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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 2017 ANNUAL RESULTS ANNOUNCEMENT**

### **1. IMPORTANT NOTICE**

- 1.1** This summary of 2017 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 a final dividend of RMB0.165 per share (tax included) shall be distributed for the year of 2017 and retained earnings will be carried forward to the year of 2018. 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

	Secretary of the Board	Representative for Securities Affairs
Name	(President will undertake responsibilities on behalf of Secretary of the Board)	He Hongyun
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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. Currently, the industry remains in the state of over capacity despite significant effects of national supply-side reform.

### 3 MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS

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

*Unit: RMB*

	2017	2016	Increase/ decrease compared to previous year (%)	2015
Total Assets	<b>72,191,589,979</b>	66,245,531,030	8.98	62,454,465,955
Revenue	<b>73,228,029,624</b>	48,275,100,310	51.69	45,108,926,739
Net profit attributable to owners of the parent	<b>4,128,939,861</b>	1,228,892,407	235.99	-4,804,299,674
Net profit excluding non-recurring gains or losses attributable to owners of the parent	<b>3,969,088,696</b>	1,409,936,906	181.51	-5,129,504,672
Net assets attributable to owners of the parent	<b>23,895,739,812</b>	19,764,171,955	20.90	18,455,838,015
Net cash flows from operating activities	<b>4,489,916,403</b>	4,619,861,014	-2.81	5,865,332,053
Basic earnings per share (RMB/share)	<b>0.536</b>	0.160	235.00	-0.624
Diluted earnings per share (RMB/share)	<b>0.536</b>	0.160	235.00	-0.624
			Increased by 12.49 percentage points	
Return on net assets (weighted average) %	<b>18.92</b>	6.43		-23.01

#### 3.2 Major Financial Data by Quarter During the Reporting Period

*Unit: RMB*

	1st Quarter (Jan-Mar)	2nd Quarter (Apr-Jun)	3rd Quarter (Jul-Sep)	4th Quarter (Oct-Dec)
Revenue	17,336,558,057	17,851,021,583	17,677,260,858	20,363,189,126
Net profit attributable to owners of the parent	901,746,797	741,649,717	1,096,467,287	1,389,076,060
Net profit excluding non-recurring gains or losses attributable to owners of the parent	894,603,238	636,515,910	1,104,939,721	1,333,029,827
Net cash flows from operating activities	1,644,749,451	-185,157,395	1,222,756,748	1,807,567,599

## 4. SHARE CAPITAL AND SHAREHOLDER

### 4.1 Numbers of Shareholders and Holdings of Top Ten Shareholders

<b>Number of Ordinary Shareholders by the End of Reporting Period (Accounts)</b>	239,411	<b>Number of Ordinary Shareholders at the End of Last Month Before the Disclosure Date of Annual Results (Accounts)</b>	234,331
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#### *Holdings of Top Ten Shareholders*

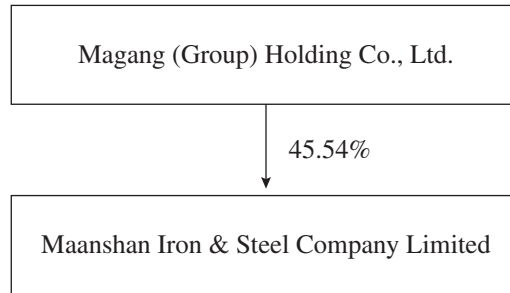
*Unit: Share*

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	0	3,506,467,456	45.54	0	Nil	0	State-owned shareholder
Hong Kong Securities Clearing Company Limited	3,202,000	1,714,016,900	22.26	0	unknown	unknown	unknown
Central Huijin Investment Ltd.	0	142,155,000	1.85	0	unknown	unknown	State-owned shareholder
Haitong Securities Co., Ltd.	unknown	35,027,700	0.45	0	unknown	unknown	unknown
Beijing Haoqing Fortune Investment and Management Co., Ltd. – Steady Haoqing Value No. 8 Investment Fund	unknown	33,756,512	0.44	0	unknown	unknown	unknown
China Life Insurance Company Limited-Dividend-Personal Dividend-005L-FH002 SH	unknown	20,766,599	0.27	0	unknown	unknown	unknown
Li Xiaozhong	unknown	16,464,955	0.21	0	unknown	unknown	unknown
Jinzheng Trade Co., Ltd.	unknown	15,701,600	0.20	0	unknown	unknown	unknown
China International Capital Corporation Limited	unknown	13,166,000	0.17	0	unknown	unknown	unknown
China Resources SZITIC Trust Co., Ltd. – RZX 50th Collective Fund Trust Plan	unknown	12,897,000	0.17	0	unknown	unknown	unknown

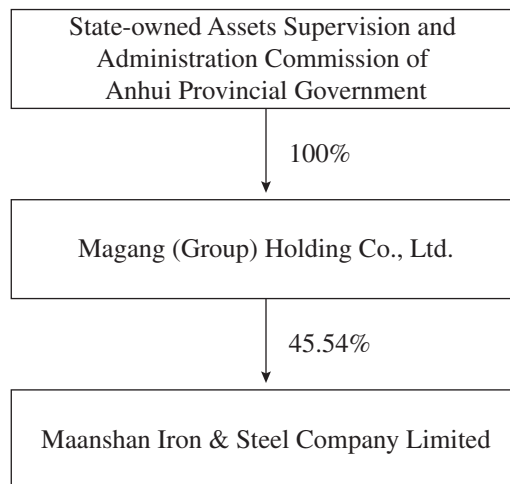
Notes on the above shareholders' affiliated relation or concerted action

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

### 5.1 Business Environment

- ***The Steel Product Market***

In 2017, our country continuously adopted a proactive fiscal policy and prudent monetary policy. Chinese economy had kept the development trend of stable performance with good momentum with 6.9% of year-on-year GDP growth. The major downstream steel industries including real estate, automobile and home appliances in China kept better-than-expected development; investment in infrastructure also kept a high level; and the overall steel consumption made sustainable improvement. In the aspect of import and export, Chinese steel export was significantly decreased in 2017 due to the influence of factors including rising demands of domestic steel and international trade protection. According to China Customs, annual steel export was 75.43 million tons with 30.4% of year-on-year decline; and steel import was 13.30 million tons with 0.7% of year-on-year growth. The net export of crude steel is 62.13 million tons with a year-on-year decrease of 36.95%. At the same time, structural reform is further implemented in steel industry at supply side. As a result, great achievements have been made in cutting of over-capacity and “ground steel strip” has been completely banned.

In 2017, the price of domestic steel (including long steel and steel plate) increased with a fluctuation and the price tendency of long steel is better than that of steel plate. The monthly average value of comprehensive index for domestic steel price in the whole year is 108.10 with a year-on-year increase of 32.22, increasing by 42.46%.

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

In 2017, price of iron ore fell back from highs in the first quarter and fluctuated violently in last three quarters. According to China Customs, the average CIF of import iron ore nationwide was US\$70.97/ton and increased by 26% from the previous year; price of coke fluctuated slightly in the first half year and sharply in the last half year with dramatic increase in average price than the first half year.

To sum up, the impact of increasing steel prices was greater than that of raw materials, and production and operation of iron and steel enterprises improved.

## 5.2 Main operation during the reporting period

During the reporting period, the Group produced 18.17 million tons of pig iron, 19.71 million tons of crude steel and 18.60 million tons of steel, representing a year-on-year increase of 3.00%, 5.80% and 5.14%, respectively (of which the Company produced 14.20 million tons of pig iron, 15.38 million tons of crude steel and 14.30 million tons of steel, representing a year-on-year increase of 2.82%, 5.05% and 4.08%, respectively). Principal activities of the Company during the reporting period were as follows:

- 1) Optimization of two-side market operation. The marketing unit improved the market adaptability, seized market opportunities, increased expansion efforts of strategic users, terminal users and direct supply market with the help of integration of product, technology and service, combined marketing strategy as well as enlarged the percentage of high value-added products and the brand influence in the intraregional products market. Normalized supervision of inventory was realized by intensifying risk control of market price and optimizing the structure of finished goods inventory. In order to build safe, stable, efficient, sustainable and competitive supply chain, the procurement unit implemented operation modes of “production-ensuring inventory” and “operating inventory”, which realized normalized operation of low inventory of staple resources (including minerals and coke, etc.) and safe supply insurance.
- 2) Improvement of ability of scientific research innovation and technical services. The Company had closely surrounded structure adjustment and quality improvement of the corporate products to support market and on-site demands with R&D and tackling projects. Abiding by technical service concept of “going deep into market and integrating into users”, it continued to push the EVI cooperation with important and high-end users with carriers of 10 corporate APQP project groups, which obtained significant effects. There were 11 national, provincial and municipal projects and 44 corporate scientific research projects developed all year around. Four products including “Weather-resisting Hot Rolled H Beam for Railway Vehicle” were awarded CISA Golden Cup Award for Actual Quality of Metallurgical Production, in which “Weather-resisting Hot Rolled H-type Steel for Railway Vehicle” and “Rolled Steel Solid Wheel for Express Passenger Train” were awarded "Extra-superior Quality Award". Maanshan Steel high speed train wheel was awarded annual charm brand of "Beacon of Quality" by China Quality Daily in 2017.

- 3) Promotion of lean manufacturing in depth. Iron-making system continued to perfect blast furnace examination, early warning and coping mechanisms with goal of ensuring stable operation of blast furnace. Facing the situation of annual decrease of molten iron, steel rolling system realized over-fulfillment of steel capacity to support the corporate growth by vigorously decreasing iron/steel ratio. Meanwhile, the Company realized economical operation by strengthening the production and marketing convergence, optimizing production line division and increasing order fulfillment rate. The Company accelerated the construction of Integrated Planning System (IPS) and Quality Management System (QMS), focused on solution to problems of quality process control and overtop ratio of non-planned materials to try to achieve quality improvement and effect increase and improve customer satisfaction.
- 4) Promotion of lean operation of energy control system. In the aspect of energy, the Company took real-time dynamic adjustment for operation method of energy system to ensure stable energy supply according to production plan, overhauling plan and change of energy demands of all production lines; comprehensively enhanced control of energy process, fully exploited cost decline potential of energy system to promote cost reduction and system optimization. In the aspect of environmental protection, the Company smoothly passed central environmental supervision and won title of model enterprise (green factory) of first green manufacturing system construction conferred by National Ministry of Industry and Information. The Company was also rated as “Favorable Enterprise for Environmental Credit Evaluation in Anhui Province” by the Environmental Protection Department of Anhui Province.
- 5) Efficient completion of external audit of quality system. The Company accepted 15 external audits all year around and mainly completed second party audit of General Motors, CIMC and Dongfeng Peugeot-Citroën Automobile; CJ6 wheels for standard CRH train passed CRCC certification, H beams passed EU CE certification, KS certification of South Korea and TISI certification of Thailand as well as succeeded in license renewal approval of IATF 16949 quality management system. And the Company became the first direct supplier in Asia after wheel set products passed audit of Deutsche Bahn.



