鞍鋼股份有限公司

ANGANG STEEL COMPANY LIMITED*

(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 0347)

2018 INTERIM RESULTS ANNOUNCEMENT

FINANCIAL HIGHLIGHTS

- Operating income amounted to RMB46,882 million
- Total profit amounted to RMB4,659 million
- Net profit attributable to shareholders of the Company amounted to RMB3,499 million
- Basic earnings per share amounted to RMB0.484 (January to June in 2017: basic earnings per share of RMB0.252)
- The financial information contained in this report was prepared in accordance with the Accounting Standards for Business Enterprises in the PRC

The board of directors of the Company (the "**Board**") is pleased to announce the unaudited results of the Company and its subsidiaries under control for the six months ended 30 June 2018 together with the comparative figures as stated herein.

* *For identification purposes only*

DEFINITIONS:

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

"Angang"	Angang Group Company Limited* (鞍鋼集團有限公司)
"Angang Financial Company"	Angang Group Financial Company Limited* (鞍鋼集團財務有限責任公司)
"Angang Group"	Angang Group Company Limited* and its subsidiaries held by it as to 30% or more (excluding the Group)
"Angang Holding"	Anshan Iron & Steel Group Co. Ltd.
"ANSC-TKS"	ANSC-TKS Automobile Steel Company Ltd. (鞍鋼蒂森克虜伯汽車鋼有限公司)
"Angang Construction"	Angang Construction Group Company Limited (鞍鋼工程建設集團有限公司)
"Company" or "Angang Steel"	Angang Steel Company Limited* (鞍鋼股份有限公司)
"Group"	Angang Steel Company Limited* and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Karara"	Karara Mining Limited (卡拉拉礦業有限公司)
"Pangang Vanadium & Titanium"	Pangang Group Steel Vanadium & Titanium Co., Ltd* (攀鋼集團釩鈦資源股份有限公司)
"Pangang Vanadium & Titanium Group"	Pangang Vanadium & Titanium and its subsidiaries
"PRC" or "China"	the People's Republic of China (for the purpose of this announcement, excluding Hong Kong and Macau Special Administrative Region)

I. FINANCIAL INFORMATION

Consolidated Balance Sheet
As of 30 June 2018

Prepared by Angang Steel Company Limited *Unit: RMB million*

Assets	*Note*	**30 June 2018**	31 December 2017
Current assets:			
Cash and cash equivalents		**4,017**	2,437
Derivative financial assets			7
Note receivables and account receivables	2	**15,196**	12,168
Prepayments		**1,249**	1,772
Other receivables		**61**	261
Inventories		**12,522**	11,646
Current assets held for sale			
Non-current assets due within 1 year			
Other current assets		**482**	300
Total current assets		**33,527**	28,591
Non-current assets:			
Available-for-sale financial assets			719
Long-term equity investments		**2,864**	2,949
Other investments in equity instruments		**520**	
Other non-current financial assets		**31**	
Investment properties			
Fixed assets		**46,489**	48,012
Construction in progress		**1,361**	1,042
Intangible assets		**6,118**	6,199
Long term deferred expenses			
Deferred income tax assets		**840**	1,713
Other non-current assets		**936**	
Total non-current assets		**59,159**	60,634
Total assets		**92,686**	89,225

Liabilities and shareholders' equity	*Note*	**30 June 2018**	31 December 2017
Current liabilities:			
Short-term loans		**15,358**	14,500
Derivative financial liabilities			13
Note payables and account payables	3	**8,353**	8,679
Advances from customers			5,581
Contract liabilities		**5,231**	
Employee benefits payables		**400**	347
Tax and surcharges payables		**348**	407
Other payables		**1,609**	1,637
Non-current liabilities due within 1 year		**2,958**	437
Other current liabilities			1,500
Total current liabilities		**34,257**	33,101
Non-current liabilities:			
Long-term loans		**2,034**	2,905
Bonds payables		**3,519**	2,004
Long-term employee benefits payables		**123**	123
Deferred income		**665**	682
Deferred income tax liabilities		**6**	6
Other non-current liabilities			
Total non-current liabilities		**6,347**	5,720
Total liabilities		**40,604**	38,821

Liabilities and shareholders' equity	*Note*	**30 June 2018**	31 December 2017
Shareholders' equity:			
Share capital		**7,235**	7,235
Capital reserves		**31,517**	31,527
Other comprehensive income		**(163)**	(3)
Special reserves		**56**	38
Surplus reserves		**3,580**	3,580
General risk reserves			
Undistributed profit	4	**9,428**	7,606
Subtotal of Shareholders' equity attributable to shareholders of parent company		**51,653**	49,983
Minority interests		**429**	421
Total shareholders' equity		**52,082**	50,404
Total liabilities and shareholders' equity		**92,686**	89,225

Consolidated Income Statement
6 months ended 30 June 2018

Prepared by Angang Steel Company Limited *Unit: RMB million*

Items		*Note*	**Until 30 June 2018**	Until 30 June 2017
1. Operating income			**46,882**	39,063
Including: Operating income		5	**46,882**	39,063
2. Operating costs			**42,380**	37,436
Including:	Operating costs	5	**39,063**	34,680
	Taxes and surcharges	6	**570**	394
	Marketing expenses		**1,415**	1,188
	Administrative expenses		**490**	561
	Research and development expenses		**146**	68
	Financial expenses	8	**672**	555
Including:	Interest expenses		**684**	602
	Interest income		**10**	29
	Impairment losses on assets		**24**	(10)
Add:	Other income		**22**	22
	Investment income		**182**	229
Including:	Income from investment in joint ventures and associates		**154**	208
	Gains/losses from fair value variation ("-" for losses)		**(8)**	5
	Income from asset disposals			
3. Operating profit			**4,698**	1,883
Add:	Non-operating income		**9**	6
Less:	Non-operating expenses		**48**	20
Including:	Losses on non-current asset disposals			
4. Profit before income tax			**4,659**	1,869
Less:	Income tax expenses	9	**1,166**	38

Items	*Note*	**Until 30 June 2018**	Until 30 June 2017
5. Net profit ("-" for losses)		**3,493**	1,831
(1) Classification according to the continuity of operation			
1. Continuous operating net profit		**3,493**	1,831
2. Termination of net profit			
(2) Classification according to ownership			
Net profit attributable to shareholders of parent company		**3,499**	1,823
Gains/losses attributable to minority shareholders		**(6)**	8
6. The net amount after tax of other comprehensive income		**14**	(9)
1. The other comprehensive income which can not be reclassified into profit or loss			
a. The changes of the net assets or liabilities of the remeasurement of benefits plan			
b. The amounts of the other comprehensive income which can not be reclassified into profit or loss of the invested companies in equity method			
2. The other comprehensive income which can be classified into profit or loss		**14**	(9)
a. The other comprehensive income which can be reclassified in profit or loss of the invested companies in equity method		**1**	

Items	*Note*	**Until 30 June 2018**	Until 30 June 2017
b. Gains/losses from the changes at fair value of the investments in debt instruments			
c. The value of financial assets re-classified into other comprehensive income			
d. The effective portion of profit or loss from cash flow of hedges			
e. Others		**13**	(9)
7. Earnings per share			
(1) Basic earning per share *(RMB/share)*	10	**0.484**	0.252
(2) Diluted earning per share *(RMB/share)*	10	**0.481**	0.252
8. Total comprehensive income		**3,507**	1,822
The other comprehensive income attributed to the owners of the company		**3,513**	1,814
The other comprehensive income attributed to the minority		**(6)**	8

NOTES

(In addition to the special note, the notes to the financial statements are denominated in RMB million)

1. BASIS OF PREPARATION

The financial statements of the Group are prepared on the assumption of going concern principle based on the actual transactions and events, in accordance with the Basic Standard "Accounting Standards for Business-Basic Standard" (issued by the Ministry of Finance No. 33, revised by the Ministry of Finance No. 76), 42 specific standards issued by the Ministry of Finance on 15 February 2006, the Application Guidance for Accounting Standards for Business Enterprises, Interpretations of Accounting Standards for Business Enterprises and other relevant regulations issued thereafter (hereafter collectively referred to as "the Accounting Standards for Business Enterprises") and the disclosure requirements in the Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No. 15 – General Rules on Financial Reporting (2014 revised) issued by the China Securities Regulatory Commission.

According to the Accounting Standards for Business Enterprises, the group accounting is based on the accrual basis. The financial statements are based on historical cost except some financial instruments. If the asset is impaired, the corresponding impairment provision is made in accordance with relevant regulations.

2. NOTES RECEIVABLE AND ACCOUNT RECEIVABLE

Items	**30 June 2018**	31 December 2017
Notes receivables	**12,692**	9,695
Account receivables	**2,504**	2,473
Total	**15,196**	12,168

(1) Note receivable

(a) Classification of notes receivable

Items	**30 June 2018**	31 December 2017
Bank Acceptance Notes	**11,409**	8,712
Commercial Acceptance Notes	**1,283**	983
Total	**12,692**	9,695

(b) Notes receivable pledged at the end of the period

Items	**Pledged notes at the end of the period**
Bank Acceptance Notes	**2,143**
Total	**2,143**

Note： The group has pledged notes receivable whose values 2,143 million yuan to the bank to gain the short-term loan of 1,900 million yuan. The period of the pledge is 25 June 2018 to 31 January 2019.

