 | Relationship with the Group | Ending Balance | Aging | Percentage of prepayments |
| Company 1 | Third Party | 80,159,389 | within 1 year | 13% |
| Company 2 | Third Party | 76,362,359 | within 1 year | 12% |
| Company 3 | Third Party | 56,173,337 | within 1 year | 9% |
| Company 4 | Third Party | 49,786,004 | within 1 year | 8% |
| Company 5 | Third Party | 41,230,060 | within 1 year | 6% |
| | | 303,711,149 | | 48% |

7. **BILLS PAYABLE**

| | 31 December 2016 | 31 December 2015 |
|-----------------------------|----------------------------------|---------------------------|
| Bank acceptance bills | 3,584,228,362 | 5,325,406,398 |
| Commercial acceptance bills | — | 18,500,000 |
| | <hr/> 3,584,228,362 <hr/> | <hr/> 5,343,906,398 <hr/> |

As of 31 December 2016 and 31 December 2015, the ageing of the Group's bills payable was all within six months, and there were no overdue bills.

8. **ACCOUNTS PAYABLE**

The aging analysis of accounts payable is as follows:

| | 31 December 2016 | 31 December 2015 |
|--------------------|----------------------------------|---------------------------|
| Within one year | 6,491,661,696 | 5,942,180,843 |
| One to two years | 62,554,813 | 127,899,157 |
| Two to three years | 52,430,647 | 21,240,086 |
| Over three years | 62,160,767 | 53,344,195 |
| | <hr/> 6,668,807,923 <hr/> | <hr/> 6,144,664,281 <hr/> |

The accounts payable are interest-free and are normally settled within three months.

At of December 2016, the material accounts payables aged over one year are as follows:

| | Amount due | Reason for non-settlement |
|-----------|-------------------|----------------------------------|
| Company 1 | 19,000,000 | <i>Note</i> |
| Company 2 | 17,000,000 | <i>Note</i> |
| Company 3 | 14,033,705 | <i>Note</i> |
| Company 4 | 10,111,310 | <i>Note</i> |
| Company 5 | 8,447,827 | <i>Note</i> |
| | <u>68,592,842</u> | |

Note: The Group's accounts payable aged over one year are mainly attributable to the balances of purchasing equipment with settlement periods beyond one year.

9. DIVIDEND

The board of directors does not recommend the payment of any dividends for the year ended 31 December 2016.

10. REVENUE AND COST OF SALES

| | <u>2016</u> | | <u>2015</u> | |
|----------------------------|------------------------------|------------------------------|-----------------------|-----------------------|
| | Revenue | Cost of sales | Revenue | Cost of sales |
| Principal operating income | 47,323,785,914 | 41,607,003,797 | 44,008,587,535 | 44,086,048,485 |
| Other operating income | 951,314,396 | 950,483,878 | 1,100,339,204 | 1,402,392,067 |
| | <u>48,275,100,310</u> | <u>42,557,487,675</u> | <u>45,108,926,739</u> | <u>45,488,440,552</u> |

Principal operating income represents the net invoiced value of goods sold, after allowance for returns and trade discounts, and excludes sales taxes and intra-group transactions.

Revenue is stated as follows:

| | 2016 | 2015 |
|-------------------|------------------------------|-----------------------|
| Sale of products | 47,958,420,215 | 44,901,171,263 |
| Rendering service | 245,269,164 | 121,856,692 |
| Others | 71,410,931 | 85,898,784 |
| | <u>48,275,100,310</u> | <u>45,108,926,739</u> |

11. FINANCIAL EXPENSES

| | 2016 | 2015 |
|-----------------------------------|---------------------------|---------------------------|
| Interest expenses (<i>note</i>) | 896,088,299 | 1,070,794,132 |
| Less: Interest income | 42,161,978 | 142,535,189 |
| Less: Capitalized interest | 7,177,259 | 13,172,035 |
| Exchange gain | (100,247,410) | (136,909,896) |
| Others | 47,149,324 | 34,859,427 |
| | <u>793,650,976</u> | <u>813,036,439</u> |

Note: The Group's interest expenses include interest on bank loans, other loans, corporate bonds, MTN (Medium-term Note) and short-term financing bonds. Capitalized amount of borrowing costs had been recorded in construction in progress.