- 6) Continuous optimization of human resources. The Company regarded human resources as an important strategic resources of the corporate development, selected pilot units to promote management reform of employee position hierarchy and push the balanced and coordinated development of personnel in three teams of management, technology and operation. The Company also successfully introduced several high-end R&D and application-oriented talents from outside to contribute to the improvement of the corporate talent soft power.
- 7) Intensification of safe production management. The Company continued to develop in depth specific activity of “danger remove and safety construction in one hundred days” for safe production and carried out emergency drills for safety production accidents; took re-identification and confirmation of danger source and eliminated hidden danger according to operation requirements of occupational health safety control system and “six-mechanism” construction of safety production risk control; and increased full-access security management for engineering construction and overhauling projects as well as focused on specific system renovation for safety of projects involving external units.
- 8) In respect of the management, the Company continuously improved the effectiveness of management system operation. A number of management innovation achievements of the Company were awarded with CISA Modernized Innovation Achievement Award of Management of Metallurgical Industry in 2017, of which “Construction and Implementation of Operation Evaluation and Pre-warning Guarantee System of Blast Furnace” and “Innovation Promotion of Commercial Mode with EVI Technology Service Strategy” were awarded first and second prize, respectively. Three achievements including “Green and Harmonious Steel Corporate Construction Based on the Integration of Environmental Operation and Urban Development” were awarded third prize.

### 5.3 Analysis of Principal Operation

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

Unit: RMB

Items	Amount of the current year	Amount of the same period of last year	Change (%)
Revenue	73,228,029,624	48,275,100,310	51.69
Cost of sales	63,556,258,449	42,557,487,675	49.34
Selling expenses	865,396,451	694,782,730	24.56
General and administrative expenses	1,419,135,407	1,780,281,484	-20.29
Financial expenses	998,780,259	793,650,976	25.85
Taxes and surcharges	741,194,307	432,096,408	71.53
Gain on the changes in fair value	10,145,756	4,051,190	150.44
Investment income	676,516,349	291,396,463	132.16
Loss from disposal of assets	176,952,368	51,189,196	245.68
Other income	238,868,248	-	/
Operating profit	5,649,467,742	1,196,801,858	372.05
Non-operating expenses	16,625,157	26,241,544	-36.65
Profit before tax	5,808,966,563	1,368,575,540	324.45
Income tax expense	736,728,434	111,880,234	558.50
Net profit	5,072,238,129	1,256,695,306	303.62
Net profit attributable to non-controlling interests	943,298,268	27,802,899	3,292.81
Net profit attributable to owners of the parent	4,128,939,861	1,228,892,407	235.99
Exchange differences on translation of foreign operations	-826,029	46,990,704	-101.76
Net cash flows from operating activities	4,489,916,403	4,619,861,014	-2.81
Net cash flows used in investing activities	-3,414,422,532	-1,937,596,411	/
Net cash flows used in financing activities	-2,376,736,277	-2,090,939,141	/
Research and development expenditure	770,350,000	752,570,000	2.36

- Revenue increased by 51.69% over the previous year, mainly due to increase in sales price and sales volume of steel this year.
- Cost of sales increased by 49.34% over the previous year, mainly due to increase in purchase price of raw materials and increase in sales volume of steel this year.

- Taxes and surcharges increased by 71.53% over the previous year, and the main reason is that the value-added taxes increased on a year-on-year basis than that of last year and urban construction taxes and surcharges increased correspondingly. Moreover, influenced by Provisions for Accounting Treatment of Value-added Taxes (CK [2016] No. 22), property tax, land use tax, vehicle and vessel use tax, stamp duty and other taxes incurred from the Company's operating activities are no longer accounted in general and administrative expenses but in this account.
- Selling expenses increased by 24.56% over the previous year, mainly due to increase in sales volume of steel, which caused increase in transportation times and increase in unit price of transportation.
- General and administrative expenses decreased by 20.29% over the previous year, and the main reason is that expenses for staff resettlement and dismissal welfare decreased this year and property tax, land use tax, vehicle and vessel use tax, stamp duty and other taxes are not included in this account.
- Financial expenses increased by 25.85% over the previous year, mainly due to increase in exchange loss incurred this year.
- Gain on the changes in fair value increased by 150.44% over the previous year, and the main reason is that the Company's futures products are not in closed position at the end of this year and changes in fair value increase than that at the end of last year.
- Investment income increased by 132.16% over the previous year, mainly due to increase in net profit of the Company's associates and joint ventures and increase in investment income of Ma Steel Group Financial Co., Ltd.'s financial products.
- Loss from disposal of assets increased by 245.68% over the previous year, mainly due to the increase in losses of fixed assets disposal, caused by addressing overcapacity, technical transformation and environmental protection, etc.
- Other income is RMB238,868,248 this year and it was nil last year. The main reason is, influenced by Accounting Standards for Enterprises No.16 – Government Grants (revised in 2017) (CK [2017] No. 15), grants related to daily activities will be recorded in this account rather than in the account of non-operating income and the government grants for transformation development recognized this year have increased than that of last year.

- Non-operating expenses decreased by 36.65% over the previous year, mainly due to the decrease in contract compensation paid this year than that of last year.
- Operating profit increased by 372.05% over the previous year, profit before tax increased by 324.45% over the previous year, net profit increased by 303.62% over the previous year, and net profit attributable to owners of the parent increased by 235.99% over the previous year. These were all mainly due to the increase of the gross profit of steel products during the year.
- Income tax increased by 558.50% over the previous year, mainly due to the substantial increase in some subsidiaries' profits this year.
- Net profit attributable to non-controlling interests increased by 3,292.81% over the previous year, mainly due to the substantial increase in profits of non-wholly-owned subsidiaries this year.
- Exchange differences on translation of foreign operation decreased by 101.76% over the previous year, mainly due to the appreciation in RMB to Hong Kong dollar and depreciation to Australian dollar and Euro.

## 1. *Analysis of Sales and Cost of Sales*

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

*Unit: RMB million*

Industry	Revenue	Principal operation by industry				
		Cost of sales	Gross margin (%)	Increase/ (decrease) of revenue compared with same period of last year (%)	Increase/ (decrease) of cost of sales compared with same period of last year (%)	Increase/ (decrease) of gross margin compared with same period of last year (%)
Iron and Steel	69,361	58,961	14.99	50.47	46.68	2.20 bps

**Principal operation by product**

Products	Revenue	Cost of sales	Gross margin (%)	Increase/	Increase/	Increase/
				(decrease) of revenue compared with same period of last year (%)	(decrease) of cost of sales compared with same period of last year (%)	(decrease) of gross margin compared with same period of last year (%)
Long products	29,881	24,889	16.71	68.70	53.65	8.16 bps
Steel plates	35,651	30,520	14.39	37.61	40.41	-1.71 bps
Wheels and axles	1,802	1,624	9.88	23.17	29.71	-4.45 bps

**Principal operation by region**

Regions	Revenue	Cost of sales	Gross margin (%)	Increase/	Increase/	Increase/
				(decrease) of revenue compared with same period of last year (%)	(decrease) of cost of sales compared with same period of last year (%)	(decrease) of gross margin compared with same period of last year (%)
Anhui	26,086	22,920	12.14	37.44	34.55	1.89 bps
Shanghai	11,736	9,733	17.07	55.36	49.19	3.43 bps
Jiangsu	11,352	9,828	13.42	47.81	41.61	3.79 bps
Zhejiang	4,563	3,953	13.37	61.29	55.63	3.16 bps
Guangdong	2,125	1,829	13.93	31.25	32.44	-0.79 bps
Other Mainland regions	14,466	12,672	12.40	143.62	154.92	-3.88 bps
Overseas and Hong Kong	2,900	2,621	9.62	-21.09	-17.21	-4.25 bps

## Explanations on principal operation by industry, products and Regions

During the reporting period, the group's revenue from principal operation was RMB72,216 million, wherein the iron & steel revenue was RMB69,361 million, accounting for 96% of the principal operation revenue.

### (2) Analysis of Production and Sales Volumes

Products	By products			Year-on-year increase/ (decrease) of production volume (%)	Year-on-year increase/ (decrease) of sales volume (%)	Year-on-year increase/ (decrease) of inventory (%)
	Production Volume ('000 tons)	Sales Volume ('000 tons)	Inventory ('000 tons)			
Long products	8,938	8,997	144	6.66	8.67	-32.08
Steel plates	9,474	9,471	53	3.33	2.92	6.00
Wheels and axles	193	188	10	35.92	30.56	100

### (3) Analysis of costs

Unit: RMB million

By industry	Cost components	By industry				Change in proportion of amount in 2017 against amount in 2016 (%)
		Amount in 2017	% of total costs in 2017 (%)	Amounts in 2016	% of total costs in 2016 (%)	
Iron and Steel	Raw materials	48,968	77.05	31,495	74.01	55.48
Iron and Steel	Salary	3,854	6.06	3,273	7.69	17.75
Iron and Steel	Depreciation	3,520	5.54	3,245	7.63	8.47
Iron and Steel	Fuels	3,474	5.47	3,260	7.66	6.56
Iron and Steel	Others	3,740	5.88	1,284	3.01	191.28

*(4) Analysis of Major Customers and Major Suppliers*

The amount of total sales to the top five customers was RMB6,029.16 million, accounting for 8% 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 RMB12,763.78 million, accounting for 38% of the annual purchase. Among the purchase from the top five suppliers, the amount of purchase from the related parties was RMB3,669.06 million, accounting for 11% of the annual purchases.