(c) Notes receivable that have been endorsed or discounted at the end of the period and have not expired on the balance sheet date

Items	**Amount of termination confirmation**	**Amount of non-termination confirmation**
Bank Acceptance Notes	15,969	
Commercial Acceptance Notes	123	
Total	16,092	

(d) No notes receivable were transferred to accounts receivable due to insolvency of the issuer as of 30 June 2018.

(2) Accounts receivable

(a) Classification of Accounts Receivable

Items	30 June 2018			
	Book value		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)
Accounts receivable with amounts that are individually significant and subject to separate assessment for bad debts provision	**1,930**	**74**	**66**	**98**
Account receivable for which bad debt is prepared based on group combination	**11**	**1**	**1**	**1**
Accounts receivable with amounts that are individually insignificant and subject to separate assessment for bad debts provision	**631**	**25**	**1**	**1**
Total	**2,572**	**100**	**68**	**100**

Items	31 December 2017			
	Book value		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)
Accounts receivable with amounts that are individually significant and subject to separate assessment for bad debts provision	2,173	85	66	98
Account receivable for which bad debt is prepared based on group combination	11	1	1	1
Accounts receivable with amounts that are individually insignificant and subject to separate assessment for bad debts provision	357	14	1	1
Total	2,541	100	68	100

(b) Accounts receivable classified by aging

	30 June 2018			
	Book Value		**Bad debt provision**	
Aging	**Amount**	**Percentage** *(%)*	**Amount**	**Percentage** *(%)*
Within 1 year	**2,435**	**95**		
1 to 2 years	**111**	**4**	**67**	**99**
2 to 3 years	**17**	**1**		
Over 3 years	**9**		**1**	**1**
Total	**2,572**	**100**	**68**	**100**

	31 December 2017			
	Book Value		Bad debt provision	
Aging	Amount	Percentage *(%)*	Amount	Percentage *(%)*
Within 1 year	2,430	96	66	98
1 to 2 years	20	1	1	1
2 to 3 years	18	1		
Over 3 years	73	2	1	1
Total	2,541	100	68	100

(c) Bad debt provision at the end of the period

Accounts Receivable (By company)	Accounts Receivable	Bad debt Provision	Percentage *(%)*	Reason
	30 June 2018			
Anshan Zhongyou Tianbao Steel Tube Co., Ltd.	**67**	**66**	**99**	Business operation is discontinued and not able to make payments
Total	**67**	**66**		

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

The total amount of top five accounts receivable according to closing balance of debtors of the Group for the period was RMB1,297 million, which accounted for 50% of the closing balance of the total accounts receivable. The closing balance of corresponding bad debt provision amounted to 0.

3. NOTE PAYABLE AND ACCOUNT PAYABLES

Items	**Balance at 30 June 2018**	Balance at 31 December 2017
Note payables	**2,010**	240
Account payables	**6,343**	8,439
Total	**8,353**	8,679

(1) Note payables

Types of Notes	**30 June 2018**	31 December 2017
Bank acceptances	**2,010**	240
trade acceptances		
Total	**2,010**	240

Note: No unpaid but contract expired note payables for the Group at the end of the period.

(2) Account payables

(a) Classification of account payables by nature

Items	**30 June 2018**	31 December 2017
Operation expenses on supporting production	**18**	70
Account payables for purchasing	**5,569**	7,334
Construction payables	**254**	518
Freight	**380**	371
Others	**122**	146
Total	**6,343**	8,439

(b) Significant account payables aging over 1 year

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

(c) Aging of account payables

Aging	30 June 2018 Balance	30 June 2018 Percentage (%)	31 December 2017 Balance	31 December 2017 Percentage (%)
Within 1 year	**6,252**	**99**	8,348	99
1 to 2 years	**7**		10	
2 to 3 years	**23**		22	
Over 3 years	**61**	**1**	59	1
Total	**6,343**	**100**	8,439	100

4. UNDISTRIBUTED PROFITS

Items	**This period**
As at 31 December 2017	**7,604**
Business combination under common control	**2**
Adjustment due to changes of accounting policies	**1**
As at 1 January 2018	**7,607**
Increase in the period	**3,499**
Including: Net profit transferred this period	**3,499**
Other adjustment factors	
Decease of the period	**1,678**
Including: Extraction of surplus reserve this period	
Extraction of general risk provisions this period	
Distribution of cash dividend this period	
Conversed capital	**1,678**
Other decreases	
As at 30 June 2018	**9,428**

Note: On 5 June 2018, the 2017 annual general meeting of the shareholders of the Company has reviewed and approved the Profit Distribution Plan for the year of 2017. Cash dividend of RMB0.232 per Share shall be distributed to all the Shareholders of ordinary Shares, which amounts to the sum of RMB1,678 million.

5. OPERATING INCOME AND OPERATING COSTS

(1) Revenue classified based on the nature of business

Item	This Period Revenue	This Period Cost	Last Period Revenue	Last Period Cost
Operating income from main business line	**46,784**	**38,979**	39,029	34,648
Operating income from other business line	**98**	**84**	34	98
Total	**46,882**	**39,063**	39,063	34,680

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

(2) Revenue classified based on the geographic region

Items	This Period	Last Period
Revenue from Mainland China	**43,929**	36,006
Revenue from outside of Mainland China	**2,953**	3,057
Total	**46,882**	39,063

(3) Revenue recognized at a certain period of time or at a certain point of time

Items	This Period	Last period
Revenue recognized at a certain point of time	**46,882**	39,063
Total	**46,882**	39,063

6. TAXES AND SURCHARGES

Items	This period	Last period
City maintenance and construction tax	**134**	75
Educational surcharge and local educational surcharge	**96**	53
Land tax	**184**	168
Property tax	**68**	66
Stamp tax	**37**	31
Resources tax and business tax	**1**	1
Environment protection tax	**50**	
Total	**570**	394

7. DEPRECIATION AND AMORTIZATION

Items	This period	Last period
Depreciation of fixed assets	**1,658**	1,665
Amortization of intangible assets	**83**	79
Total	**1,741**	1,744

8. FINANCIAL EXPENSES

Items	**This period**	Last period
Interest expense	**684**	602
Including: The interest on bank loans and other loans must be fully repaid within 5 years	**538**	549
Finance charges during the financing lease period		
Other Interest expense	**146**	53
Less: Interest income	**10**	29
Less: Capitalized interest expense	**3**	23
Exchange gain or loss	**(9)**	
Less: Capitalized exchange gain or loss		
Others	**10**	5
Total	**672**	555

9. INCOME TAX EXPENSES

Items	**This period**	Last period
Income tax calculated according to the Tax Law and the relevant regulations	**292**	36
Changes on deferred income tax expenses	**874**	2
Total	**1,166**	38

10. BASIC EPS AND DILUTED EPS

Items	**This period**	Last period
(a) Basic EPS *(RMB/share)*	**0.484**	0.252
(b) Diluted EPS *(RMB/share)*	**0.481**	0.252

11. SEGMENT REPORTING

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

12. COMMITMENTS

Items	**As at 30 June 2018**	As at 31 December 2017
Investment contracts entered but not performed or performed partially		18
Construction and renovation contracts entered but not performed or performed partially	**2,279**	1,121
Total	**2,279**	1,139

13. NET CURRENT ASSETS

Items	**30 June 2018**	31 December 2017
Current assets	**33,527**	28,591
Less: current liabilities	**34,257**	33,101
Net current assets/(liabilities)	**(730)**	(4,510)

14. TOTAL ASSETS LESS CURRENT LIABILITIES

Items	**30 June 2018**	31 December 2017
Total assets	**92,686**	89,225
Less: current liabilities	**34,257**	33,101
Total assets less current liabilities	**58,429**	56,124

II. REPORT OF THE BOARD OF DIRECTORS

(I) Overview

In the first half of the year, the Company kept focusing on three key elements, namely efficiency, quality and reform. Through improvement of scale efficiency, optimization of product mix, acceleration of technological innovation and enhancement of system-wide cost reduction, the Company achieved significant improvement in operating results.

In the first half of the year, the Group recorded revenue of RMB46,882 million, representing an increase of 20.02% as compared with the corresponding period of the previous year; gross profit amounted to RMB4,659 million, representing an increase of 149.28% as compared with the corresponding period of the previous year; net profit attributable to shareholders of the Company amounted to RMB3,499 million, representing an increase of 91.94% as compared with the corresponding period of the previous year; basic earnings per share amounted to RMB0.484 per share, representing an increase of 92.06% as compared with the corresponding period of the previous year.

1. Strengthening coordinated production to expand production scale of the iron and steel business

During the reporting period, the Group produced 11,350,200 tons of iron, representing an increase of 6.29% as compared with the corresponding period of the previous year; 11,843,500 tons of steel, representing an increase of 8.57% as compared with the corresponding period of the previous year; and 10,743,000 tons of steel products, representing an increase of 5.13% as compared with the corresponding period of the previous year. Sale of rolled steel amounted to 10,513,300 tons, representing an increase of 5.18% as compared with the corresponding period of the previous year. The Group achieved a sales-output ratio of 97.86%.

In the first half of the year, the Company emphasized system-wide coordination and linkage, and enhanced the interaction of production plants in Anshan and Yingkou and the close coordination between upstream and downstream production process to ensure rigid connection and rapid response, thus achieving stable and efficient production.

