

# **Report on Market Research into the Peoples Republic of China Steel Industry Part 1**



**Final Report**  
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# 1. GLOSSARY

Main Subjects (in order of selection and reporting)	
Abbreviation/Term	Full Name
Hebei Steel Group	Hebei Iron & Steel Group Co Ltd (河北钢铁集团有限公司)
Baosteel Group	Baosteel Group Corporation (宝钢集团有限公司)
Shagang Group	Jiangsu Shagang Group Co Ltd (江苏沙钢集团有限公司)
Ansteel Group	Ansteel Group Corporation (鞍钢集团公司)
WISCO	Wuhan Iron and Steel (Group) Corporation (武汉钢铁(集团)公司)
Shougang Group	Shougang Corporation (首钢总公司)
Shandong Steel Group	Shandong Iron & Steel Group Co Ltd (山东钢铁集团有限公司)
Magang Group	Magang (Group) Holding Co Ltd (马钢(集团)控股有限公司)
Tianjin Bohai Steel	Bohai Steel Group Co Ltd (渤海钢铁集团有限公司)
Benxi Steel	Benxi Steel Group Corporation (本溪钢铁(集团)有限责任公司)
Valin Steel Group	Valin Iron & Steel Group Co Ltd (湖南华菱钢铁集团有限责任公司)
Jianlong Steel Group	Beijing Jianlong Heavy Industry Group Co (北京建龙重工集团有限公司)
Fangda Steel	Fangda Special Steel Technology Co Ltd (江西方大钢铁集团有限公司)
Rizhao Steel	Rizhao Steel Holding Group Co Ltd (日照钢铁控股集团有限公司)
Anyang Steel	Anyang Iron & Steel Group Co Ltd (安阳钢铁集团有限责任公司)
Taiyuan Steel	Taiyuan Iron & Steel (Group) Co Ltd (太原钢铁(集团)有限公司)
Baotou Steel	Baotou Iron & Steel (Group) Co Ltd (包头钢铁(集团)有限责任公司)
Hebei Jingye Group	Hebei Jingye Group (河北敬业集团有限责任公司)
Jiuquan Steel	Jiuquan Iron & Steel (Group) Co Ltd (酒泉钢铁(集团)有限责任公司)
Zongheng Steel	Zongheng Iron & Steel Group Co Ltd (河北纵横钢铁集团有限公司)
Dongbei Group	Dongbei Special Steel Group Co Ltd (东北特殊钢集团有限责任公司)
Tsingshan Group	Tsingshan Holding Group (青山控股集团有限公司)
Yongxing Special Steel	Yongxing Special Stainless Steel Co Ltd (永兴特种不锈钢股份有限公司)
TPCO	Tianjin Pipe (Group) Corporation (天津钢管集团股份有限公司)

<b>Other Entities / Organizations Referenced in the Report (listed alphabetically, by abbreviation)</b>	
CBRC	China Banking Regulatory Commission (中国银行业监督管理委员会)
CISA	China Iron and Steel Association (中国钢铁工业协会)
CSRC	China Securities Regulatory Commission (中国证券监督管理委员会)
MEP	Ministry of Environmental Protection (中华人民共和国环境保护部)
MIIT	Ministry of Industry and Information Technology (中华人民共和国工业和信息化部)
MoF	Ministry of Finance (中华人民共和国财政部)
MOFCOM	Ministry of Commerce of the PRC (中华人民共和国商务部), formerly known as Ministry of Foreign Trade and Economic Co-operation or MOFTEC (中华人民共和国对外贸易经济合作部)
MLR	Ministry of Land and Resources (中华人民共和国国土资源部)
NDRC	National Development and Reform Commission (中华人民共和国国家发展和改革委员会)
SAIC	State Administration for Industry & Commerce (国家工商行政管理总局)
SASAC	State-Owned Assets Supervision & Administration Commission of the State Council (国务院国有资产监督管理委员会)
SAT	State Administration of Taxation (国家税务总局)
SSINA	The Specialty Steel Industry of North America
<b>Commonly Used Terms</b>	
RMB or CNY	Chinese Renminbi or Chinese Yuan
US\$ or USD	United States Dollar

## 2. EXECUTIVE SUMMARY

Comprehensive research was conducted to obtain available information and intelligence regarding the Chinese steel industry, in this part specifically focused on government support. This is a summary of key findings.