Other explanations

Among the key suppliers, Magang (Group) Holding Co., Ltd. is the controlling shareholder of the Company. Saved that, in 2017, there was 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 the Company) having any beneficial interests in the top five suppliers or customers of the 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 details

*Unit: RMB Million*

Expensed R&D expenditure in 2017 ( <i>Note</i> )	759.11
Capitalized R&D expenditure in 2017	11.24
Total R&D expenditure	770.35
Total R&D expenditure as a portion of revenue (%)	1
Number of the Company's R&D staff	3,709
Percentage of R&D staff number to the Company's total number of employees (%)	12.27
Percentage of capitalized R&D expenditure (%)	1.46

*Note:* Expensed R&D expenditure in 2017 comprises of R&D expenditures included in general and administrative expenses and cost of sales.

Capitalized R&D expenditure in 2017 was mainly used for purchasing related equipments for experiments and testings.

### 4. *Cash Flows*

- Net cash inflows from operating activities amounted to RMB4,489,916,403, decreased by 2.81% over the last year, which was mainly due to the increased profitability and the increase of notes receivable.
- Net cash outflows used in investing activities amounted to RMB3,414,422,532, increasing by 76.22% over the last year, which was mainly caused by increase in cash invested and paid in financial products of Ma Steel Group Financial Co., Ltd. this year than that of last year.
- Net cash outflows used in financing activities amounted to RMB2,376,736,277, increasing by 13.67% over the last year, which was mainly due to the repayment of loans and decrease in financing cash inflows.



## 5.4 Analysis of Assets and Liabilities

### Assets and liabilities

Unit: RMB

Item	Closing balance of 2017	Percentage of closing balance of 2017 in total assets (%)	Closing balance of 2016	Percentage of closing balance of 2016 in total assets (%)	Year-on-year change (%)
Financial assets measured at fair value					
through profit or loss	1,546,139,404	2.14	555,322,261	0.84	178.42
Notes receivable	8,375,166,683	11.60	3,608,459,121	5.45	132.10
Interest receivable	6,390,787	0.01	4,044,939	0.01	57.99
Other receivables	278,837,287	0.39	127,614,834	0.19	118.50
Financial assets purchased under agreements to resell	1,204,603,000	1.67	230,047,000	0.35	423.63
Current portion of held-to-maturity investments	305,228,376	0.42	–	–	N/A
Assets held for sale	73,454,334	0.10	–	–	N/A
Other current assets	916,037,331	1.27	692,471,233	1.05	32.29
Available-for-sale financial assets	1,111,168,160	1.54	577,947,698	0.87	92.26
Deferred tax assets	478,235,280	0.66	348,095,783	0.53	37.39
Non-current portion of held-to-maturity investments	100,854,230	0.14	–	–	N/A
Deposits from banks and other financial institutions	200,000,000	0.28	–	–	N/A
Repurchase agreements	308,100,956	0.43	596,565,698	0.90	–48.35
Short-term loans	4,630,303,694	6.41	6,942,952,420	10.48	–33.31
Financial liabilities measured at fair value through profit or loss	10,498,810	0.01	–	–	N/A
Notes payable	4,809,848,470	6.66	3,584,228,362	5.41	34.19
Taxes payable	1,342,836,597	1.86	274,232,114	0.41	389.67
Non-current liabilities due within one year	4,928,758,378	6.83	3,211,056,320	4.85	53.49
Accrued liabilities	38,537,369	0.05	29,580,435	0.04	30.28
Other current liabilities	3,081,026,301	4.27	2,273,058,356	3.43	35.55
Long-term loans	6,975,958,634	9.66	5,163,168,960	7.79	35.11
Bonds payable	–	–	3,987,666,667	6.02	–100.00
Long-term payables	210,000,000	0.29	–	–	N/A
Retained earnings	3,643,443,763	5.05	–190,568,622	–0.29	–
Non-controlling interests	3,341,524,501	4.63	2,316,334,486	3.50	44.26

- Financial assets measured at fair value through profit or loss amounted to RMB1,546,139,404 and increased by 178.42% compared with the end of last year, which was mainly due to increase in financial products held by Ma Steel Group Financial Co., Ltd. this year.
- Notes receivable amounted to RMB8,375,166,683 and increased by 132.10% compared with the end of last year, which was mainly due to increase in notes received from sales of products caused by increased steel price this year and decrease in note endorsement transfer.
- Interest receivable amounted to RMB6,390,787 and increased by 57.99% compared with the end of last year, mainly due to increase in interest receivable of Ma Steel Group Financial Co., Ltd.'s fixed-term deposit in commercial bank this year.
- Other receivables amounted to RMB278,837,287 and increased by 118.50% compared with the end of last year, mainly due to the increase in deposits for steel futures.
- Financial assets purchased under agreements to resell amounted to RMB1,204,603,000 and increased by 423.63%, mainly because Ma Steel Group Financial Co., Ltd. increased reverse repurchase business this year.
- The current portion of held-to-maturity investments amounted to RMB305,228,376 this year and nil at the end of last year, mainly because that Ma Steel Group Financial Co., Ltd. purchases national debt and local government debt with the intention to hold to maturity this year.
- Assets held for sale amounted to RMB73,454,334 this year and nil at the end of last year, mainly because that Ma Steel (Hefei) would hand over its industrial heritage assets to Hefei Municipal Land Reserve Center and these assets were accounted in this account.
- Other current assets amounted to RMB916,037,331 and increased by 32.29% compared with the end of last year, mainly due to increase in input VAT to be deducted at the end of this year than that at the end of last year.
- Available-for-sale financial assets amounted to RMB1,111,168,160 and increased by 92.26% compared with the end of last year, mainly due to increase in Ma Steel Group Financial Co., Ltd.'s interbank certificate of deposit this year.

- Deferred tax assets amounted to RMB478,235,280, and increased by 37.39% compared with the end of last year. The main reason is that the Company recognized deferred tax assets relating to deductible temporary difference incurred from fixed assets impairment provision and part of tax losses in previous years based on profit forecast in future years.
- The non-current portion of held-to-maturity investments amounted to RMB100,854,230 this year and nil at the end of last year, mainly because that Ma Steel Group Financial Co., Ltd. purchases national debt with the intention to hold to maturity this year.
- Deposits from banks and other financial institutions amounted to RMB200,000,000 this year and nil at the end of last year, mainly due to increase in the borrowing by Ma Steel Group Financial Co., Ltd. from banks and other financial institutions.
- Repurchase agreements amounted to RMB308,100,956 and decreased by 48.35% compared with the end of last year. The main reason is Ma Steel Group Financial Co., Ltd. decreased rediscount for notes and bonds in other financial institutions this year.
- Short term loans amounted to RMB4,630,303,694 and decreased by 33.31% compared with the end of last year. The main reason is due to repayment of short-term borrowings of the Company in current year.
- Financial liabilities measured at fair value through profit or loss amounted to RMB10,498,810 this year and nil at the end of last year. The main reason is changes in fair value of forward foreign exchange contract purchased by the Company this year.
- Notes payable amounted to RMB4,809,848,470 and increased by 34.19% compared with the end of last year. The main reason is that due to increase in price of raw materials this year, the Company and some subsidiaries have increased use of credit facilities and thus the banker's acceptance notes increased.
- Taxes payable amounted to RMB1,342,836,597 and increased by 389.67% compared with the end of last year. The main reason is increase of taxes due but unpaid by the Company and some subsidiaries this year than that at the end of last year.

- Non-current liabilities due within one year amounted to RMB4,928,758,378 and increased by 53.49% compared with the end of last year, mainly due to the fact that the three-year medium term notes issued in July and August 2015 would be due within one year and were adjusted in this account, and repayment of long-term loan due.
- Accrued liabilities amounted to RMB38,537,369 and increased by 30.28% compared with the end of last year, mainly due to increase in predicted losses in executory contract of the Group's subsidiary (MG-VALDUNES S.A.S).
- Other current liabilities amounted to RMB3,081,026,301, increasing by 35.55% compared with the end of last year. The main reason was that the one-year short-term notes of RMB2 billion yuan issued last year was cashed this year and another one-year short-term notes of RMB3 billion yuan was issued this year at the same time.
- Long term loans amounted to RMB6,975,958,634, increasing by 35.11% compared with the end of last year, mainly due to the Company' newly-added long term loans this year.
- Bonds payable was nil this year and RMB3,987,666,667 by the end of last year. The main reason is that the three-year medium term notes issued by the Company in July and August 2015 would be due within one year and had been classified into non-current liabilities due within one year.
- Long-term payables amounted to RMB210,000,000 this year and nil at the end of last year, mainly because that Hefei Steel Plate Company had borrowed interest-free loans from Hefei Industrial Investment Holding Co., Ltd.
- Retained earnings amounted to RMB3,643,443,763, increasing by RMB3,834,012,385 compared with the end of last year, mainly due to the Group's rising profit for this year.
- Non-controlling interests amounted to RMB3,341,524,501, increasing by 44.26% compared with the end of last year, mainly due to rising profit of non-wholly-owned subsidiaries this year as compared with last year.

## 5.5 Operational Information Analysis of the Industry

### Operation Information

In 2017, good achievements have been made in cutting of over-capacity in steel industry and the target of handling 50-million-ton over-capacity in a year has been completed ahead of schedule, which effectively relieves the problem of excessive capacity. As a result, the capacity factor of compliant enterprises in our country has been basically recovered within a reasonable range. Real estate, automobile, home appliances, engineering machinery and downstream steel industry show favorable development trend, the investment in infrastructure is at a high level, and demands of steel correspondingly increase, and consumption of steel is basically better than expected situation and the steel price reasonably increases.