2. *Deeply extending the industrial chain to promote coordinated development of relevant industries*

In the first half of the year, the Company deeply extended the industrial chain to accelerate the coordinated development of relevant industries. Firstly, it tapped into clean power generation industry. The Company cooperated with Angang Group Energy Conservation Technology Service Co., Ltd. (鞍鋼集團節能技術股務有限公司) in the construction of a 180MW gas-steam combined cycle power generation (CCPP) project through the energy performance contracting model. Secondly, it tapped into chemical technology industry. Angang Chemical Technology Co., Ltd. (鞍鋼化學科技有限公司), a subsidiary of the Company, was incorporated and various technical renovation projects on quality enhancement and product mix optimization have been initiated and advanced steadily. Thirdly, it expanded into auto parts industry. The Company jointly established Meizhou GAC Auto Springs Co., Ltd. (梅州廣汽汽車彈簧有限公司) with GAC Group Auto Parts Co., Ltd. (廣州汽車集團零部件有限公司), Guangzhou Huade Auto Springs Co., Ltd. (廣州華德汽車彈簧有限公司) and Haina Special Steel Co., Ltd. (海納特鋼有限公司). Fourthly, it expanded into gas energy industry. Through injecting more capital into Angang Gas Co., Ltd. (鞍鋼氣體有限公司), it vigorously promoted the development of the Company's gas business.

3. *Advancing system-wide cost reduction through in-depth exploitation of potentials*

By deepening the target cost management at all levels and following benchmarking guidance, the Company continuously advanced the indicator system for system-wide cost reduction, which covered six major areas with 60 target missions to be accomplished. It carried on scrap steel enhancement and steel increase, adjusted and optimized the scrap steel structure, which resulted in the best level in unit consumption of scrap steel and significant improvement in cycle efficiency. It further exploited the potentials in cost reduction and continued to reduce energy cost with a decrease of 6% in the cost for external energy procurement for each ton of steel compared with the corresponding period of the previous year. The comprehensive energy and fresh water consumption for each ton of steel reached the best level in history.

4. Deepening reform to innovate systems and mechanisms

The Company propelled transformation for market-orientated operation and fully promoted contractual management. It studied the implementation of contractual management for newly-built production lines, established and improved the co-investment mechanism covering the whole cycle from being approved to putting into operation and reaching the designed capacities. The Company implemented contractual management on managers of production plants by adopting the goal-based contractual management during their tenures and entering into the letter of responsibility on annual appraisal, so as to promote managers to accomplish their contractual operation targets. The Company developed a financial indicator appraisal system, appraisal mechanism and appraisal model for contractual operation to achieve the set targets on profits. Through the contractual management of production lines, the Company developed market-based concepts and transformed the relationships of traditional production processes into market relationships and facilitated the transformation from "internal production" to "market-based operation", establishing a more flexible, efficient and dynamic organization and management model on production and operation.

The Company also boosted the reform of the organizational structure and strengthened the regulation on external investments. It continuously improved the regulatory system on invested enterprises and continued to revitalize the equity of invested enterprises to safeguard the interests of enterprises.

5. Focusing on quality improvement to advance brand building of Angang

Brand upgrading was boosted. Firstly, it enhanced branding efforts. The Company developed overall strategies and arrangements for its branding efforts and formulated overall plans and management measures for its branding efforts with a focus on 14 industries and key customers to improve the overall branding efforts. Secondly, it continued to optimize the marketing system. The Company improved its marketing work in all respects through optimizing the operation and management system for motor steel and adjusting the marketing planning on medium and thick plates. It also visited more customers. Major leaders of the Company visited Dongfeng Nissan, GAC Group, CSIC, Dongfang Electric and other long-term strategic partners. Thirdly, it innovated marketing models. The Company deeply extended the industrial chain and advanced processing and distribution business to expand increment and enhance customer loyalty. The Company successfully won the bidding for Yanqing-Chongli Expressway, a key traffic guarantee project for the 2022 Winter Olympics, the Erdos-Anping-Cangzhou gas transmission project of Sinopec, the Rhine Bridge in Germany, the Slussen Bridge in Sweden, the Shenzhen-Zhongshan Channel Cross-Strait Project and other significant projects both at home and abroad, resulting in an increasing market share. Fourthly, it intensified quality improvement and efficiency enhancement. The Company closely followed market conditions and specified pricing for products to maximize the revenue of the enterprise. In addition, it carried forward product restructuring and set product positioning in the industry to boost the sale volume of strategic products.

Product quality was improved. Based on the status quo of its product quality, the Company worked out a three-year plan on quality enhancement to boost the quality upgrading in key areas and for key products. It improved the quality index system and increased the input of special capitals to consistently implement quality enhancement projects and perfect quality indicators. The Company conducted 20 product certifications by domestic and foreign review institutions with a total of 75 steel products passed relevant certifications or field reviews in the first half of the year.

6. Advancing technological innovation to build a new pattern integrating production, marketing and research

Product research and development was accelerated. By adhering to the principle of customer focus and market orientation, the Group intensified its efforts in product development, leading to a continuously optimized product mix. In the first half of 2018, the Group's new products, leading exclusive products and strategic products accounted for 12.23%, 29.42% and 69.25% of its total product output, respectively. The trail production of AC550 high-strength steel for containers and 16MnDR steel for oil storage tanks of CNPC LNG (phase II) project in Tangshan was completed, with their performance meeting clients' requirements.

Technological innovation was advanced. Firstly, the fundamental research was strengthened. The Science and Technology Leading and Climbing Plan 2025 was released, which focused on the development of "new and high-quality products with innovative technology and new equipment". And the Research Project Plan for 2018 to 2020 was developed, which involves a total of 440 projects covering 12 technologies and nine type of products. Secondly, the technological innovation system was improved. A technological innovation management committee and technological innovation expert committee were established. Thirdly, the impetus for technological innovation was worked up. A technological innovation conference was held, a statement of responsibilities and statement of missions were signed with 2025 technological leaders and heads of key projects and the system for technological innovation was established to stimulate "impetus, vitality and traction". Fourthly, the research and development of key projects were strengthened. 25 national-level projects were carried out, 63 research projects obtained project approvals and 69 projects completed project examination and inspection, contributing to cost reduction and efficiency improvement of RMB520 million through technological improvement.

7. Optimizing capital structure to better prevent the funding risk

The Company has successfully issued H-share convertible bonds in an aggregate amount of HK$1.85 billion, making it become the first listed Chinese steel maker issuing H-share convertible bonds overseas. Further efforts were made to "reduce inventories and trade receivables and increase turnover rate and utilization efficiency of capital", including setting phase targets of capital turnover, so as to increase turnover rate and utilization efficiency of capital. The capital structure of the Company was optimized. As at the end of June 2018, the gearing ratio of the Company was 43.81%. The management system and implementation plan of industry funds and industry chain financing were developed and promoted on a trial basis. Risk prevention plans were formulated to prevent the funding risk.

8. *Strengthening IT project management and comprehensively promoting smart production line construction*

Taking Bayuquan Transparent Smart Plant equipped with brand-new metallurgical process as the turning point, the Company comprehensively promoted smart production line construction by strengthening its capabilities in technological advancement, production efficiency, smart production and environment-friendly operation. The Company focused on promoting the upgrading of ERP production and sales system, and the construction of demonstration projects of the smart production of 5,500mm thick plates in Bayuquan production base and the project employing whole-process quality control and big data analysis platform. Meanwhile, the Company also promoted the centralized energy control in Bayuquan production bases. In 2018, the fulfillment ratio of the informatization and industrialization project reached 95%.

9. *Committing to environmental governance to better capacity of green development*

The Company furthered its efforts in improving the efficiency and meeting the standards and dust control by using environmental protection facilities. The Company accelerated the implementation of upgrading and renovation programs including dust control, and desulfurization and denitrification of fume emitted from coke ovens for the purpose of environmental protection. To achieve the goal of "blue sky, clear water and green grassland with zero emission of solid waste", the Company continued to promote green and ecological development of steel plants by formulating and implementing the development plan for environmental protection, and formulating and improving the overall plan for green factories.

In the first half of 2018, the Company was not involved in any serious pollution incident, with 100% execution of the "three simultaneousness" eco-friendly policy. The environment and air quality continued to be improved. All radioactive sources and hazardous waste were completely disposed in accordance with relevant regulations and the environmental risk was effectively controlled.

(II) Analysis of principal businesses

1. Overview

Unit: RMB million

Item	The reporting period	Corresponding period of the previous year	Year-on-year increase/ decrease *(%)*	Reasons for the changes
Operating income	**46,882**	39,063	20.02	–
Operating costs	**39,063**	34,680	12.64	–
Marketing expenses	**1,415**	1,188	19.11	–
Administrative expenses	**490**	561	-12.66	–
Research and development costs	**146**	68	114.71	Mainly attributable to the increase in costs incurred for trail production of new products.
Financial expenses	**672**	555	21.08	–
Income tax expenses	**1,166**	38	2,968.42	This was mainly because the Company recorded a profit in the first half of 2018 and due to (i) an increase of RMB872 million in reversal of deferred income tax assets recognized in previous years; and (ii) an increase of RMB256 million in income tax expenses accrued for the reporting period.