### **Overview of the Industry**

China has engineered remarkable growth in its steel industry over the past 20 years, producing over 822 million tons in 2014, which accounted for half of the world's steel production. The rapid growth has been both supported and fueled by government subsidies and preferential policies, and this has led to enormous overcapacity in the industry while also creating a highly fragmented domestic sector made up of many weak, inefficient, and heavily polluting companies. But despite these trends and increasingly challenging market conditions for China's steel producers, given the importance of the industry to the economy, steel capacity is expected to continue expanding in the short term as new production under construction comes online.

### **Specific Type of State Support Identified in the Chinese Steel Industry**

- State support used by the Chinese steel industry includes: cash grants; equity infusions; government-mandated mergers and acquisitions; preferential loans and directed credit; land use subsidies; subsidies for utilities, raw material price controls; tax policies and benefits; currency policies; and lax enforcement of environmental regulation.
- Pressure from international steel producers and the WTO has forced China to adjust how the government uses subsidies and preferential policies; it has shifted away from unconditional cash grants, tax rebates and protectionist price controls, to using these same tools to reform the industry into being more environmentally and economically sustainable. The government seems to be using the economic slowdown as an opportunity to restructure the steel industry, and will likely gear its support toward industry consolidation and environmental improvements over promoting growth ahead.

### **Overview of Types and Amounts of Steel Subsidies Received by the Steel Producers**

- The most common subsidies received by the Steel Producers have been a variety of cash grants and capital infusions. Many have also benefited from tax payment subsidies and preferential loans. We note that several of the Steel Producers have sizeable subsidiaries, some of which have directly received subsidies. It is further noted that the amount of subsidies has generally been increasing over time, with a lower amount received by the Steel Producers in 2008 compared to 2014.
- Examples of subsidies received by a few selected Steel Producers are as follows:
  - Hebei Steel Group: Reported to have received a total of RMB71 million in governmental subsidies in 2014, in addition to RMB15 million as deferred subsidies. These included a large number of subsidies for technology-related upgrading, and development and environmental protection. It also had tax benefits, preferential loans, and energy and water subsidies.
  - Ansteel Group: Reported to have received total government subsidies amounting to RMB385 million in 2014. In addition to many cash grants and capital infusions, the company has received tax benefits and utilities subsidies each year. It has also benefited from other subsidies on land use and loan interest.

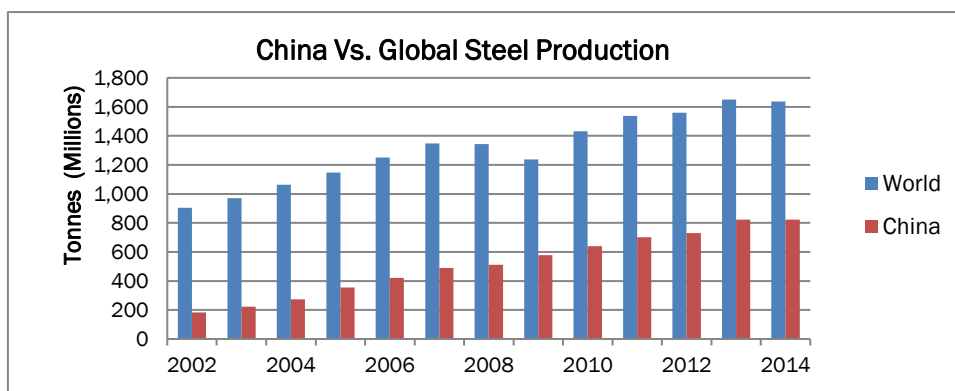
- Shougang Group: Reported to have received a total of RMB655 million in subsidies from the government in 2014, in addition to deferred subsidies amounting to RMB935 million. These included cash grants and capital infusions, tax benefits and preferential loan subsidies, and other subsidies on land-use and utilities.
- Valin Steel Group: Reported to have received total government subsidies amounting to RMB386 million in 2014. In addition to cash grants and capital infusions, it also received government support in the form of tax benefits, land-use benefits and preferential loans.
- Jiuquan Steel: Reported to have received total government subsidies of RMB324 million in 2014. These included cash grants and capital infusions, as well as loan interest discounts and land-use subsidies. Its subsidiary has also received cash grants and land-use benefits directly, including through special funding for rental housing.
- TPCO: Reported to have received total government subsidies amounting to RMB5.4 million in 2014. It received cash grants and capital infusions for various purposes such as market expansion, technology research and transformation, and preferential loans and tax subsidies.