The interest expense of the Groups included interest of bank loans that expires within five years, other borrowings' interest, interest of corporate bonds, interest of MTN (Medium-term Note) and short-term financing bonds and the interest for bank loans that does not need to repay within five years.

| | 2016 | 2015 |
|---|---------------------------|-----------------------------|
| Interest expense: | | |
| Interest on bank loans, other loans, corporate bonds and MTN (Medium-term Note) repayable within five years | 895,080,899 | 1,070,562,292 |
| Interest on bank loans repayable beyond five years | 1,007,400 | 231,840 |
| | <u>896,088,299</u> | <u>1,070,794,132</u> |

12. NON-OPERATING INCOME

| | 2016 | 2015 | Included in non-recurring gains and losses of 2016 |
|---|---------------------------|---------------------------|--|
| Gain on disposal of non-current assets | 7,187,676 | 35,444,537 | 7,187,676 |
| Including: Gain on disposal of fixed assets | 272,493 | 14,733,331 | 272,493 |
| Gain on disposal of intangible assets | 6,915,183 | 20,711,206 | 6,915,183 |
| Government grants | 191,502,761 | 346,238,178 | 191,502,761 |
| Others | 6,512,465 | 2,377,033 | 6,512,465 |
| | <u>205,202,902</u> | <u>384,059,748</u> | <u>205,202,902</u> |

Details of government grants recorded in the profit or loss are as follows:

| | 2016 | 2015 |
|--------------------------------------|--------------------|-------------|
| Government grants related to assets | 116,979,983 | 87,185,350 |
| Government grants related to income: | | |
| – Tax refund | 43,331,736 | 232,132,582 |
| – Others | 31,191,042 | 26,920,246 |
| | 191,502,761 | 346,238,178 |

13. NON-OPERATING EXPENSES

| | 2016 | 2015 | Included in non-recurring gains and losses |
|--|-------------------|------------|--|
| Loss on disposal of non-current assets | 58,376,872 | 2,478,667 | 58,376,872 |
| Including: Loss on disposal of fixed assets | 58,376,872 | 2,478,667 | 58,376,872 |
| Public relief donation | 726,550 | 372,800 | 726,550 |
| Penalty expenditure | 1,466,061 | 1,655,671 | 1,466,061 |
| Compensation for sales transaction (<i>Note</i>) | 22,880,000 | 12,213,494 | 22,880,000 |
| Others | 1,168,933 | 817,573 | 1,168,933 |
| | 84,618,416 | 17,538,205 | 84,618,416 |

Note: On 19 August 2016, London Court of International Arbitration announced the second arbitral result for the arbitration case between the Company and Fushun Shipping Company. The Company paid RMB22,880,000 to Fushun Shipping Company as compensation due to iron ore purchase dispute in 2007.

14. INCOME TAX EXPENSE

| | 2016 | 2015 |
|---|--------------------|-------------|
| Mainland China: | | |
| Current income tax expense | 115,687,036 | 47,666,699 |
| Deferred tax (income)/expense | (9,243,667) | 312,816,387 |
| Hong Kong current income tax expense | 2,945,143 | 1,822,979 |
| Overseas current income tax expense | 8,869,975 | 11,474,111 |
| Overseas deferred income tax (income)/expense | (6,378,253) | 4,132,203 |
| | 111,880,234 | 377,912,379 |

Relationship between income tax and profit/(loss) before tax:

| | 2016 | 2015 |
|--|---------------------|---------------------|
| Profit/(loss) before tax | 1,368,575,540 | (4,726,572,002) |
| Tax at the applicable tax rate of 25% (note) | 342,143,885 | (1,181,643,001) |
| Effect of different tax rates of subsidiaries | (11,296,146) | (6,095,186) |
| Non-deductible expenses | 23,615,578 | 34,566,469 |
| Adjustments in respect of current tax of previous periods | – | 181,419 |
| Other tax preference | (79,926,635) | (15,436,489) |
| Income not subject to tax | (2,652,988) | (3,696,052) |
| Unrecognized deductible temporary difference and tax losses | 174,600,917 | 1,165,864,998 |
| Written-off deferred tax assets recognized in prior years | – | 401,140,566 |
| Tax losses utilized | (276,399,258) | – |
| Profits and losses attributable to joint ventures and associates | <u>(58,205,119)</u> | <u>(16,970,345)</u> |
| Tax charge at the Group's effective rate | <u>111,880,234</u> | <u>377,912,379</u> |
| The Group's effective rate | 8% | 8% |

Note: The Group income tax has been provided at the rate on the estimated taxable profits arising in the PRC during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries or regions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

15. EARNINGS PER SHARE

Basic earnings per share shall be calculated by dividing profit attributable to ordinary equity holders of the parent entity (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the year. Shares are usually included in the weighted average number of shares from the date of their issue.