Item	The reporting period	Corresponding period of the previous year	Year-on-year increase/ decrease *(%)*	Reasons for the changes
Net cash flow from operating activities	**1,907**	611	212.11	Net cash flow from operating activities increased by RMB1,296 million as compared with the corresponding period of the previous year, mainly attributable to (i) the cash received from sales of goods increased by RMB4,266 million as a result of the rise in price and the increase in sales volume of steel products during the reporting period as compared with the corresponding period of the previous year; (ii) the cash payment for purchase of goods and services increased by RMB898 million as compared with the corresponding period of the previous year as a result of the rise in raw fuels price; (iii) tax payment increased by RMB1,267 million during the reporting period as compared with the corresponding period of the previous year; and (iv) other cash payments related to operating activities increased by RMB516 million as compared with the corresponding period of the previous year.
Net cash flow from investing activities	**-824**	-666	-23.72	–

Item	The reporting period	Corresponding period of the previous year	Year-on-year increase/ decrease *(%)*	Reasons for the changes
Net cash flow from financing activities	**482**	185	160.54	Net cash flow from financing activities increased by RMB297 million as compared with the corresponding period of the previous year, mainly attributable to (i) the cash received from borrowings during the reporting period decreased by RMB810 million as compared with the corresponding period of the previous year; (ii) the cash payment for repayment of borrowings decreased by RMB2,199 million as compared with the corresponding period of the previous year; (iii) the cash payment for dividend distribution and interest payment increased by RMB1,276 million as compared with the corresponding period of the previous year.
Net increase of cash and cash equivalents	**1,580**	130	1,115.38	Net increase of cash and cash equivalents increased by RMB1,450 million as compared with the corresponding period of the previous year, mainly attributable to (i) the net cash flow from operating activities increased by RMB1,296 million as compared with the corresponding period of the previous year; (ii) the net cash flow from investing activities decreased by RMB158 million as compared with the corresponding period of the previous year; (iii) the net cash flow from financing activities increased by RMB297 million as compared with the corresponding period of the previous year; and (iv) the effect of exchange rate fluctuation on cash flow increased by RMB15 million as compared with the corresponding period of the previous year.

2. ***Whether there is any significant change in profit composition or sources of profit of the Company during the reporting period***

During the reporting period, there was no significant change in profit composition or sources of profit of the Company.

3. ***Composition of the principal businesses***

Principal businesses of the Group by industry and product

Unit: RMB million

	Operating income	Operating cost	Gross profit margin (%)	Increase/decrease in operating income as compared with the corresponding period of the previous year (%)	Increase/decrease in operating costs as compared with the corresponding period of the previous year (%)	Increase/decrease in gross profit margin as compared with the corresponding period of the previous year *(Percentage point)*
By industry						
Steel pressing and processing industry	46,784	38,979	16.68	19.89	12.52	5.46
By product						
Hot-rolled sheets products	11,834	9,180	22.43	1.02	-10.92	10.39
Cold-rolled sheets products	16,761	13,874	17.22	19.27	18.92	0.24
Medium-thick plates	7,949	6,896	13.25	46.71	34.03	8.21
By geographical location						
China	43,831	36,364	17.04	21.87	14.37	5.44
Export sales	2,953	2,615	11.45	-3.40	-8.15	4.58

Note:

The increase in operating income from different series of steel products of the Company as compared with the corresponding period of the previous year was primarily due to (i) higher product prices; and (ii) an increase in the sales volume of cold-rolled sheets, medium-thick plates and other iron & steel products.

The decrease in operating costs of hot-rolled sheets products as compared with the corresponding period of the previous year was primarily because (i) the Company focused on three key elements, namely "efficiency, quality and reform" and consistently expanded production scale, optimized product mix, enhanced efforts in reducing procurement cost by differentiated means, accelerated technological innovation and further promoted system-wide cost reduction; and (ii) a decrease in the sales volume.

The increase in operating costs of cold-rolled sheets products and medium-thick plate products as compared with the corresponding period of the previous year was primarily due to (i) higher raw fuel costs; and (ii) an increase in the sales volume.

4. *Liquidity and financial resources*

As at 30 June 2018, the Group had long-term loans (exclusive of loans due within one year) of RMB2,034 million with interest rates ranging from 2.65% to 4.9% per annum and terms ranging from 2 to 5 years. These loans, falling due in 2023, are mainly used for replenishing the working capital of the Group. The Group's long-term loans due within one year amounted to RMB2,958 million.

With good credit standing, the Group was reviewed and assigned a long-term credit rating of "AAA" by the rating committee of China Chengxin International Credit Rating Co., Ltd. (中誠信國際信用評級有限責任公司) in 2018. The Group is able to repay its debts as they fall due.

As at 30 June 2018, the Group had a total capital commitment of RMB2,279 million, which was primarily attributable to the construction and renovation contracts entered into but not yet performed or partially performed.

5. *Foreign exchange risk*

The Group settled its account receivables and payables, arising from products exported and raw materials and engineering equipment imported, with the import and export agents by a fixed contract exchange rate, therefore, there is no significant foreign currency risk in transactions of the Group.

The Company has issued H-share convertible bonds in an aggregate amount of HK$1.85 billion, which exposed the Group to foreign exchange risk arising from the exchange rate fluctuations of RMB to HKD upon redemption of such bonds that were not converted. In the second half of 2018, the Company will consider conducting forward, swap or relevant derivative transaction of foreign exchange to lock in the exchange rate between RMB and HKD. Thus, it is expected that exchange rate fluctuations in relation to the convertible bonds will not have any significant impact on the profit or loss of the Company.

(III) Analysis of Non-Principal Businesses

Unit: RMB million

	Amount	As a percentage of total profit	Reasons for the changes	Sustainable or not
Investment income	182	3.91	Mainly included investment income from long-term equity investments accounted for using equity method, investment income from derivative financial assets and dividends from other equity instrument investments during the holding period	Yes
Gains or losses arising from changes in fair value	-8	-0.17	Gains or losses resulting from change in fair value of financial assets held for trading	Yes
Asset impairment losses	24	0.52	Mainly included impairment losses on inventories and construction in progress	No
Other gains	22	0.47	Mainly included government grants	Yes
Non-operating income	9	0.19	Mainly included gains on retirement of non-current assets	Yes
Non-operating expenses	48	1.03	Mainly included losses on retirement of non-current assets	Yes

(IV) Assets and Liabilities

1. *Significant changes in composition of assets*

Unit: RMB million

	End of the reporting period		End of the corresponding period of the previous year			
	Amount	As a percentage of total assets	Amount	As a percentage of total assets	Increase/ decrease	Explanation for significant change
		(%)		*(%)*	*(percentage point)*	
Cash at bank and on hand	**4,017**	**4.33**	2,098	2.40	1.93	–
Notes and accounts receivables	**15,196**	**16.40**	10,713	12.24	4.16	–
Inventories	**12,552**	**13.51**	11,179	12.77	0.74	–
Long-term equity investments	**2,864**	**3.09**	2,927	3.34	-0.25	–
Fixed assets	**46,489**	**50.16**	47,702	54.50	-4.34	–
Construction in progress	**1,361**	**1.47**	2,366	2.70	-1.23	–
Short-term loans	**15,358**	**16.57**	16,617	18.98	-2.41	–
Long-term loans	**2,034**	**2.19**	3,297	3.77	-1.58	–

2. *Assets and liabilities measured at fair value*

Unit: RMB million

Item	Opening balance: Before adjustment	Opening balance: After adjustment	Gains or losses arising from changes in fair value for the period	Changes in fair value reported in equity	Impairment provision made for the period	Purchases during the period	Disposals during the period	Closing balance
Financial assets								
Including：								
1. Available-for-sale financial assets	719	–	–	–	–	–	–	**–**
2. Other non-current financial assets	–	39	-8	–	–	–	–	**31**
3. Derivative financial assets	7	7	-7	–	–	–	–	**–**
4. Other equity instrument investments		680		-160	–	–	–	**520**
Sub-total of financial assets	726	726	-15	-160	–	–	–	**551**
Investment properties	–	–	–	–	–	–	–	**–**
Productive biological assets	–	–	–	–	–	–	–	**–**
Others	–	–	–	–	–	–	–	**–**
Total	726	726	-15	-160	–	–	–	**551**
Financial liabilities	13	13	-13	–	–	–	–	**0**

Material changes in measurement of major assets during the reporting period

☐ Yes ☑ No

3. Gearing ratio

As at 30 June 2018 and 31 December 2017, the Group's equity-to-debt ratio was 1.28 times and 1.30 times, respectively.

4. Restrictions on assets as at the end of the reporting period

The Group pledged notes receivable with a carrying amount of RMB2,143 million to banks in the period to secure short-term loans of RMB1,900 million. The term of the pledge is from 25 June 2018 to 31 January 2019.

5. Contingent liabilities

As at 30 June 2018, the Group had no contingent liabilities.