### Company Information

During the reporting period, the production capacity and utilisation rates were as follows:

<b>Product type</b>	<b>production capacity</b> ( <i>'000 tonnes</i> )	<b>Utilisation rate of production capacity</b> (%)
Pig iron	19,330	94
Crude steel	22,980	86
Steel	21,270	87

### 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 volume (tonnes)		Sales volume (tonnes)		Revenue		Cost of sales		Gross margin (%)	
	This Year	Last Year	This Year	Last Year	This Year	Last Year	This Year	Last Year	This Year	Last Year
Cold-rolled steel	4,833,780	4,787,338	4,822,887	4,785,420	20,604	14,684	18,262	12,702	11.37	13.50
Hot-rolled steel	13,577,833	12,761,582	13,645,056	12,695,554	44,928	28,937	37,147	25,232	17.32	12.80
Wheel and axles	192,638	142,196	188,808	143,814	1,802	1,462	1,624	1,251	9.88	14.43

## 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 margin (%)	
	This Year	Last Year	This Year	Last Year	This Year	Last Year	This Year	Last Year	This Year	Last Year
	Long Products	<b>8,937,750</b>	8,380,085	<b>8,996,905</b>	8,278,910	<b>29,881</b>	17,713	<b>24,889</b>	16,198	<b>16.71</b>
Steel Plates	<b>9,473,863</b>	9,168,835	<b>9,471,038</b>	9,202,064	<b>35,651</b>	25,908	<b>30,520</b>	21,736	<b>14.39</b>	16.10
Wheels and axles	<b>192,638</b>	142,196	<b>188,808</b>	143,814	<b>1,802</b>	1,462	<b>1,624</b>	1,251	<b>9.88</b>	14.43

## 3. Performances of Steel Material Sales Based on Sales Channels

*Unit: RMB Million*

Based on sales channels	Revenue		Percentage (%) in total revenue	
	This Year	Last Year	This Year	Last Year
	Offline sales	<b>64,240</b>	43,190	<b>87.72</b>
Online sales	<b>3,090</b>	1,890	<b>4.22</b>	3.92

## 4. Supply of iron ore

*Unit: RMB Million*

Supply source of iron ore	Supply volume (tonnes)		Expenses	
	This Year	Last Year	This Year	Last Year
Domestic source	<b>8,303,087</b>	7,196,830	<b>4,793</b>	3,298
Overseas import	<b>20,336,050</b>	19,864,484	<b>11,150</b>	8,273

## 5.6 Investment Analysis

### General analysis of external equity investment

*Unit: RMB Million*

Investment amount as at the end of the reporting period of the Company	8,957.01
Increase/decrease of investment amount	1,678.12
Investment amount as at the end of previous year of the Company	7,278.89
Increase/decrease in investment amount (%)	23.05

**(1) Significant Equity Investment**

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

*Unit: RMB'000*

<b>Name of Invested Company</b>	<b>Equity Ratio</b>	<b>Main Business</b>	<b>Newly-invested amount during the reporting period</b>
Magang Group Finance Co., Ltd.	91%	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 inter-lending, 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.	910,000
Masteel (Hong Kong) Co., Ltd.	100%	Steel trade	31,440
MG-VALDUNES S.A.S.	100%	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.	309,310
Mascometal Co., Ltd.	66%	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).	127,369
Ma Steel (Hefei) Processing and Distribution Co., Ltd.	67%	Process and sale of steel plates and production and sale of construction steel framework products, as well as the provision of storage and transportation services.	12,396

- 1) Increased capital of Magang Group Finance Co., Ltd. and contributed RMB910 million according to shareholding proportion.
- 2) Purchase 9% equity interest of Ma Steel (Hong Kong) Co., Ltd. which are held by Ma Steel International Economy and Trade Co., Ltd.
- 3) Increased capital amounting to 40 million Euros to the wholly-owned subsidiary MG-VALDUNES S.A.S.
- 4) Increased capital amounting to 10.296 million Euros to Mascometal Co.,Ltd. (“Mascometal”) as planned. In 2017, Mascometal became a controlling subsidiary of the Company instead of a joint venture company of the Company. Therefore, the Company increased capital to Mascometal based on the fair value of its equity the Company held, amounting to RMB127,759,486.
- 5) Purchased 6% equity interest of Ma Steel (Hefei) Processing and Distribution Co., Ltd. held by Anhui JAC Logistics Co., Ltd.

**(2) Significant non-equity investment**

*Unit: RMB million*

<b>Project Name</b>	<b>Budgeted Investment</b>	<b>New Investment in reporting period</b>	<b>Project Progress</b>
Product quality projects	11,024	703	51%
Energy-saving and environment protection projects	2,843	347	69%
Modification projects	1,626	250	79%
Other projects	N/A	<u>467</u>	/
Total		<u><u>1,767</u></u>	



By the end of the reporting period, the progress of the major projects under construction are as follows:

*Unit: RMB million*

<b>Project name</b>	<b>Budget of total investment</b>	<b>Work progress</b>
Production Line Project for Steel Rolling of Heavy H Beam	1,196	In the stage of plant construction and equipment bidding
Section Upgrading, Rebuilding and Auxiliary Supporting Project	810	In the stage of pile machine construction and equipment installation
Deep Processing and Auxiliary Supporting Project for Special Steel Bar and Wire for High-end Auto Parts	650	In the stage of plant construction, and equipment foundation construction and installation
Purification System Combination Project of Coal-Coking Company (Southern District)	380	In the stage of equipment manufacture and installation
Continuous Casting Machine Project for Beam Blank in Production Line of Heavy H Beam	330	In the stage of civil construction and equipment bidding
High-grade Renovation Project of Silicon Steel in Cold Rolling Factory	260	In the stage of plant construction, and equipment manufacture and installation
0# Dry Quenching Project in Old Area of Coal-Coking Company	160	In the stage of being organized to bid
Newly-built Six-machine and Six-strand Square Billet Continuous Caster	100	Relocation is being implemented
	<hr/>	
Total	<u><u>3,886</u></u>	

## 5.7 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 RMB118 million. As at the end of the reporting period, it had total assets amounting to RMB4,684 million and net assets of RMB2,015 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. It recorded net profit of RMB1,998 million. As at the end of the reporting period, total assets were RMB8,897 million and net assets were RMB4,465 million.
- Magang Group Finance Co., Ltd. has a registered capital of RMB2,000 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 RMB200 million. At the end of the reporting period, its total asset value were RMB12,298 million and net assets were RMB2,769 million.
- The wholly-owned subsidiary MG-VALDUNES S.A.S., with registered capital of Euro80.2 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 RMB136 million. At the end of reporting period, the total assets were RMB719 million, and the net assets were RMB288 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 RMB103 million. As at the end of the reporting period, it had total assets amounting to RMB321 million and net assets of RMB223 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 30%, 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 RMB8 million. As at the end of the reporting period, it had total assets amounting to RMB420 million and net assets of RMB123 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 RMB18 million. As at the end of the reporting period, it had total assets amounting to RMB311 million and net assets of RMB204 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 RMB27 million. As at the end of the reporting period, it had total assets amounting to RMB239 million and net assets of RMB229 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 67% and 28%, 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 profit for the reporting period amounted to RMB34 million. As at the end of the reporting period, it had total assets amounting to RMB497 million and net assets of RMB193 million.
- The wholly-owned subsidiary Masteel (Hong Kong) Co., Ltd. has a registered capital of HK\$350 million. It is mainly engaged in the trading of steel products and pig iron. Net profit for the reporting period amounted to RMB16 million. As at the end of the reporting period, it had total assets amounting to RMB846 million and net assets of RMB257 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 RMB181 million. At the end of reporting period, the total assets were at RMB751 million, and the net assets were RMB669 million.

In 2017, Anhui Chang Jiang Iron and Steel Co., Ltd. had a revenue of RMB14,858 million and an operating profit of RMB3,348 million from its principal business. Net profit of Chang Jiang Iron and Steel during the reporting period was RMB1,998 million, increasing by 575% over the previous year, which was mainly due to the increase of sales volume of the products and the increase of gross profit of long products during the reporting period.

## **6. DISCUSSION AND ANALYSIS ON THE COMPANY’S FUTURE DEVELOPMENT**

### **6.1 Industry landscape and trend**

The steel industry in China is now in critical period of transforming from large to strong. Therefore, it is necessary to vigorously improve development quality and efficiency to meet the society’s increasing new demands of development quality, supply quality, service quality and quality of ecological environment. This endows higher requirements for quality, service life, safety, environment protection and practicability of steel. It is expected from 2018 to 2020, the apparent consumption of steel remains stable but the consumption structure gradually changes, which has higher requirements on quality and performance of steel and high-grade demands still have great potential of increase. In addition, “Environmental Protection Tax Law of the People’s Republic of China” and its implementation rules were effective since 1st January 2018. The provinces, municipalities, and autonomous regions have issued specific applicable tax amounts for taxable atmospheric pollutants and water pollutants. Environmental-protection pressure will urge steel companies to increase environmental protection investment, promote emission reduction technology applications, and continue pollution control and standard upgrading.

### **6.2 Corporate development strategy**

Sticking to core status of steel industry, the Company will pursue high-quality development, carry out innovation-driven strategy, enhance lean operation, 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, 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 2018, the group plans to produce pig iron of 18.30 million tons, crude steel of 19.85 million tons and steel of 18.82 million tons (of which the company plans to produce pig iron of 14.50 million tons, crude steel of 15.65 million tons and steel of 14.62 million tons), and there is no significant change compared with the previous year.

### **6.4 Potential risks**

#### ***Capacity Reduction Risk***

The iron and steel industry will reduce another 30 million ton capacity in 2018. However, driven by a rebound in profit, investment in the iron and steel industry has grown recently, and cases of new capacity installation, capacity swap and changing converters into electric furnaces are seen.

Countermeasure: As a highly responsible entity, the Company will support capacity reduction by governments at all levels and the industry association resolutely, enforce capacity reduction and optimize the supply of the iron and steel industry. In 2018, the Company is going to decommission two shaft furnaces and two converters, involving 1,000,000 ton iron smelting capacity and 1,280,000 ton steel smelting capacity.

#### ***Operational Risk of the Industry***

Uncertainties that have impact on the performance of the industry, such as production limit for heating in winter, seasonality of demand, and production limit for environmental protection, have material impact on supply balance of the steel market and performance of manufacturers.

Countermeasure: The Company will adopt a flexible production plan, and try to mitigate the negative impact of market uncertainties; meanwhile, strengthen self-constraints, continue to make to orders and contracts, maintain market stability and give full play to its role as regional market stabilizer.