The calculations of basic and diluted earnings per share amounts are based on:

| | 2016 | 2015 |
|---|----------------------|------------------------|
| Earnings/(loss) | | |
| Profit/(loss) attributable to ordinary equity holders of the parent as used in the basic/diluted earnings per share calculation | <u>1,228,892,407</u> | <u>(4,804,299,674)</u> |
| Number of shares | | |
| Weighted average number of ordinary shares in issue during the year as used in the basic earnings per share calculation | <u>7,700,681,186</u> | <u>7,700,681,186</u> |

During 2016 and 2015, there was no dilutive item to adjust the Group's basic earnings per share.

16. CONTINGENT LIABILITIES

Difference of corporate income tax

The State Administration of Taxation issued “The notice of income tax collection and management on Shanghai Petrochemical Company Limited and other nine companies listed overseas corporation” (Guo Shui Han [2007] No. 664) in June 2007, with stated claims that the relevant local tax bureaus must correct immediately the expired tax incentives of the nine Hong Kong listed companies. The income tax difference between the results of the previously expired preferential rate and the applicable rate should be treated in accordance with the relevant provisions of the “People’s Republic of China Administration of Tax Collection Law”.

The Company is one of the nine companies mentioned above and used a 15% preferential tax rate in the previous year. After understanding the above information, the Company and the tax authorities issued a comprehensive communication and according to the tax authorities, the applicable corporate income tax rate in 2007 was 33%, which is adjusted from the original 15%. The company has not been recovered prior year income tax differences.

Based on the comprehensive communication between the Company and the tax authorities, it is uncertain whether the tax authorities will recover the difference between the previous year’s income tax at this stage, and the final result of this matter cannot be estimated reliably. Therefore, the financial statements have not made any preparation or adjustments related to additional tax, tax credits, deferred tax, penalties and interest.

Pending litigation

As of 31 December 2016, the significant pending litigation of the Group and the Company is as follows:

Industrial and Commercial Bank of China Co., Ltd. Hefei Heping Road Branch sued the Company for four financial loan contract dispute cases, and the relevant claim amounts were RMB11,348,995, RMB6,317,966, RMB4,777,092 and RMB3,860,989. The four cases were accepted and heard by Hefei Yaohai District People’s Court, which are currently pending for judicial decisions by the court.

17. OTHER FINANCIAL INFORMATION

| | Group | | Company | |
|---------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | 31 December 2016 | 31 December 2015 | 31 December 2016 | 31 December 2015 |
| Current assets | 24,418,315,198 | 20,160,381,786 | 17,688,470,337 | 15,379,481,751 |
| Less: Current liabilities | 33,550,453,810 | 29,731,298,424 | 24,425,328,412 | 22,270,113,406 |
| Net current liabilities | <u>(9,132,138,612)</u> | <u>(9,570,916,638)</u> | <u>(6,736,858,075)</u> | <u>(6,890,631,655)</u> |

| | Group | | Company | |
|---------------------------------------|------------------------------|-----------------------|------------------------------|-----------------------|
| | 31 December 2016 | 31 December 2015 | 31 December 2016 | 31 December 2015 |
| Total assets | 66,245,531,030 | 62,454,465,955 | 55,139,219,589 | 53,677,928,665 |
| Less: Current liabilities | 33,550,453,810 | 29,731,298,424 | 24,425,328,412 | 22,270,113,406 |
| Total assets less current liabilities | <u>32,695,077,220</u> | <u>32,723,167,531</u> | <u>30,713,891,177</u> | <u>31,407,815,259</u> |

By order of the Board
Ding Yi
Chairman
Maanshan Iron & Steel Company Limited

29 March 2017
Maanshan City, Anhui Province, the PRC

As at the date of this announcement, the directors of the Company include:

Executive Directors: Ding Yi, Qian Haifan

Non-executive Directors: Su Shihuai, Ren Tianbao

Independent Non-executive Directors: Qin Tongzhou, Yang Yada, Liu Fangduan