(V) Business Plan for the Second Half of 2018

1. Improve efficiency of production and operation to realise economies of scale.

2. Raise the quality awareness of all employees to ensure excellent product quality.

3. Enhance reform and development capabilities and promote the implementation of planned projects.

4. Upgrade technological innovation capability and pool the wisdom and strength of all employees.

5. Sharpen market competitiveness and elevate the brand image of Angang.

6. Boost risk prevention and control capabilities to achieve safe and stable operation.

(VI) Analysis of Investments

1. Overview

	External investments	
Investments for the reporting period *(RMB million)*	**Investments for the corresponding period of the previous year** *(RMB million)*	**Change** *(%)*
154	0	–

2. Significant equity investments made during the reporting period

☐ Applicable ☑ Not applicable

3. Significant non-equity investments being conducted during the reporting period

☐ Applicable ☑ Not applicable

4. Financial asset investments

(1) Securities investments

Stock type	Stock code	Stock name	Initial Investment *(RMB million)*	Accounting measurements	Book value at the beginning of the period *(RMB million)*	Gains or losses on fair value change for the current period	Accumulative changes in fair value reported in equity *(RMB million)*	Purchase amount for the current period	Disposal amount for the current period *(RMB million)*	Loss or gain during the reporting period *(RMB million)*	Book value at the end of the period *(RMB million)*	Accounting item	Source of funds
Shares	600961	Zhuye Group (株冶集團)	81	Measured at fair value	39	-8	–	–	–	-8	31	Financial asset held for trading	Self-owned funds

(2) Derivatives investments

Unit: RMB million

Name of the derivatives investment operator	Relationship with the Group	Connected party transaction or not	Type of derivatives investment	Initial investment amount	Date of commencement	Date of termination	Investments at the beginning of the period	Purchase amount during the Reporting Period	Disposal amount during the Reporting Period	Provision for impairment (if any)	Investments at the end of the period	Proportion of investments at the end of the period to net assets of the Company at the end of the Reporting Period	Actual profit or loss during the Reporting Period
Angang Steel	None	No	Futures hedging	1	29 April 2015	–	239	283	346	–	243	0.47%	4
Total				1	–	–	239	283	346	–	243	0.47%	4

Source of funds for derivative investments	Self-owned funds
Litigation case (if applicable)	None
Date of the announcement disclosing the approval of derivatives investment by the Board	On 26 March 2018, the Resolution in relation to the Company's 2018 Annual Hedging Business Amount was approved at the 29th meeting of the seventh session of the Board.
Date of the announcement disclosing the approval of derivatives investment at shareholders' meeting	None
Risk analysis of positions in derivatives during the reporting period and explanations of risk control measures (including but not limited to market risk, liquidity risk, credit risk, operational risk, legal risk, etc.)	Market risk exists when the position held by the Company is related to the steel products industry, which is highly relevant to spot commodity operated by the Company. Although the Company makes regular analysis and forecast on the market, the judgment on the market may be deviated, resulting in potential risk. However, the risk is controllable after futures hedging with spot commodities. As the category of position held has sufficient liquidity, there is no liquidity risk. The Futures Exchange provides credit guarantee for the category of position held, thus the credit risk is minimal. The Company carries out such business in strict compliance with the relevant requirements of hedging and total holding position and term are in line with the Company's approval. The Company has performed evaluation of relevant legal risks. Business development is carried out in accordance with the laws and regulations of futures exchanges in the PRC, and thus, risks can be controlled.

Changes in market price or fair value of derivatives invested during the reporting period, where specific methods and relevant assumptions and parameters used shall be disclosed in the analysis of derivatives' fair value	Deformed bar, hot-rolled coil, copper and nickel quoted on the Shanghai Futures Exchange; iron ore and coke quoted on the Dalian Commodity Exchange; on 2 January 2018, the settlement prices of deformed bar, hot-rolled coil, copper, nickel, iron ore, and coke were RMB3,842/ton, RMB3,893/ton, RMB55,140/ton, RMB98,750/ton, RMB540/ton, RMB2,005.5/ton, respectively; on 29 June 2018, the settlement prices of deformed bar, hot-rolled coil, copper, nickel, iron ore and coke were RMB3,783/ton, RMB3,907/ton, RMB51,430/ton, RMB116,450/ton, RMB472/ton and RMB2,076.5/ton, respectively. The changes in fair values of deformed bar, hot-rolled coil, copper, nickel, iron ore and coke were -RMB59/ton, +RMB14/ton, -RMB3,710/ton, +RMB17,700/ton, -RMB68/ton, +RMB71/ton, respectively.
Explanations of any significant changes in the Company's accounting policies and specific accounting principles on derivatives adopted during the reporting period as compared with those of the last reporting period	N/A
Specific opinions of independent Directors on the derivatives investment and risk control of the Company	(1) The Company utilized self-owned capital for the development of futures hedging business under its assurance of its normal production and operation, and performed related approval procedures in compliance with relevant requirements of the applicable laws and regulations and the articles of association of the Company, which was beneficial to the reduction of operating risks of the Company, without prejudice to the Company and shareholders as a whole. (2) The Company established the Administrative Measures on Angang Steel Company Limited Commodity Futures Hedging, and clarified internal control procedures such as the business operation procedures, approval process and risk prevention and control, thereby providing assurance for the Company's control of hedging-related risks. (3) The Company confirmed that the maximum amount and the types of products for trading under the annual hedging guarantees were reasonable and in line with the actual situation of production and operation of the Company, and thus, favorable to the Company's reasonable control over trading risks.

(VII) Disposal of Significant Assets and Equity Interests

1. Disposal of significant assets

☐ Applicable ☑ Not applicable

2. Disposal of significant equity interests

☐ Applicable ☑ Not applicable

(VIII)Analysis of Major Subsidiaries and Investees

Unit: RMB million

Name of companies	Type of companies	Industry	Principal products or services	Registered capital	Total assets	Net assets	Operating income	Operating profit	Net profit
ANSC-TKS	Sino-foreign cooperative venture	Steel pressing and processing industry	Production of rolled hot dip galvanized steel products and alloyed steel plate and strip products, sale of self-produced products and provision of after-sale services	USD132 million	2,175	1,250	2,735	182	158
Angang Finance Corporation	Limited Liability Company	Financial	Deposit, lending and financing	4,000	23,635	7,171	522	511	383

Acquisition and disposal of subsidiaries during the reporting period

☑ Applicable ☐ Not applicable

Name of companies	Approach of acquisition and disposal of subsidiaries during the reporting period	Impact on the overall operation and management results
Angang Chemical Technology Co., Ltd. (鞍鋼化學科技有限公司)	Establishment through capital contribution	In virtue of the advantages of the Company in coal and chemical engineering resources, the chemical engineering sector will become more profitable and stronger and in turn level up the economic benefits of the Company.
Angang Gas Co.,Ltd.(鞍鋼氣體有限公司)	Equity holding through capital investment	It will facilitate the development of the gas energy business of the Company and improve the benefit-making capacity of the Company in respect of surplus resources such as gas, energy, etc..

(IX) Structured Entities Controlled by the Company

☐ Applicable ☑ Not applicable

(X) Purchase, Sale or Redemption of Listed Shares of the Company

During the six months ended 30 June 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's shares.

(XI) Securities Transactions by Directors

The Board has adopted the relevant code for directors' securities transactions for the purpose of complying with the Hong Kong Listing Rules. In response to the Company's specific enquiries with all Directors, the Directors have confirmed that they have complied with the standards set out in Appendix 10 to the Hong Kong Listing Rules.

(XII) Independent Non-Executive Directors

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

(XIII) Audit Committee

The Company has established an audit committee (the "Audit Committee") in compliance with Rule 3.21 of the Hong Kong Listing Rules.

The Audit Committee and the management have reviewed the accounting standards, principles and measurements adopted by the Company, and considered the related audit, internal control and the unaudited interim financial report for the six months ended 30 June 2018.

III. SIGNIFICANT MATTERS

(I) Proposals of Profit Distribution and Transfer of Reserve to Share Capital During the Reporting Period

The Company proposed not to distribute cash dividends, issue bonus shares or transfer reserve to share capital for the interim period.

(II) Explanation of Changes in Accounting Policies, Accounting Estimates and Accounting Method of the Group During this Year as Compared With the Financial Report of the Previous Year

1. Changes in accounting policies

(i) Particulars of and reasons for the changes

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

Accounting Standards for Business Enterprises No. 14–Revenue (revised) ("New Revenue Standard"); Accounting Standards for Business Enterprises No. 22–Financial Instruments: Recognition and Measurement (revised), Accounting Standards for Business Enterprises No. 23–Transfer of Financial Assets (revised), Accounting Standards for Business Enterprises No. 24–Hedge Accounting (revised), Accounting Standards for Business Enterprises No. 37–Financial Instruments: Presentation and Reporting (revised) (collectively "New Financial Instruments Standards"), Accounting Standards for Business Enterprises Interpretation No. 9 – Accounting Treatment of Net Investment losses under Equity Method, Accounting Standards for Business Enterprises Interpretation No. 10 – Depreciation Method based on Revenue Generated from Use of Fixed Assets, Accounting Standards for Business Enterprises Interpretation No. 11 – Amortization Method based on Revenue Generated from Use of Intangible Assets and Accounting Standards for Business Enterprises Interpretation No. 12–Whether the Provider and the Recipient of the Key Management Personnel Service are Related Parties (collectively "No.9 – No. 12 Interpretation") and the Notice on Revision of the General Format of 2018 Financial Statements of Business Enterprises (Cai Kuai [2018] No. 15).

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

(ii) Major Impacts of the changes

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

Under the Original Revenue Standard, the Group regards the risk-and-reward approach as the criteria for the time of revenue recognition. Revenue from sales of goods of the Group is recognised when the significant risks and rewards of ownership of goods have been transferred to the buyer, the amount of revenue and related costs can be measured reliably, related economic benefits are likely to flow into the Group and the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold. Revenue from rendering of services and from construction contracts shall be recognised using percentage of completion method as at the balance sheet date.