### ***Raw Material and Fuel Price Volatility Risk***

The supply of raw materials and fuel may be not sufficient or timely sometimes owing to environmental protection policies, capacity reduction and the weather, among other factors, and this may have some impact on the Company's stable production, cost control and business results.

Countermeasure: The Company should keep a close eye on market dynamics, support procurement decision-making with market analysis, guarantee the supply of raw materials and fuel, maintain low inventory and business continuity, strengthen ties with the downstream sectors and users and achieve win-win.

### ***Trade Protection Risk***

The United States decided to impose a 25% duty on imported steel. This move has triggered the rise in anti-globalization sentiment and trade protectionism has continued unabated.

Countermeasure: The Company should analyze the international market, keep track of changes in international trade policies, and minimize the impact of sudden changes in trade policies on its international business; map out a contingency plan for trade conflicts, mitigate the negative impact of trade conflicts by supporting investigations, lodging appeals and accepting arbitrations, and make its products more competitive in the international market.

## **7. SIGNIFICANT EVENTS**

### **7.1 Plan or Proposal of Profit Distribution for Common Shares, Plan or Proposal of Transferring Capital Reserve to Increased Equity for the Past Three Years (including the reporting period)**

The Company had net profit amounting to RMB2,694 million, and after deducting the opening cumulative loss amounting to RMB126 million, and deducting surplus reserve by 10%, based on the China Accounting Standards, the distributable profit in 2017 was RMB2,311 million. The Board suggests a final dividend of RMB0.165 per share (tax included) shall be distributed for the year of 2017 and retained earnings will be carried forward to the year of 2018. The distribution plan is going to be submitted to the Annual General Meeting for approval. There was no dividend suggested in year 2015 and 2016.

## **7.2 Remunerations of the Auditor**

During the year, Ernst & Young Hua Ming LLP was appointed as the auditor of the Company, who has completed the annual financial audit and relevant internal control audit and has issued relevant audit report. The remuneration for Ernst & Young Hua Ming LLP amounted to RMB5.385 million (tax excluded), among which, the annual audit fee amounted to RMB4.80 million (including an internal control audit fee of RMB0.60 million) and the fee for agreed-upon procedures of RMB0.585 million. The audit fee and agreed-upon procedures fee were already inclusive of disbursements incurred by the auditor. Meal and accommodation expenses incurred by auditor while performing professional services for the Company were borne by the Company.

## **7.3 Audit Committee**

The Audit Committee of the board of directors held six meetings in 2017. The committee duly performed its duties of reviewing and monitoring the finance and internal control of the Group. It reviewed the 2016 annual accounts, the 2017 first quarterly accounts, the 2017 interim accounts and the 2017 third quarterly accounts of the Company. It reviewed the summary report presented by the external accounting firm as a result of a 2016 auditing exercise on the Company and made an independent opinion on the Company's engagement of auditors, connected transactions and external guarantees.

The Company's 2017 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 (if applicable), 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 2017, 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**

In 2017, 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**

### ***Change in Presentation of Gain/Loss from Disposal of Assets***

As required by the Notice of the Ministry of Finance on Revising and Circulating General Corporate Financial Statement Formats (Financial Accounting [2017] No.30), the Group presents Gain/Loss from Disposal of Assets as a new item above Operating Profit in the Income Statement, and the Gain/Loss from Disposal of Non-current Assets which was previously recorded in Non-operating Income and Non-operating Expenses is included in this new item. The Group has represented the Comparative Income Statement. This change to accounting policies has no impact on the consolidated and company net profit and shareholders' equity.

### ***Change in Presentation of Government Grants***

As required by the Notice on Revising and Circulating Enterprise Accounting Standards No.16-Government Grants (Financial Accounting [2017] No.15), the Group presents the Other Income item separately above Operating Profit in the Income Statement, and government grants related to daily activities is stated under Other Income instead of Non-operating Income; in line with the standards, the Group has applied the prospective approach to government grants existing prior to 1 January 2017, and adjusted government grants received between 1 January 2017 and the effective date of the standards (12 June 2017) accordingly. This change in accounting policies has no impact on consolidated and company net profit and shareholders' equity.

### ***Change in Presentation of Discontinued Operations***

As required by the Notice on Circulating Enterprise Accounting Standards No.42-Non-current Assets Held for Sale, Disposal Groups and Discontinued Operations (Financial Accounting [2017] No.13), the Group adds two items below Net Profit in the Income Statement, Net Profit from Continuing Operations and Net Profit from Discontinued Operations, to state profit or loss from continuing operations and profit or loss from discontinued operations. Since the Group had no discontinued operation in 2017, this change in accounting standards has no impact on consolidated and company net profit stated in the Income Statement for the year of 2017 and 2016 based on business continuity.

The accounting policies adopted in the preparation of 2017 annual financial statements are consistent with those followed in the preparation of the Group's audited consolidated financial statements for year 2016, except for the above changes in accounting policies.

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

Not applicable.

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

In April 2017, the Company established Anhui Ma Steel Rust-proof Materials Technology Co., Ltd. and holds a 51% equity interest in it. It has been included in consolidation since the date of establishment.

Mascometal, in which the Company held 66% equity interests, was originally a joint venture of the Company. On 5 June 2017, Mascometal held the board meeting, and approved the revised Article of Association which changed the approval criteria from unanimous approval of all the directors to more than 50% of the directors' approval in respect of some key board of directors' resolution matters. According to the revised Article of Association, the Company holds more than 50% of voting rights in the board of directors of Mascometal, the Company is able to exercise control over Mascometal. Mascometal is accounted for as a subsidiary and included in the scope of consolidation of the Group.

The Company signed an equity interest transfer agreement with Anhui Xinchuang Energy Saving and Environmental Protection Science and Technology Company, Ltd. ("Xinchuang Environmental Protection") on 1 January 2017 to sell 90% equity interests of Maanshan Masteel Huayang Equipment Diagnosis Engineering Co., Ltd. (馬鞍山馬鋼華陽設備診斷工程有限公司) ("Huayang Equipment") held by the Company at a consideration of RMB8,696,084, which was based on the results of an independent third-party valuation agency. The disposal date was 1 January 2017. Therefore, Huayang Equipment will no longer be included in the scope of consolidation of the Group since 1 January 2017.

Except for the abovementioned changes, the consolidation of the financial statements for the current period is the same as that of those audited consolidated financial statements for the prior period.

# CONSOLIDATED AND COMPANY'S STATEMENTS OF FINANCIAL POSITION

As at 31 December 2017

Renminbi Yuan

		31 December 2017	31 December 2016	31 December 2017	31 December 2016
ASSETS	Notes	Group	Group	Company	Company
<b>CURRENT ASSETS</b>					
Cash and bank balances		4,978,352,093	5,312,101,041	4,169,232,422	3,851,576,750
Financial assets measured at fair value					
through profit or loss		1,546,139,404	555,322,261	62,721,800	3,789,546
Notes receivable	4	8,375,166,683	3,608,459,121	8,065,941,428	3,518,320,171
Trade receivables	5	966,447,592	859,929,107	2,104,541,167	1,953,223,578
Dividends receivable		–	–	–	5,672,730
Interest receivable		6,390,787	4,044,939	–	–
Prepayments	6	750,818,831	925,051,274	600,539,572	649,277,673
Other receivables		278,837,287	127,614,834	188,725,018	41,040,509
Inventories		11,445,747,808	10,548,061,832	7,740,789,448	7,370,937,053
Financial assets purchased under					
agreements to resell		1,204,603,000	230,047,000	–	–
Loans and advances to customers		1,251,315,253	1,555,212,556	–	–
Assets held for sale		73,454,334	–	–	–
Held-to-maturity investments		305,228,376	–	–	–
Other current assets		916,037,331	692,471,233	294,632,327	294,632,327
<b>Total current assets</b>		<b>32,098,538,779</b>	<b>24,418,315,198</b>	<b>23,227,123,182</b>	<b>17,688,470,337</b>
<b>NON-CURRENT ASSETS</b>					
Available-for-sale financial assets		1,111,168,160	577,947,698	126,722,160	126,722,160
Held-to-maturity investments		100,854,230	–	–	–
Long-term equity investments		1,525,225,202	1,239,776,313	8,830,290,112	7,152,166,287
Investment properties		57,508,684	58,833,998	71,554,652	73,988,855
Property, plant and equipment		33,130,499,862	35,522,601,715	25,089,628,791	27,272,692,483
Construction in progress		1,805,955,609	2,258,191,398	1,356,492,361	1,629,607,224
Intangible assets		1,883,604,173	1,821,768,927	904,435,151	933,763,504
Deferred tax assets		478,235,280	348,095,783	438,445,874	261,808,739
<b>Total non-current assets</b>		<b>40,093,051,200</b>	<b>41,827,215,832</b>	<b>36,817,569,101</b>	<b>37,450,749,252</b>
<b>TOTAL ASSETS</b>		<b>72,191,589,979</b>	<b>66,245,531,030</b>	<b>60,044,692,283</b>	<b>55,139,219,589</b>