### **Most Commonly Used / Favoured Support at Different Levels of Government**

- The most frequently seen forms of support in important national-level programs directed toward the steel industry are cash grants, preferential loans and tax benefits. At the national level, subsidies have increasingly been focused on environmental protection, energy-savings, technology upgrading, and industry consolidation and restructuring. Government bodies and subordinate administrations often allocate cash grants via ‘special funds’. The authorities usually publish a regulation of how each special fund should be managed and forms of subsidies disbursement; funds should not be used for other purposes. However, review of the corporate filings of China’s largest steel companies revealed that fewer companies have been receiving large subsidies in recent years.
- The 12<sup>th</sup> Five-Year Plan (2011-2015) for the steel industry includes region-specific guidelines. For northern and central areas the focus is clearly on restructuring the steel industry through M&A, removing obsolete or unused production capacity, and upgrading technology. Industry development is still encouraged in western China to take advantage of resources and to accommodate relocated production from the east. Border regions meanwhile are encouraged to explore and utilize mining resources, energy and markets beyond China’s borders. In relation to issues of overcapacity and environmental pollution in the steel industry, Hebei province is especially important; it shoulders more responsibility for capacity reduction and has received more subsidies for environmental protection from the national government than any other province.
- Local governments are required to implement the overall policies set by the central government. However, there persists some parting between the central government’s policy directive and implementation at the local level due to divergent interests of the local and central governments. While the central government wants to reduce overcapacity, steel enterprises usually are responsible for much social stability in local areas, including through providing employment. Subsidies from local governments can be divided into two categories: those tied to special funds local governments budgeted to meet directives from central government, and other subsidies directly from the local governments. The main forms of subsidies include loan repayment support and cash grants for projects related to R&D, energy-efficiency and environmental protection.

### 3. INTRODUCTION

China has engineered remarkable growth in its steel industry over the past 20 years, producing just over 92 million tons of steel in 1994<sup>1</sup> and over 822 million tons in 2014.<sup>2</sup> Production has grown 68% from 489,712,000 tons in 2007, and accounted for half of the world's steel production in 2014.



Source: The World Steel Association<sup>3</sup> based on statistics for 86 countries<sup>4</sup>

This rapid growth in China's steel industry has been supported and indeed fueled by government subsidies and preferential policies. China's steel industry significantly contributes to the country's GDP and steel producers are among the largest taxpayers. In addition to being one of China's 'strategic industries' underpinning growth, steel production plays an important role in maintaining local employment rates, especially critical for a country with the world's largest population and whose government takes great effort to reduce (or suppress) public dissent. As a result, it has long been common practice for the government to provide substantial support in the form of subsidies and preferential policies.