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

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

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

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

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

B. New Financial Instruments Standards

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

The New Financial Instruments Standards contain three measurement categories for financial assets: (1) at amortised cost, (2) at fair value through other comprehensive income (FVTOCI) and (3) at fair value through profit or loss (FVTPL). Under the New Financial Instruments Standards, the classification for financial assets is determined based on the Group's business model for managing the financial assets and the contractual cash flow characteristics of the asset. The New Financial Instruments Standards have abrogated three classification categories stipulated in the Original Financial Instruments Standards: held-to-maturity investments, loans and receivables and available-for-sale financial assets.

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

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

ECL model applies to the following items:

– Financial assets measured at amortized cost;

– Contract assets;

– debt securities measured at fair value through other comprehensive income;

– lease receivables;

The ECL model does not apply to equity instruments investments.

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

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

C. Interpretations No. 9 – 12

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

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

D. Presentation of Financial Statements

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

The relevant presentation adjustments are as follows:

Items affected in the consolidated balance sheet and the balance sheet of the Company as at 31 December 2017

Unit: RMB million

Consolidated Balance Sheet

Statement	31 December 2017	Impact of the common control	Impact of the changes in accounting policies	1 January 2018
Notes receivable	9,693		(9,693)	
Accounts receivable	2,463		(2,463)	
Notes receivable and accounts receivable		12	12,156	12,168
Inventories	11,643	3		11,646
Construction in progress	1,040		2	1,042
Construction materials	2		(2)	
Notes payable	240		(240)	
Accounts payable	8,439		(8,439)	
Notes payable and accounts payable			8,679	8,679
Other payables	1,544		93	1,637
Interests payable	93		(93)	

Balance Sheet

Statement	31 December 2017	Impact of the common control	Impact of the changes in accounting policies	1 January 2018
Notes receivable	9,632		(9,632)	
Accounts receivable	3,121		(3,121)	
Notes receivable and accounts receivable			12,753	12,753
Construction in progress	947		2	949
Construction materials	2		(2)	
Notes payable	240		(240)	
Accounts payable	8,271		(8,271)	
Notes payable and accounts payable			8,511	8,511
Other payables	1,393		85	1,478
Interests payable	85		(85)	

Items affected consolidated income statement and income statement of the Company for the half year of 2017：

Unit: RMB million

Consolidated Income Statement

Statement	As at 30 June 2017 before changes in accounting policy	Impact of the common control	Impact of the changes in accounting policies	As at 30 June 2017 after changes in accounting policies
Administrative expenses	629		(68)	561
Research and development costs			68	68

Income statement

Statement	As at 30 June 2017 before changes in accounting policies	Impact of the common control	Impact of the changes in accounting policies	As at 30 June 2017 after changes in accounting policies
Administrative expenses	607		(68)	539
Research and development costs			68	68

(iii) Based on the comparative financial statement after retrospective adjustment in accordance with the requirements of Cai Kuai [2018] No.15, the Group summarized the impact on the items in the consolidated and the company balance sheets for 2018 due to changes in accounting policies without retrospective adjustment in Note 4 and 24(1) to the 2018 Interim Financial Report of Angang Steel Company Limited* as follows:

Unit: RMB million

	The Group				
		Reclassification			
Statement	**31 December 2017**	**Impact of the New Revenue Standard**	**Impact of the New Financial Instruments Standards**	**Impact of re-measurement under New Financial Instruments Standards**	**1 January 2018**
Assets:					
Available-for-sale financial assets	719		(719)		
Other equity instrument investments			680	(173)	507
Other non-current financial assets			39		39
Liabilities:					
Receivables in advance	5,581	(5,581)			
Contract liabilities		5,581			5,581
Shareholders' equity:					
Other comprehensive income:	(3)			(174)	(177)
Undistributed profits	7,606			1	7,607

	The Company				
		Reclassification			
Statement	**31 December 2017**	**Impact of the New Revenue Standard**	**Impact of the New Financial Instruments Standards**	**Impact of re-measurement under New Financial Instruments Standards**	**1 January 2018**
Assets:					
Available-for-sale financial assets	719		(719)		
Other equity instrument investments			680	(173)	507
Other non-current financial assets			39		39

	The Company				
		Reclassification			
Statement	31 December 2017	Impact of the New Revenue Standard	Impact of the New Financial Instruments Standards	Impact of re-measurement under New Financial Instruments Standards	1 January 2018
Liabilities:					
Receivables in advance	4,869	(4,869)			
Contract liabilities		4,869			4,869
Shareholders' equity:					
Other comprehensive income:	(3)			(174)	(177)
Undistributed profits	7,510			1	7,511

E. Impact on the Financial Statements for 2018

Due to changes in accounting policies, the equity investments quoted in an active market that the Group does not exercise control, joint control or significant influence over the investee were designated as financial assets held for trading from available-for-sale financial assets, and the gains/losses from fair value changes, income tax expenses and net profit reduced by RMB8 million, RMB2 million and RMB6 million, respectively, for the period from January to June 2018, which had no impact on the net assets at the end of June 2018.

2. There was no change in accounting estimates of the Group during the reporting period.

(III) Major Connected Transactions

1. Continuing connected transactions related to daily operations

A. Connected party: Angang Group

Connected relationship: Controlling shareholder of the Company

Settlement method of the connected transaction: Cash payment

Connected Transaction Type	Connected Transaction Details	Connected Transaction Pricing principle	Connected Transaction Price *(RMB)*	Connected Transaction Amount *(RMB million)*	As a percentage of the amount of similar transactions *(%)*	Transaction cap approved *(RMB million)*	Whether exceeding approved cap	Market price of available similar transactions
Procurement of principal raw materials from the connected party	Iron concentrate	Not higher than the average value of medium price of Platts 65% CFR price for the northern part of China (Qingdao Port) announced daily by SBB Steel Markets Daily in the first month preceding the month of the transaction (T–1)*, plus the transportation cost from Bayuquan Port to Angang Steel, and adjusted upwards or downwards based on each iron concentration calculated by reference to the average value of Platts 65%, in the first month preceding the month of the transaction (T–1)*. A discount equal to 3% of the average value of Platts 65% in the first month preceding the month of the transaction (T–1)* shall apply to the price determined pursuant to the formula set out above.	RMB587/ton	3,750	51.50	–	–	RMB576/ton
	Pellet	Market price	RMB735/ton	2,061	96.36	–	–	RMB759/ton
	Sinter ore	The price of iron concentrate plus processing cost in the preceding one month (T–1)*, the processing cost of which should not be higher than that of similar products produced by Angang Steel.	RMB650/ton	1,033	100.00	–	–	–

Connected Transaction Type	Connected Transaction Details	Connected Transaction Pricing principle	Connected Transaction Price *(RMB)*	Connected Transaction Amount *(RMB million)*	As a percentage of the amount of similar transactions *(%)*	Transaction cap approved *(RMB million)*	Whether exceeding approved cap	Market price of available similar transactions
	Karara magnetite	Premium products(iron grade≥67.2%): not higher than the average price of such products in Mainland China sold to independent third parties in the corresponding period (which is the shipment month). The sales of premium products of Karara Mining in Mainland China sold to independent third parties are not less than 30% of the then total sales of Karara Mining's premium products. Standard products (67.2%≥iron grade≥65%): the price is calculated by reference to the average value of medium price of Platts 65% iron CFR price for the northern part of China (Qingdao Port) announced daily by SBB Steel Markets Daily, plus the difference of the transportation cost of shipping in dry ton from Qingdao Port to Bayuquan, Liaoning Province, as divided by 65 and multiplied by the actual grade after loading in the place of loading in the corresponding month. Low standard products (65%＞iron grade ≥59%): the price is calculated by reference to the average value of medium price of Platts 62% iron CFR price for the northern part of China (Qingdao Port) announced daily by SBB Steel Markets Daily, plus the difference of the transportation cost of shipping in dry ton from Qingdao Port to Bayuquan, Liaoning Province, as divided by 62 and multiplied by the actual grade after loading in the place of loading in the corresponding month.	RMB571/ton	439	100.00	–	–	RMB564/ton
	Scrap	Market price	–	87	4.02	–	–	–
	Billets		–	153	61.19	–	–	–
	Alloy and non–ferrous metal		–	6	0.21	–	–	–
	Sub–total	–	–	7,529	46.19	21,200	No	–
Procurement of energy and power from the connected party	Electricity	State price	RMB0.43/kWh	836	36.38	–	–	–
	Water		RMB1.36/ton	22	33.42	–	–	–
	Steam		RMB52/GJ	6	100.00	–	–	
	Sub–total	–	–	864	36.45	2,855	No	–