# CONSOLIDATED AND COMPANY'S STATEMENTS OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2017

Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	31 December 2017 Group	31 December 2016 Group	31 December 2017 Company	31 December 2016 Company
<b>CURRENT LIABILITIES</b>					
Deposits from banks and other financial institutions		2,947,639,610	3,708,225,021	-	-
Customer deposits		200,000,000	-	-	-
Repurchase agreements		308,100,956	596,565,698	-	-
Short term loans		4,630,303,694	6,942,952,420	3,226,709,122	4,617,240,417
Financial liabilities measured at fair value through profit or loss		10,498,810	-	10,498,810	-
Notes payable	7	4,809,848,470	3,584,228,362	4,077,260,000	2,766,056,791
Accounts payable	8	6,968,534,360	6,668,807,923	5,972,985,456	5,708,282,008
Advances from customers		3,842,903,332	3,682,322,418	2,626,167,696	2,396,866,345
Payroll and employee benefits payable		654,822,505	550,444,683	502,689,195	436,242,207
Taxes payable		1,342,836,597	274,232,114	795,312,565	165,339,271
Interest payable		121,108,052	107,691,398	96,579,964	104,959,511
Dividends payable		9,050,620	8,713,584	6,569,410	6,525,534
Other payables		2,224,169,194	1,912,575,078	1,768,808,088	1,502,658,072
Non-current liabilities due within one year		4,928,758,378	3,211,056,320	5,928,758,378	4,448,099,900
Accrued liabilities		38,537,369	29,580,435	-	-
Other current liabilities		3,081,026,301	2,273,058,356	3,081,026,301	2,273,058,356
<b>Total current liabilities</b>		<b>36,118,138,248</b>	<b>33,550,453,810</b>	<b>28,093,364,985</b>	<b>24,425,328,412</b>
<b>NON-CURRENT LIABILITIES</b>					
Long-term loans		6,975,958,634	5,163,168,960	9,461,264,824	7,113,168,960
Bonds payable		-	3,987,666,667	-	3,987,666,667
Deferred income		1,462,490,533	1,269,496,538	730,152,350	556,222,033
Long-term payables		210,000,000	-	-	-
Long-term employee benefits payable		160,896,586	159,173,203	132,641,692	127,425,119
Deferred tax liabilities		26,841,665	35,065,411	-	-
<b>Total non-current liabilities</b>		<b>8,836,187,418</b>	<b>10,614,570,779</b>	<b>10,324,058,866</b>	<b>11,784,482,779</b>
<b>Total liabilities</b>		<b>44,954,325,666</b>	<b>44,165,024,589</b>	<b>38,417,423,851</b>	<b>36,209,811,191</b>
<b>SHAREHOLDERS' EQUITY</b>					
Share capital		7,700,681,186	7,700,681,186	7,700,681,186	7,700,681,186
Capital reserve		8,352,287,192	8,348,726,741	8,358,017,477	8,358,017,477
Other comprehensive income		(124,156,060)	(119,263,454)	-	-
Special reserve		31,929,722	27,969,571	7,637,529	3,827,107
Surplus reserve		4,100,007,341	3,843,231,617	3,249,950,725	2,993,175,001
General reserve		191,546,668	153,394,916	-	-
Retained earnings		3,643,443,763	(190,568,622)	2,310,981,515	(126,292,373)
Equity attributable to owners of the parent		23,895,739,812	19,764,171,955	21,627,268,432	18,929,408,398
Non-controlling interests		3,341,524,501	2,316,334,486	-	-
<b>Total shareholders' equity</b>		<b>27,237,264,313</b>	<b>22,080,506,441</b>	<b>21,627,268,432</b>	<b>18,929,408,398</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>72,191,589,979</b>	<b>66,245,531,030</b>	<b>60,044,692,283</b>	<b>55,139,219,589</b>

# CONSOLIDATED AND COMPANY'S INCOME STATEMENT

For year ended 31 December 2017

Renminbi Yuan

	Notes	2017 Group	2016 Group	2017 Company	2016 Company
Revenue	10	73,228,029,624	48,275,100,310	59,882,440,515	41,526,614,764
Less: Cost of sales	10	63,556,258,449	42,557,487,675	54,607,086,565	37,095,438,376
Taxes and surcharges		741,194,307	432,096,408	542,554,260	333,846,959
Selling expenses		865,396,451	694,782,730	380,917,612	311,149,677
General and administrative expenses		1,419,135,407	1,780,281,484	1,060,607,069	965,419,904
Financial expenses	11	998,780,259	793,650,976	1,011,342,956	817,756,613
Impairment losses		746,374,994	1,064,257,636	531,569,167	922,543,152
Add: Gain on the changes in fair value		10,145,756	4,051,190	8,914,844	3,789,546
Investment income		676,516,349	291,396,463	605,252,360	253,435,060
including: share of profits of associates and joint ventures		490,410,552	232,820,475	490,410,552	232,820,475
Loss from disposal of assets		(176,952,368)	(51,189,196)	(176,806,918)	(47,495,781)
Other income		238,868,248	–	172,071,814	–
Operating profit		5,649,467,742	1,196,801,858	2,357,794,986	1,290,188,908
Add: Non-operating income	12	176,123,978	198,015,226	170,961,545	148,610,420
Less: Non-operating expenses	13	16,625,157	26,241,544	11,344,053	23,849,585
Profit before tax		5,808,966,563	1,368,575,540	2,517,412,478	1,414,949,743
Less: Income tax expense	14	736,728,434	111,880,234	(176,637,134)	52,407,898
Net profit		<u>5,072,238,129</u>	<u>1,256,695,306</u>	<u>2,694,049,612</u>	<u>1,362,541,845</u>
Categorized by operation continuity					
Net profit from continuing operations		<u>5,072,238,129</u>	<u>1,256,695,306</u>	<u>2,694,049,612</u>	<u>1,362,541,845</u>
Net profit from discontinued operation		<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

## CONSOLIDATED AND COMPANY'S INCOME STATEMENT (CONTINUED)

For year ended 31 December 2017

Renminbi Yuan

	Notes	2017 Group	2016 Group	2017 Company	2016 Company
Categorized by ownership:					
Net profit attributable to owners of the parent		<u>4,128,939,861</u>	<u>1,228,892,407</u>		
Net profit attributable to non-controlling interests		<u>943,298,268</u>	<u>27,802,899</u>		
Other comprehensive income, net of tax:		(6,520,394)	47,099,406		
Other comprehensive income attributable to owners of the parent, net of tax		(4,892,606)	46,187,097		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:					
Fair value changes of available-for-sale financial assets		(4,066,577)	(803,607)	-	-
Exchange differences on translation of foreign operations		(826,029)	46,990,704	-	-
Other comprehensive income attributable to non-controlling interests, net of tax		(1,627,788)	912,309	-	-
Total comprehensive income		<u>5,065,717,735</u>	<u>1,303,794,712</u>	<u>2,694,049,612</u>	<u>1,362,541,845</u>
Attributable to:					
Owners of the parent		<u>4,124,047,255</u>	<u>1,275,079,504</u>		
Non-controlling interests		<u>941,670,480</u>	<u>28,715,208</u>		
EARNINGS PER SHARE:					
Basic earnings per share (cent)	15	<u>53.62 cents</u>	<u>15.96 cents</u>		
Diluted earnings per share (cent)	15	<u>53.62 cents</u>	<u>15.96 cents</u>		

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

Renminbi Yuan

	Attributable to owners of the parent							Non-controlling interests	Total shareholders' equity	
	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	General reserve	Retained earnings			Sub-total
1. At 1 January 2017	7,700,681,186	8,348,726,741	(119,263,454)	27,969,571	3,843,231,617	153,394,916	(190,568,622)	19,764,171,955	2,316,334,486	22,080,506,441
2. Increase/(decrease) during the year										
1) Total comprehensive income	-	-	(4,892,606)	-	-	-	4,128,939,861	4,124,047,255	941,670,480	5,065,717,735
2) Capital contribution and withdrawal										
(i) Capital contribution	-	-	-	-	-	-	-	-	92,940,000	92,940,000
(ii) Business combination	-	-	-	-	-	-	-	-	65,815,493	65,815,493
(iii) Disposal of a subsidiary	-	-	-	-	-	-	-	-	(884,349)	(884,349)
(iv) Purchase of non-controlling interests of subsidiaries	-	3,560,451	-	-	-	-	-	3,560,451	(47,397,069)	(43,836,618)
3) Profits appropriation										
(i) Transfer to surplus reserve	-	-	-	-	256,775,724	-	(256,775,724)	-	-	-
(ii) Transfer to general reserve	-	-	-	-	-	38,151,752	(38,151,752)	-	-	-
(iii) Distribution to shareholders	-	-	-	-	-	-	-	-	(28,271,220)	(28,271,220)
4) Special reserve										
(i) Additions	-	-	-	100,875,054	-	-	-	100,875,054	10,722,668	111,597,722
(ii) Utilisation	-	-	-	(100,725,325)	-	-	-	(100,725,325)	(9,405,988)	(110,131,313)
(iii) Changes in the share of associates and joint ventures' special reserve, net	-	-	-	3,810,422	-	-	-	3,810,422	-	3,810,422
3. At 31 December 2017	<u>7,700,681,186</u>	<u>8,352,287,192</u>	<u>(124,156,060)</u>	<u>31,929,722</u>	<u>4,100,007,341</u>	<u>191,546,668</u>	<u>3,643,443,763</u>	<u>23,895,739,812</u>	<u>3,341,524,501</u>	<u>27,237,264,313</u>

For the year ended 31 December 2016

	Attributable to owners of the parent							Non-controlling interests	Total shareholders' equity	
	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	General reserve	Accumulated losses			Sub-total
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) Others	-	15,146,295	-	-	-	-	-	15,146,295	-	15,146,295
3) Profit appropriation										
(i) Transfer to surplus reserve	-	-	-	-	-	-	-	-	-	-
(ii) Transfer to general 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) Utilisation	-	-	-	(84,892,033)	-	-	-	(84,892,033)	(5,903,349)	(90,795,382)
(iii) Changes in the share of associates and joint venture'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>

# CONSOLIDATED STATEMENT OF CASH FLOWS

For year ended 31 December 2017

Renminbi Yuan

	2017	2016
1. Cash flows from operating activities		
Cash received from sale of goods and rendering of services	79,503,561,455	53,536,500,347
Tax refunds received	6,383,594	43,331,736
Net decrease in loans and advances to customers	317,273,741	–
Net increase in repurchase agreements of financial assets	–	596,565,698
Net increase in customer deposits and deposits from banks	–	1,806,834,533
Cash received for interest charges, fees and commissions	98,018,856	68,966,168
Cash received relating to other operating activities	310,904,665	1,171,286,841
Sub-total of cash inflows	<u>80,236,142,311</u>	<u>57,223,485,323</u>
Cash paid for purchase of goods and services	(66,036,305,432)	(45,192,755,217)
Net increase in deposits in central bank and other financial institutions	(215,975,537)	(103,901,102)
Net increase in financial assets purchased under agreements to resell	(974,556,000)	(230,047,000)
Net increase in loans and advances to customers	–	(852,919,383)
Net decrease in repurchase agreements of financial assets	(288,464,742)	–
Net decrease in customer deposits and deposits from banks and other financial institutions	(560,585,411)	–
Cash paid to or on behalf of employees	(4,257,177,760)	(3,759,522,641)
Taxes and surcharges paid	(2,405,202,516)	(2,018,756,738)
Cash paid for interest charges, fees and commissions	(54,025,121)	(30,304,313)
Cash paid relating to other operating activities	(953,933,389)	(415,417,915)
Sub-total of cash outflows	<u>(75,746,225,908)</u>	<u>(52,603,624,309)</u>
Net cash flows from operating activities	<u>4,489,916,403</u>	<u>4,619,861,014</u>



## CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For year ended 31 December 2017

Renminbi Yuan

	2017	2016
2. Cash flows from investing activities		
Cash received from disposal of investments	<b>584,769,557</b>	458,563,915
Cash received from investment income	<b>139,070,391</b>	141,575,987
Net cash from acquisition of subsidiaries and other operating units	<b>115,777,566</b>	–
Proceeds from disposal of items of property, plant and equipment, intangible assets and other non-current assets	<b>13,103,681</b>	21,243,569
Net cash from disposal of a subsidiary and other operating units	<b>4,854,450</b>	–
Cash received relating to other investing activities	<b>109,905,601</b>	103,844,476
	<hr/>	<hr/>
Sub-total of cash inflows	<b>967,481,246</b>	725,227,947
	<hr/>	<hr/>
Purchases of property, plant and equipment, intangible assets and other non-current assets	<b>(1,484,519,774)</b>	(2,130,913,649)
Cash paid for investments	<b>(2,750,126,487)</b>	(531,910,709)
Purchases of non-controlling interests	<b>(43,836,618)</b>	–
Cash paid relating to other investing activities	<b>(103,420,899)</b>	–
	<hr/>	<hr/>
Sub-total of cash outflows	<b>(4,381,903,778)</b>	(2,662,824,358)
	<hr/>	<hr/>
Net cash flows used in investing activities	<b>(3,414,422,532)</b>	(1,937,596,411)

## CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For year ended 31 December 2017

Renminbi Yuan

	2017	2016
3. Cash flows from financing activities		
Cash received from borrowings	12,648,723,311	17,427,171,551
Cash received from issuing bond	3,000,000,000	–
Cash received from investors	92,940,000	–
Including: capital injection from a subsidiary's non-controlling interests	92,940,000	–
Cash received relating to other financing activities	210,000,000	–
	<u>15,951,663,311</u>	<u>17,427,171,551</u>
Sub-total of cash inflows		
	<u>15,951,663,311</u>	<u>17,427,171,551</u>
Repayment of borrowings	(17,371,993,271)	(18,554,976,223)
Cash paid for distribution of dividends or profits and for interest expenses	(956,406,317)	(963,134,469)
Including: dividends paid to non-controlling interests by subsidiaries	(27,934,184)	(267,120)
	<u>(18,328,399,588)</u>	<u>(19,518,110,692)</u>
Sub-total of cash outflows		
	<u>(18,328,399,588)</u>	<u>(19,518,110,692)</u>
Net cash flows used in financing activities	<u>(2,376,736,277)</u>	<u>(2,090,939,141)</u>
4. Effect of foreign exchange rate changes on cash and cash equivalents	<u>(82,387,266)</u>	<u>186,395,867</u>
5. Net (decrease)/increase in cash and cash equivalents	(1,383,629,672)	777,721,329
Add: Cash and cash equivalents at the beginning of the year	<u>4,324,131,687</u>	<u>3,546,410,358</u>
6. Cash and cash equivalents at the end of the year	<u><u>2,940,502,015</u></u>	<u><u>4,324,131,687</u></u>

# NOTES TO FINANCIAL STATEMENTS

As at 31 December 2017

Renminbi Yuan

## 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 2017, the net current liabilities of the Group amounted to RMB4,019,599,469. The directors of the Company have considered the availability of funding sources, including but not limited to unused banking facilities of RMB21.3 billion as at 31 December 2017. The Company's board of directors believes that the Group has sufficient resources to continue as a going concern for not less than 12 months after the end of reporting period. Therefore, the Company's board of directors continues to prepare the Group's financial statements for the year ended 31 December 2017 on a going concern basis.

The financial statements have been prepared under the historical cost convention, except for certain financial instruments which have been measured at fair value. Assets held for sale are disclosed at the lower of carrying amount and fair value less costs to sell. Provision for asset impairment is provided in accordance with related regulations.

### 1.2 Statement of compliance with the CAS

The financial statements have been prepared in accordance with the CAS, and presented truly and completely the financial position of the Company and the Group as of 31 December 2017, 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

#### 2.1.1 Business combination

Name of acquiree	Date at which the acquirer obtains control	Consideration of equity interest	Ratio of equity interest	Method of obtaining equity interest	Acquisition date	Basis for acquisition date	Acquiree's revenue from acquisition date to the end of the year	Acquiree's net profit from acquisition date to the end of the year
Mascometal	5 June 2017	127,759,486	66%	Non-cash	5 June 2017	The board of directors' approval for revising the Articles of Association	10,833,871	(2,731,868)

Mascometal, in which the Company held 66% equity interests, was originally a joint venture of the Company. On 5 June 2017, Mascometal held the board meeting, and approved the revised Article of Association which changed the approval criteria from unanimous approval of all the directors to more than 50% of the directors' approval in respect of some key board of directors' resolution matters. According to the revised Article of Association, as directors representing that the Company holds more than 50% of voting rights in the board of directors of Mascometal, the Company is able to exercise control over Mascometal. Mascometal is accounted for as a subsidiary and included in the scope of consolidation of the Group.

Identifiable assets and liabilities of Mascometal on the acquisition date are disclosed as follows:

	<b>Fair value on the acquisition date</b> <i>(Note 1)</i>	<b>Carrying amount on the acquisition date</b>
<b>Assets</b>		
Cash and bank balances	115,777,566	115,777,566
Trade receivables	281,580	281,580
Inventories	383,854	507,360
Other receivables	1,691,964	1,691,964
Prepayments	13,794,701	13,794,701
Other current assets	7,237,420	7,237,420
Property, plant and equipment	297,565	184,852
Construction in progress	57,634,890	56,834,490
<b>Liabilities</b>		
Accounts Payable	2,055,346	2,055,346
Payroll and employee benefits payable	968,659	968,659
Taxes payable	6,964	6,964
Other payables	296,190	296,190
Deferred tax liabilities	197,402	–
Net assets	193,574,979	192,982,774
Less: Non-controlling interests	65,815,493	65,614,143
Net assets acquired	<u>127,759,486</u>	<u>127,368,631</u>
Fair value of 66% equity interest <i>(Note 2)</i>	127,759,486	
Effect of gains or losses during the current period	<u>–</u>	
Acquisition consideration <i>(Note 3)</i>	<u>127,759,486</u>	

*Note 1:* The fair value of identifiable assets and liabilities of Mascometal on the date of acquisition is based on Anhui China United-Guoxin Assets Appraisal Report (2017) No.223 issued by Anhui China United-Guoxin Assets Appraisal Co.,Ltd.

*Note 2:* As the valuation of the equity interests of Mascometal has not yet been completed, the Company recorded the fair value of 66% equity interest with its fair value of net assets.

*Note 3:* The Company's acquisition consideration in the business combination is the long-term equity investment in Mascometal. Before the date of acquisition, the Company held 66% equity interests in Mascometal and accounted for Mascometal as a joint venture. The carrying amount of the long term equity investment in Mascometal amounted to RMB127,368,631 originally held by the Company on the acquisition date. As the valuation of the equity interests of Mascometal has not yet been completed, the Company recorded the fair value of 66% equity interest with its fair value of net assets, which amounted to RMB127,759,486. The revaluation of the 66% equity held has generated a gain of RMB390,855 and is accounted in investment income.

The financial performance and cash flows of Mascometal from the date of acquisition to the year ended are disclosed as follows:

	<b>Acquisition date to 31 December 2017</b>
Revenue	<b>10,833,871</b>
Net profit	<b>(2,731,868)</b>
Net cash inflows	<b>22,358,926</b>

### **2.1.2 Disposal of a subsidiary**

	<b>Place of registration</b>	<b>Business nature</b>	<b>Total equity interests ratio that the Group holds</b>	<b>Total voting right ratio that the Group holds</b>	<b>Reason for not being a subsidiary any longer</b>
Huayang Equipment	Anhui province, PRC	Manufacturing	90%	90%	Note

*Note:* The Company signed an equity interest transfer agreement with Xinchuang Economize Resource on 1 January 2017 to sell 90% equity interests of Huayang Equipment held by the Company at a consideration of RMB8,696,084, which was based on the results of an independent third-party valuation agency. The disposal date was 1 January 2017. Therefore, Huayang Equipment was no longer be included in the scope of consolidation of the Group since 1 January 2017.

The related financial information of Huayang Equipment is as follows:

	<b>Carrying amount as at 1 January 2017</b>
Current assets	9,903,072
Non-current assets	2,112,160
Current liabilities	3,171,742
Non-current liabilities	—
Net assets	<u>8,843,490</u>
Non-controlling interests	<u>884,349</u>
Disposal gains or losses	<u>736,943</u>
Disposal consideration	<u><u>8,696,084</u></u>

### 2.1.3 Newly established subsidiary

In 2017, 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 the year end
Anhui Ma Steel Antirust Materials Technology Co., Ltd.	April 2017	RMB10,000,000	51%	Cash	RMB3,060,000

### 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 iron and steel products and by-products, and it is unnecessary for the Group to disclose more detailed information.

#### Other information

##### Product and service information

External principal operating income

	2017	2016
Sale of steel products	67,328,791,716	45,084,086,119
Sale of steel billets and pig iron	2,031,982,992	1,011,424,422
Sale of coke by-products	824,520,152	276,107,588
Others	2,030,659,794	952,167,785
	<u>72,215,954,654</u>	<u>47,323,785,914</u>

##### Geographical information

External principal operating income

	2017	2016
The PRC	67,815,626,883	43,649,644,385
Overseas	4,400,327,771	3,674,141,529
	<u>72,215,954,654</u>	<u>47,323,785,914</u>

Non-current assets

	<b>31 December 2017</b>	31 December 2016
The PRC	<b>38,072,610,336</b>	40,595,765,043
Overseas	<b>330,183,194</b>	305,407,308
	<b><u>38,402,793,530</u></b>	<b><u>40,901,172,351</u></b>

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. NOTES RECEIVABLE**

	<b>31 December 2017</b>	31 December 2016
Bank acceptance notes	<b>8,369,466,683</b>	3,608,459,121
Commercial acceptance notes	<b>5,700,000</b>	–
	<b><u>8,375,166,683</u></b>	<b><u>3,608,459,121</u></b>

As of 31 December 2017, there was no pledged notes receivable (31 December 2016: RMB738,206,842) for obtaining bank loans.