#### Overcapacity Issues

This strong governmental support is also responsible for generating enormous overcapacity in the industry. Combined with China's slowing economic growth, and reduced real estate and infrastructure development, demand for steel has weakened considerably, which has exacerbated the problem. Li Xinchuang, the president of China Metallurgical Industry Planning and Research and Deputy Secretary General of China Iron and Steel Association, estimated that China's capacity utilization rate in 2014 was as low as 65.8%.<sup>5</sup> It was not unexpected that 2014 saw the first contraction in domestic steel consumption for almost two decades, with a fall of 3.4% from the previous year.<sup>6</sup>

Due to the weakening demand, production is slowing. Crude steel production in China only grew 0.9% year-on-year in 2014.<sup>7</sup> Production has been falling in 2015; production dropped 4.7% year-on-year to 65.5 million tons January,<sup>8</sup> and contracted month-over-month from January to February, March to April and again from May to June, according

<sup>1</sup> <https://www.worldsteel.org/dms/internetDocumentList/statistics-archive/production-archive/steel-archive/steel-annually/steel-annually-1980-2013/document/steel%20annually%201980-2013.pdf>

<sup>2</sup> <https://www.worldsteel.org/dms/internetDocumentList/statistics-archive/production-archive/steel-archive/steel-monthly/Steel-monthly-2014/document/Steel%20monthly%202014.pdf>

<sup>3</sup> <https://www.worldsteel.org/dms/internetDocumentList/statistics-archive/production-archive/steel-archive/steel-annually/steel-annually-1980-2013/document/steel%20annually%201980-2013.pdf>

<sup>4</sup> *ibid.*

<sup>5</sup> <http://www.wsj.com/articles/chinas-steel-demand-falls-1422526887>

<http://www.slideshare.net/informaaz/li-xinchuang-china-iron-steel-association>

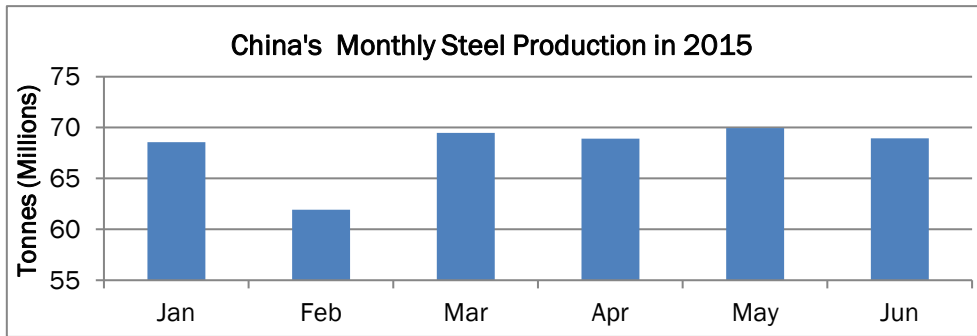
<sup>6</sup> <http://www.ft.com/cms/s/0/e8216b60-a152-11e4-8d19-00144feab7de.html#axzz3gQhGpBpS>

<sup>7</sup> <https://www.worldsteel.org/media-centre/press-releases/2015/World-crude-steel-output-increases-by-1.2-in-2014.html>

<sup>8</sup> <http://www.zacks.com/stock/news/165552/steel-production-shrinks-in-january-as-china-japan-slump>



to data from the World Steel Association. Overall, crude steel production in the first half of 2015 declined slightly (0.4%) from the first half of 2014.<sup>9</sup>



Source: World Steel Association<sup>10</sup>

### Industry Inefficiencies

Despite the steadfast support the industry has received, high levels of debt are pervasive among Chinese steel enterprises. By the end of the first half of 2013, 86 large and medium-sized steel enterprises nationwide faced more than RMB 3 trillion in debt, including RMB 1.3 trillion in bank loans. The entire steel industry had a debt ratio of 69.347%, which was very close to the critical line of 70% above which banks generally do not provide lending. At the same time, these steel companies only realized a collective profit of RMB 2.2 billion. As many as 35 steel companies had deficits, some with losses reaching 40%.<sup>11</sup> As of 31 August 2014, debt in the entire steel industry was still around RMB 3 trillion, with the debt ratio passing 70%, according to data from China's most widely-used statistics aggregator, Wind Information. In particular, six listed steel companies had debt ratios surpassing 80%: Bayi Steel (八一钢铁), Fushun Steel (抚顺特钢), Shaogang Songshan (韶钢松山), Xi'ning Steel (西宁特钢), Valin Steel (华菱钢铁) and Chongqing Iron & Steel (重庆钢铁).<sup>12</sup>