Connected Transaction Type	Connected Transaction Details	Connected Transaction Pricing principle	Connected Transaction Price *(RMB)*	Connected Transaction Amount *(RMB million)*	As a percentage of the amount of similar transactions *(%)*	Transaction cap approved *(RMB million)*	Whether exceeding approved cap	Market price of available similar transactions
Purchase of ancillary products from the connected party	Lime stone	Not higher than the selling prices offered by Angang Group to independent third parties	RMB61/ton	82	73.38	–	–	–
	Lime powder		RMB439/ton	377	97.36	–	–	–
	Refractory materials		–	476	42.51	–	–	–
	Other ancillary materials		–	147	11.96	–	–	–
	Spare parts and tools		–	168	27.37	–	–	–
	Sub–total	–	–	1,250	27.09	3,015	No	–
Purchase of support services from the connected party	Railway transportation services	State price	–	259	49.15	–	–	–
	Road transportation services	Market price	–	398	84.92	–	–	–
	Pipeline transportation services			30	100.00	–	–	–
	Agency services: – Import of raw materials, equipment, spare parts and ancillary materials – Export of products – Tendering	Commission not higher than 1.5% (not more than the commissions levied by major state–owned import and export companies of China)	–	55	100.00	–	–	–
	Equipment repair, and maintenance and services	Market price	–	222	20.18	–	–	–
	Design and engineering services	Market price	–	104	71.24	–	–	–
	Educational facilities, occupational technical education, on–the–job training and translation services	Market price	–	3	65.28	–	–	–

Connected Transaction Type	Connected Transaction Details	Connected Transaction Pricing principle	Connected Transaction Price (RMB)	Connected Transaction Amount (RMB million)	As a percentage of the amount of similar transactions (%)	Transaction cap approved (RMB million)	Whether exceeding approved cap	Market price of available similar transactions
	Newspaper and other publications	State price	–	1	61.86	–	–	–
	Telecommunication business, telecommunication services and information systems	State price or the sum of depreciation expenses and maintenance fees	–	11	62.71	–	–	–
	Production support and maintenance	Costs of labor and materials and management fees as paid based on market prices	–	477	47.79	–	–	–
	Welfare support and maintenance	Costs of labor and materials and management fees as paid based on market prices	–	85	72.54	–	–	–
	Environmental protection and security monitoring	State price	–	10	48.03	–	–	–
	Business reception and meeting expenses	Market price	–	1	61.74	–	–	–
	Greening services	Costs of labor and materials and management fees as paid based on market prices	–	9	100.00	–	–	–
	Security services	Costs of labor and materials and management fees as paid based on market prices	–	0.004	0.23			
	Port agency services		–	115	100.00	–	–	–
	Sub–total	–	–	1,780	50.59	6,500	No	–
Buyout of steel products from the connected party	Steel products	Determined based on the price offered by Angang Steel to third parties deducting a commission of RMB20–35/ton	–	109	100.00	600	No	–
Sale of goods to the connected party	Steel products	The selling price charged by the Group to the independent third parties; for provision of aforesaid products for the development of new products by the other party, the price is based on the market price if the market price exists; if the market price is absent, the price is based on the principle of the cost plus a reasonable profit, while the reasonable profit rate is not higher than the average gross profit margin of related products provided by the relevant member company	RMB3,780/ton	1,043	2.44	–	–	–
	Molten iron		RMB2,561/ton	47	100.00	–	–	–
	Billets		RMB2,844/ton	75	18.95			
	Coke		RMB1,036/ton	22	100.00	–	–	–
	Chemical by–products		–	85	5.85	–	–	–
	Gas products		–	4	100.00			
	Sub–total	–	–	1,276	2.86	5,310	No	–

Connected Transaction Type	Connected Transaction Details	Connected Transaction Pricing principle	Connected Transaction Price (RMB)	Connected Transaction Amount (RMB million)	As a percentage of the amount of similar transactions (%)	Transaction cap approved (RMB million)	Whether exceeding approved cap	Market price of available similar transactions
Sale of scrap and obsolete material to the connected party	Scrap	Market price	–	169	43.38	–	–	–
	Obsolete materials		–	12	55.17	–	–	–
	Sub–total	–	–	181	43.97	330	No	–
Provision of comprehensive services to the connected party	Fresh water	State price	RMB3.82/ton	18	85.23	–	–	RMB4.08/ton
	Clean recycled water	Market price or production cost plus a gross profit margin not lower than 5%	RMB0.73/ton	7	56.34	–	–	–
	Gas		RMB44/GJ	278	84.52	–	–	–
	Blast furnace gas		RMB20/GJ	149	99.75	–	–	–
	Steam		RMB52/GJ	9	76.48	–	–	–
	Nitrogen		RMB148/km^3	1	50.11	–	–	–
	Oxygen		RMB53/km^3	2	95.15	–	–	–
	Argon		RMB826/km^3	1	96.10	–	–	–
	Compressed air		RMB106/km^3	1	51.71	–	–	–
	Used hot water		RMB46/GJ	2	1.74	–	–	RMB46/GJ
	Liquid nitrogen		RMB528/ton	8	100.00	–	–	RMB528/ton
	Liquid oxygen		RMB594/ton	25	100.00	–	–	RMB594/ton
	Liquid argon		RMB848/ton	4	100.00	–	–	RMB848/ton
	Product testing services	Market price	–	2	67.06	–	–	–
	Transportation services		–	0.08	100.00	–	–	–
	Agency services		–	2	100.00			
	Entrusted asset management		–	3	100.00			
	Sub–total		–	512	47.70	1,500	No	–
Particulars on refund of bulk sale		–						
Estimated total amount for continuing connected transactions to be conducted during the period (by types of transactions) and their actual implementing during the reporting period		The estimated data of Continuing Connected Transactions of the Company for the year of 2018 was based on the content and estimated caps of transactions set out in the Continuing Connected Transaction Agreements approved at the 2015 general meeting of the Company. The total amount of Continuing Connected Transactions of the Company in the first half of 2018 did not exceed the relevant applicable caps as specified under the Continuing Connected Transaction Agreements.						
Reason for the Difference between transaction price and market reference price		The prices of iron concentrate and Karara magnetite were higher than the market price as there was a difference between their grades.						
Relevant explanation on connected party transactions		As production in the iron and steel industry is on a continuous basis, Angang Group has been engaged in mining, supplying, processing and manufacturing of raw materials, auxiliary materials and energy and power, which is a part of the supply chain of the Company. In the meantime, its subsidiaries have a high technological level and service capabilities, which can provide necessary support services for production and operation of the Company. The Company would sell certain products, scrap, obsolete materials and comprehensive services to Angang Group which is a client of the Company.						

B. *Connected party: Angang Financial Company*

Connected party relationship: Indirectly controlled by the same controlling shareholder of the Company

Settlement method of the connected party transaction: Cash payment

Connected Transaction Type	**Connected Transaction Details**	**Connected Transaction Pricing principle**	**Connected Transaction Price**	**Connected Transaction Amount** *(RMB million)*	**As a percentage of the amount of similar transactions** *(%)*	**Transaction cap approved** *(RMB million)*	**Whether exceeding the approved cap**
Financial services provided to the Company by the connected party	Interest on settlement fund deposits	Based on the benchmark annual interest rates on agreement deposits as stipulated by the People's Bank of China	–	5	43.49	50	No
	Maximum daily balance of deposit (including accrued interests)	–	–	1,990	–	2,000	No
	Interest payable on credit business	Not higher than the interest rate obtained by the Group from commercial banks during the same period	–	28	4.21	150	No
	Interest payable on entrusted loans		–	–	–	100	No
Estimated total amount for continuing connected transactions to be conducted during the period (by types of transactions) and their actual implementing during the reporting period	The estimated data of Continuing Connected Transactions of the Company for the year of 2018 was based on the content and estimated caps of transactions set out in the Continuing Connected Transaction Agreements approved at the 2015 general meeting of the Company. The total amount of Continuing Connected Transactions of the Company in the first half of 2018 did not exceed the relevant applicable caps as specified under the Continuing Connected Transaction Agreements.						
Reason for the difference between transaction price and market reference price	The difference among credit interest rates, interest on entrusted loans and the estimated amount was relatively larger, as a result of more credit and entrusted facility applied for maximum protection of capital of the Company while entering into the Continuing Connected Transaction Agreements. As more adequate capital was available to the Company in 2018 instead of significantly utilizing credit of Angang Financial Company, the difference among credit interest rates, interest on entrusted loans of Angang Financial Company and the estimated amount was relatively larger.						

Connected Transaction Type	Connected Transaction Details	Connected Transaction Pricing principle	Connected Transaction Price	Connected Transaction Amount *(RMB million)*	As a percentage of the amount of similar transactions *(%)*	Transaction cap approved *(RMB million)*	Whether exceeding the approved cap
Relevant explanation on connected transactions	The Company utilized the free settlement platform provided by Angang Financial Company and deposited a part of saving for the use of daily settlement in order to improve the operational efficiency of capital settlement of the Company. Meanwhile, the Company can also acquire a financing channel from Angang Financial Company to provide a safe protection for the capital of the Company. The Company carried out strict budget control for the capital settlement in Angang Financial Company and, through online financial service system (i.e. N9 System) implemented monthly budget control, weekly expenditure plan, and daily implementation break down in accordance with the capital expenditure item. Each capital expenditure shall have a corresponding budget limit and weekly expenditure plan to ensure the security of the use of the Company's capital settlement. According to the Financial Service Agreement entered into between the Company and Angang Financial Company, the Company set up an alert function for the maximum daily deposit in the N9 System. When the deposit balance reaches 80% of the limit, the N9 System will alert the Company. The department in charge will adjust the deposit amount in a timely manner in accordance with the collection and payment plan of the period.						