As of 31 December 2017, the undue notes discounted or endorsed were as follows :

	<u>31 December 2017</u>		<u>31 December 2016</u>	
	Derecognised	Not derecognised	Derecognised	Not derecognised
Bank acceptance notes	<b><u>4,778,024,515</u></b>	<b><u>53,676,353</u></b>	<b><u>5,196,770,076</u></b>	<b><u>156,827,864</u></b>

As of 31 December 2017 and 31 December 2016, there was no trade receivable transferred from notes 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 based on the invoice date is analysed below:

	<b>31 December 2017</b>	31 December 2016
Within one year	<b>915,981,378</b>	756,196,252
One to two years	<b>50,266,296</b>	66,905,447
Two to three years	<b>8,034,401</b>	24,337,627
Over three years	<b>39,838,727</b>	33,219,589
	<b>1,014,120,802</b>	880,658,915
Less: Provisions for bad debts	<b>47,673,210</b>	20,729,808
	<b>966,447,592</b>	859,929,107

The balances of trade receivables are analysed as follows:

	31 December 2017				31 December 2016			
	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	33,846,252	3	(33,846,252)	100	6,927,040	1	(6,927,040)	100
Assessed impairment in portfolios based on credit risk characteristics	972,551,207	96	(8,122,204)	1	828,327,058	94	(8,173,427)	1
Individually insignificant but assessed for impairment individually	7,723,343	1	(5,704,754)	74	45,404,817	5	(5,629,341)	12
	<b>1,014,120,802</b>	<b>100</b>	<b>(47,673,210)</b>		<b>880,658,915</b>	<b>100</b>	<b>(20,729,808)</b>	

Trade receivables that had been provided for bad debts by analysis aging are disclosed as follows:

	31 December 2017			31 December 2016		
	Book value		Provision for bad debts	Book value		Provision for bad debts
	Amount	Ratio (%)	Amount	Ratio	Amount (%)	Amount
Within one year	911,939,548	94	-	754,161,597	91	-
One to two years	49,657,707	5	(4,965,771)	66,596,650	8	(6,659,665)
Two to three years	7,735,144	1	(1,547,029)	7,568,811	1	(1,513,762)
Over three years	3,218,808	-	(1,609,404)	-	-	-
	<b>972,551,207</b>	<b>100</b>	<b>(8,122,204)</b>	<b>828,327,058</b>	<b>100</b>	<b>(8,173,427)</b>

In 2017, provision for bad debts was RMB30,468,944 (2016: RMB2,517,257), and recovery or reversal of provision for bad debts was RMB3,632,383 (2016: RMB927,877).

In 2017, there was no trade receivables that had been written off (2016: RMB55,967).

As of 31 December 2017 and 31 December 2016, there was no trade receivables that were derecognized due to the transfer of financial assets.

As of 31 December 2017 and 31 December 2016, the Group had no assets or liabilities deriving from transferring trade receivables in which the Group is continuingly involved.

## 6. PREPAYMENTS

Aging analysis of the prepayments is as follows:

	31 December 2017		31 December 2016	
	Book value	Ratio (%)	Book value	Ratio (%)
Within one year	729,997,738	97	896,450,454	96
One to two years	6,785,513	1	14,669,580	2
Two to three years	2,301,075	-	5,222,283	1
Over three years	11,734,505	2	8,708,957	1
	<b>750,818,831</b>	<b>100</b>	<b>925,051,274</b>	<b>100</b>

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

## 7. NOTES PAYABLE

	<b>31 December 2017</b>	31 December 2016
Bank acceptance notes	<b>4,724,648,470</b>	3,584,228,362
Commercial acceptance notes	<b>85,200,000</b>	–
	<b><u>4,809,848,470</u></b>	<b><u>3,584,228,362</u></b>

As of 31 December 2017 and 31 December 2016, the aging of the Group's notes payable was all within six months, and there were no overdue notes.

## 8. ACCOUNTS PAYABLE

The aging analysis of accounts payable based on the invoice date is as follows:

	<b>31 December 2017</b>	31 December 2016
Within one year	<b>6,681,492,997</b>	6,491,661,696
One to two years	<b>167,589,414</b>	62,554,813
Two to three years	<b>32,970,687</b>	52,430,647
Over three years	<b>86,481,262</b>	62,160,767
	<b><u>6,968,534,360</u></b>	<b><u>6,668,807,923</u></b>

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

## 9. DIVIDENDS

	<b>31 December 2017</b>	31 December 2016
Annual dividends – RMB0.165 per share	<b><u>1,270,612,396</u></b>	<b><u>–</u></b>

The annual dividends will be submitted to the shareholders' meeting for approval.

**10. REVENUE AND COST OF SALES**

	<u>2017</u>		<u>2016</u>	
	Revenue	Cost of sales	Revenue	Cost of sales
Principal operating income	<b>72,215,954,654</b>	<b>62,587,000,733</b>	47,323,785,914	41,607,003,797
Other operating income	<b>1,012,074,970</b>	<b>969,257,716</b>	951,314,396	950,483,878
	<b><u>73,228,029,624</u></b>	<b><u>63,556,258,449</u></b>	<u>48,275,100,310</u>	<u>42,557,487,675</u>

Revenue is presented as follows:

	<u>2017</u>	<u>2016</u>
Sale of products	<b>72,877,928,972</b>	47,958,420,215
Rendering service	<b>249,735,948</b>	245,269,164
Others	<b>100,364,704</b>	71,410,931
	<b><u>73,228,029,624</u></b>	<u>48,275,100,310</u>

**11. FINANCIAL EXPENSES**

	<u>2017</u>	<u>2016</u>
Interest expenses ( <i>note</i> )	<b>920,767,866</b>	896,088,299
Less: Interest income	<b>34,412,987</b>	42,161,978
Less: Capitalised interest	<b>1,775,312</b>	7,177,259
Exchange loss/(gain)	<b>78,865,050</b>	(100,247,410)
Others	<b>35,335,642</b>	47,149,324
	<b><u>998,780,259</u></b>	<u>793,650,976</u>

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

**12. NON-OPERATING INCOME**

	2017	2016	Included in non-recurring gains and losses
Government grants	170,645,383	191,502,761	170,645,383
Others	<u>5,478,595</u>	<u>6,512,465</u>	<u>5,478,595</u>
	<u><b>176,123,978</b></u>	<u><b>198,015,226</b></u>	<u><b>176,123,978</b></u>

**13. NON-OPERATING EXPENSES**

	2017	2016	Included in non-recurring gains and losses
Public relief donation	596,400	726,550	596,400
Penalty expenditure	631,235	1,466,061	631,235
Compensation for trade	9,131,792	22,880,000	9,131,792
Others	<u>6,265,730</u>	<u>1,168,933</u>	<u>6,265,730</u>
	<u><b>16,625,157</b></u>	<u><b>26,241,544</b></u>	<u><b>16,625,157</b></u>

**14. INCOME TAX EXPENSE**

	2017	2016
Mainland China:		
Current income tax expense	860,352,278	115,687,036
Hong Kong current income tax expense	2,265,713	2,945,143
Overseas current income tax expense	13,963,275	8,869,975
Deferred tax income	<u>(139,852,832)</u>	<u>(15,621,920)</u>
	<u><b>736,728,434</b></u>	<u><b>111,880,234</b></u>

Reconciliation between income tax and profit before tax:

	2017	2016
Profit before tax	<u>5,808,966,563</u>	<u>1,368,575,540</u>
Tax at the statutory tax rate of 25% (i)	1,452,241,641	342,143,885
Effect of different tax rates of subsidiaries	(10,931,869)	(11,296,146)
Non-deductible expenses	42,408,877	23,615,578
Other tax preference	(26,710,447)	(79,926,635)
Income not subject to tax	(5,358,145)	(2,652,988)
Unrecognised deductible temporary differences and tax losses	95,388,262	174,600,917
Tax losses utilized	(648,260,532)	(276,399,258)
Recognition of tax losses unrecognized in previous years	(39,446,715)	–
Share of profits and losses of joint ventures and associates	<u>(122,602,638)</u>	<u>(58,205,119)</u>
Tax charge at the Group's effective rate	<u><u>736,728,434</u></u>	<u><u>111,880,234</u></u>
The Group's effective rate	<u><u>13%</u></u>	<u><u>8%</u></u>

(i) The Group's 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 owners of the parent (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 the basic earnings per share amounts are based on:

	2017	2016
Earnings		
Profit attributable to owners of the parent as used in the basic earnings per share calculation	<u><u>4,128,939,861</u></u>	<u><u>1,228,892,407</u></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><u>7,700,681,186</u></u>	<u><u>7,700,681,186</u></u>

During the year of 2017 and 2016, there was no diluted item to adjust the Group's basic earnings per share.

## 16. CONTINGENT EVENTS

### **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 eight 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 provision or adjustments related to the income tax differences.

### **Pending litigation**

As of 31 December 2017, the Group and the Company did not have significant pending litigation.

## 17. EVENTS AFTER THE FINANCIAL POSITION DATE

On 20 March 2018, approved by the 5th meeting of the 9th board, the board of directors recommend annual cash dividends of RMB0.165 (tax included) per share to shareholders. This profit distribution plan will be submitted for approval in the annual shareholders' meeting of the Company.

Apart from above, as of the date of approval of the financial statements, the Group had no other significant events after the financial position date that needs to be disclosed.

By order of the Board

**Ding Yi**

*Chairman*

**Maanshan Iron & Steel Company Limited**

20 March 2018

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, Zhang Wenyang*

*Non-executive Directors: Ren Tianbao*

*Independent Non-executive Directors: Zhang Chunxia, Zhu Shaofang, Wang Xianzhu*