A large part of the problem is that subsidies and preferential policies have created inefficiencies in the industry, according to Liu Haimin (刘海民), the deputy director of Metallurgy Industry Economic Development Center. This has created a highly fragmented domestic sector made up of many weak, inefficient, and heavily polluting companies.<sup>13</sup>

### Changing Use of Subsidies

In spite of these trends, many analysts in the Chinese steel industry expect state support to continue, and even increase, since it is still an important part of the Chinese economy.<sup>14</sup>

Research located recent examples of subsidies including cash grants and capital infusions, equity infusions and conversions, government mandated mergers and acquisition, preferential loans and directed credit, discounted land-use, subsidies for utilities, raw material price controls, tax policies and benefits, currency policies, and lax enforcement of environmental regulations (please refer to the sections below for descriptions of these subsidies and policies).

However, we did not find any indication that the government has provided benefits to steel producers for the purchase of domestically-made equipment and inputs since 2008, though it had been a tool that was frequently utilized prior to

<sup>9</sup> <https://www.worldsteel.org/dms/internetDocumentList/statistics-archive/production-archive/steel-archive/steel-monthly/Steel-monthly-2014/document/Steel%20monthly%202014.pdf>

<sup>10</sup> <https://www.worldsteel.org/statistics/statistics-archive/monthly-steel-archive.html>

<sup>11</sup> <http://www.chinairn.com/news/20130928/100956281.html>

<sup>12</sup> <http://finance.china.com.cn/stock/bkjj/20140905/2657949.shtml>

<sup>13</sup> <http://finance.sina.com.cn/chanjing/gsnews/20140820/041920062254.shtml>

<sup>14</sup> <http://money.163.com/special/view377/>

that. The change in the use of this tool reflects how pressure from international steel producers and the WTO has forced China to adjust how they use preferential policies to support the industry, shifting away from the unconditional cash grants, tax rebates, and protectionist price controls that inevitably lead to anti-dumping disputes, and more toward using these same tools to reform the industry into being more environmentally and economically sustainable (i.e. providing support for technology upgrades, environmental protection programs, industry consolidation, etc.).

The government seems to be using the economic slowdown as an opportunity to restructure the steel industry. According to Draft Steel Industry Adjustment Policy (2015), the state plans to restructure the large steel producers and ultimately eliminate 80% of small, substandard steelmakers from the steel industry.<sup>15</sup> The central government is now seeking to decrease capacity; it seeks to cut up to 80 million tons of steel capacity and consolidate its ten biggest steel enterprises so that they are responsible for 60% of China's total steel output by 2017.<sup>16</sup> In addition, the government appears to be trying to make the steel industry more environmentally sustainable.<sup>17</sup> It released a revised Environmental Protection Law that allows for stricter enforcement of regulations and makes it more difficult for pollution offenders to evade punishment.<sup>18</sup> The government is allowing smaller, non-competitive steel mills to go out of business and is administering closures of those that do not meet environmental standards.<sup>19</sup>

### **Domestic Challenges, Focus Shifts Overseas**

Amid weakening demand for steel both globally and domestically, Chinese steel firms are also facing price pressures on iron ore imports. Since China has limited ore output, Chinese steel producers must rely on iron ore imports, making them vulnerable to fluctuations in market prices. Despite slowing steel production in China, the price of iron ore has been rising quickly over the last four months to August,<sup>20</sup> due to a decline in stocks of imported ore at China's ports. Although many analysts had forecast iron ore prices to moderate as steel production and demand for imports continues to slow,<sup>21</sup> an explosion on 12 August 2015 that shattered one of China's the most important ports in Tianjin, where most iron ore imports come into China, has significantly disrupted supply.<sup>22</sup> This may mean continuing upward pressure on iron ore prices.<sup>23</sup> The Tianjin port is also extremely important for import and export of steel and domestic steel transshipment; its steel throughput ratio accounts for 9.87% of the total nationwide.<sup>24</sup>

Furthermore, China's central bank allowed a sharp devaluation in the RMB between 11-13 August 2015, which will mean further price pressures on iron ore imports (while any benefits to exports will be tempered by weak global demand). There is to date, however, no indication that the government will do anything to support the steel makers with the increasingly expensive iron ore imports.