C. Connected party: Pangang Vanadium & Titanium Group

Connected relationship: Indirectly controlled by the same controlling shareholder of the Company

Settlement method of the connected transaction: Cash payment

Connected Transaction Type	Connected Transaction Details	Connected Transaction Pricing principle	Connected Transaction Price *(RMB)*	Connected Transaction Amount *(RMB million)*	As a percentage of the amount of similar transactions *(%)*	Transaction cap approved *(RMB million)*	Whether exceeding approved cap	Market price of available similar transactions
Purchase of raw materials from the connected party	Alloy	Market price	–	142	4.73	–	–	–
	Total		–	142	4.73	2,100	No	–
Particulars on refund of bulk sale		–						
Estimated total amount for continuing connected transactions to be conducted during the period (by types of transactions) and their actual implementing during the reporting period		The estimated data of Continuing Connected Transactions of the Company for the year of 2018 was based on the content and estimated caps of transactions set out in the Continuing Connected Transaction Agreements approved at the 2015 general meeting of the Company. The total amount of Continuing Connected Transactions of the Company in the first half of 2018 did not exceed the relevant applicable caps as specified under the Continuing Connected Transaction Agreements.						
Reason for the difference between transaction price and market reference price		–						
Relevant explanation on connected transactions		Pangang Vanadium & Titanium Group supplied alloy for the Company at the market price, which provided guarantee for the Company in obtaining continuous and stable supply of raw materials.						

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

There was no connected transaction in relation to acquisition or disposal of assets or equity during the reporting period.

3. Connected transactions in relation to joint external investments

Unit: RMB million

Joint parties	Connected relationship	Investee	Principal business of the investee	Registered capital of the investee	Total assets of the investee	Net assets of the investee	Net profit of the investee
Angang Construction	Controlled by the same beneficial controller	Angang Gas Co., Ltd. (鞍鋼氣體有限公司)	Manufacture of dissolved acetylene; distribution of compressed gas and liquefied gas, etc	50	67	55	1
Progress of significant projects under construction of the investee (if applicable)			–				

4. Debts and obligations due from/owed to connected parties

During the reporting period, the Company did not have any debts and obligations due from/owed to connected parties incurred from non-operating activities.

As at 30 June 2018, the Group's bank borrowings of RMB1,000 million were guaranteed by Angang.

5. Other major connected transactions

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

On 9 February 2018, the Resolution on Entering into the Land Lease Agreements between the Company and each of Angang Holding and Angang Naihuo Co., Ltd.* (鞍山鋼鐵集團耐火材料有限公司) was approved at the 27th meeting of the seventh session of the Board

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

(IV) Use of the Capital of the Company by the Controlling Shareholder and its Connected Parties for Non-Operating Purposes

During the reporting period, neither the controlling shareholder nor its connected parties used the capital of the Company for non-operating purposes.

(V) Material Contracts and Their Performance

1. Entrustment, contracting and leasing matters

(1) Entrustment

The Supply of Materials and Services Agreement (2016 – 2018) entered into between the Company and Angang was approved at the 2015 second extraordinary general meeting of the Company held on 12 October 2015. On 22 October 2015, the Company and Angang Holding entered into the Asset and Business Entrustment and Management Service Agreement, which is the specific agreement for execution under the approved Supply of Materials and Services Agreement (2016–2018). Pursuant to the Asset and Business Entrustment and Management Service Agreement, Angang Holding authorized the Company to conduct daily operation and management over the assets, businesses, future assets and business expansion of its unlisted controlled subsidiaries.

During the reporting period, there was no entrusted project which generated profit of more than 10% of the gross profit of the Company for the reporting period.

(2) Contracting

The Company did not enter into any contractual arrangement during the reporting period.

(3) Leasing

The Company did not enter into any significant leasing agreement during the reporting period.

2. During the reporting period, there was no guarantee provided by the Company, nor was there any guarantee subsisting during the reporting period.

3. The Company did not enter into any other material agreement during the reporting period.

(VI) Other Significant Events

On 25 May 2018, the Company successfully issued H-share convertible bonds in an aggregate amount of HK$1.85 billion on the Hong Kong Stock Exchange, which were listed on the Hong Kong Stock Exchange on 28 May 2018. The initial conversion price of the H-share convertible bonds was HK$9.54 per share, with a maximum of 193,920,335 shares issuable upon conversion. As a result of the Company's payment of the final dividend for 2017 on 29 June 2018, the conversion price of the H-share convertible bonds was adjusted to HK$9.20 per share, with a maximum of 201,086,956 shares issuable upon conversion.

(VII) Corporate Governance of the Company

In strict compliance with the requirements of the Company Law, the Securities Law, the relevant requirements of the China Securities Regulatory Commission (the "CSRC"), Hong Kong Listing Rules, the Rules Governing the Listing of Shares on the Shenzhen Stock Exchange and the Corporate Governance Guideline of Listed Companies and the Guidelines for the Internal Control of Listed Companies of the Shenzhen Stock Exchange, the Company has regulated its operations and established a comprehensive corporate governance system and an effective internal control system. There is no difference between the Company's corporate governance practice and the Company Law and the relevant requirements of the CSRC.

With shares listed in both Hong Kong and Shenzhen, the Company is committed to improving its corporate governance in accordance with international corporate governance standards. The Board and the management understand that they are responsible for establishing good corporate governance practices and procedures and the strict implementation of such practices and procedures, in order to protect the interests of the shareholders and to create return for the shareholders in the long term.

The Company has adopted the code provisions of the Corporate Governance Code (the "Code Provisions") set out in Appendix 14 to the Hong Kong Listing Rules as currently in force. The Company has reviewed its corporate governance practices from time to time. Save as set out below, the Company complied with all Code Provisions during the reporting period.

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

The Company did not arrange any insurance cover for its Directors in the first half of 2018.

In strict compliance with the requirements of the Company Law, the Securities Law, the relevant requirements of the CSRC, Hong Kong Listing Rules, the Rules Governing the Listing of Shares on the Shenzhen Stock Exchange, and other regulations, the Company has regulated its operations and established a comprehensive corporate governance system and an effective internal control system, which has lowered the legal risks to the Directors. Therefore, no insurance arrangement has been made in respect of the Directors.

(VIII) Subsequent Events

1. On 4 July 2018,the Company received the Notice of Angang Group Company* (鞍鋼集團有限公司) on Gratuitous Transfer of State-owned Shares of Angang Steel Company Limited* (《鞍鋼集團有限公司關於無償劃轉鞍鋼股份有限公司國有股份的通知》) from Angang (the "**Notice**"). The Notice stated that, in order to strengthen strategic cooperation between Angang and Power Construction Corporation of China* (中國電力建設集團有限公司) (the "**PCCC**") and optimise the shareholding structure of the Company, Angang proposed to gratuitously transfer 360,000,000 A shares (representing approximately 4.98% of the total share capital of the Company) held by it through Angang Holding, a wholly-owned subsidiary of Angang, to PCCC (the "**Gratuitous Transfer**"). Before the Gratuitous Transfer, Angang held 4,218,547,330 A shares (representing approximately 58.31% of the total share capital of the Company) through Angang Holding, and PCCC did not hold any shares of the Company. After the Gratuitous Transfer, Angang Group will hold 3,858,547,330 A shares (representing approximately 53.33% of the total share capital of the Company) through Angang Holding, and PCCC will hold 360,000,000 A shares (representing approximately 4.98% of the total share capital of the Company). The Gratuitous Transfer will not cause any changes to the controlling shareholder or de facto controller of the Company. The Gratuitous Transfer is still subject to the approval by the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會).

2. On 12 July 2018, the Resolution on Subscription of the Company for Shares of An Steel International Co., Limited ("**An Steel Company**") was considered and approved at the 38th meeting of the seventh session of the Board held by the Company, pursuant to which, the Company proposed to subscribe for 10 subscription shares issued by An Steel Company at a consideration of RMB86.961 million in cash. Upon the completion of the subscription, the total shares in issue of An Steel Company will be 11 shares, of which 10 shares and 1 share will be owned by the Company and Angang Group Hong Kong Co., Limited, accounting for 90.91% and 9.09% of the total shares in issue, respectively. The transaction is now in progress.

3. On 17 July 2018, the Resolution on Acquisition by the Company of entire equity interest in Angang Group Chaoyang Iron & Steel Company Limited* (鞍鋼集團朝陽鋼鐵有限公司)("**Angang Chaoyang**") held by Angang Holding was considered and approved at the 39th meeting of the seventh session of the Board held by the Company, pursuant to which, the Company proposed to acquire the entire equity interest in Angang Chaoyang held by Angang Holding at a consideration equivalent to the appraised value of RMB5,903.85 million as confirmed in the assets valuation report on the proposed acquisition by Angang Steel of the entire equity interest in Angang Chaoyang held by Angang Holding issued by China United Assets Appraisal Group Co., Ltd.* (中聯資產評估集團有限公司). The transaction is now in progress and subject to the approval by the Shareholders in the general meeting by the Shareholders in the Company.

By Order of the Board
ANGANG STEEL COMPANY LIMITED*
Wang Yidong
Executive Director and Chairman of the Board

Anshan City, Liaoning Province, the PRC
27 August 2018

As at the date of this announcement, the Board comprises the following Directors:

Executive Directors:
Wang Yidong
Li Zhen
Ma Lianyong
Xie Junyong

Independent Non-executive Directors:
Wu Dajun
Ma Weiguo
Feng Changli

* *For identification purposes only*