Despite the increasingly challenging market conditions for China's steel producers and decreasing investment in the sector, China's Ministry of Industry and Information ("MIIT") predicted in February 2015 that China's steel capacity would likely continue to expand in 2015 as new projects start operation.<sup>25</sup> China is slowly reining in the expansion that 20 years of incentives and preferential policy set into motion, by providing state subsidies to reduce capacity. But

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<sup>15</sup> <http://www.96369.net/news/201503/channelid-14-columnid-34-329741.html>

<sup>16</sup> <http://www.oecdilibrary.org/docserver/download/5js65x46nxhj.pdf?expires=1438830076&id=id&accname=guest&checksum=03BA1D21A07821807AD45DBF1C35DC3C>

<http://www.reuters.com/article/2015/03/28/china-steel-idUSL3N0WU02W20150328>

<http://marketrealist.com/2015/01/massive-overcapacity-plague-steel-industry-2015/>

<sup>17</sup> <http://www.bloombergvew.com/articles/2015-05-14/china-decides-big-steel-is-too-big>

<sup>18</sup> <https://www.uschina.org/revised-environmental-protection-law-has-teeth-will-it-bite>

<sup>19</sup> <http://www.cnbc.com/2015/03/22/stricken-china-steel-mills-look-to-state-to-ease-exit-strategy.html>

<http://www.bloomberg.com/professional/blog/chinas-tough-environmental-laws-drive-steel-mill-closures/>

<sup>20</sup> <http://www.platts.com/news-feature/2015/metals/steel-raw-materials-pricing-analysis/index>

<sup>21</sup> <http://www.cnbccom/2015/06/19/ironore-china-steel-idUSL3NOZ324J20150619>

<sup>22</sup> <http://www.mining.com/shrinking-chinese-steel-market-will-drag-down-iron-ore-price/>

<sup>23</sup> <http://www.wsj.com/articles/explosions-rocked-one-of-worlds-busiest-ports-1439482353>

<http://www.wsj.com/articles/tianjin-explosion-creates-logistical-hurdles-in-chinese-port-city-1439556345>

<sup>24</sup> <http://www.sxcoal.com/coal/4216738/articlenew.html>

<http://www.platts.com/latest-news/metals/london/explosions-at-tianjin-port-delay-some-iron-ore-26176906>

<sup>25</sup> <http://www.reuters.com/article/2015/02/05/china-steel-capacity-idUSL4NOVF43T20150205>

the government cannot stop production abruptly. It is intended that the new production lines to be rolled out in 2015 incorporate better technology, are more efficient, and have reduced environmental impact.

China is also looking to develop markets overseas. In 2014, it released its new “One Road, One Belt” action plan aimed at creating fresh demand for Chinese goods by increasing trade and infrastructure investment, particular focusing on Southeast Asia. Given these trends, it seems likely that the government will maintain preferential policies and subsidies for the steel industry, though backing will be selectively applied to the enterprises the government favors to remain in the market. Policy will be geared toward industry consolidation and restructuring over promoting growth.

## 4. DETAILS OF STATE SUPPORT IN THE PRC STEEL INDUSTRY

This section of the report provides details of specific types of government support identified in the Chinese steel industry, including descriptions of the subsidies and analysis of their usage based on comprehensive research. Specific amounts of each subsidy received by selected steel producers are detailed in the subsequent section.

### 4.1. Cash Grants and Capital Infusions

#### Description of the Policy / Action

Cash grants and capital infusions are subsidies in the most conventional sense. They are essentially an injection of government capital to provide support for steel companies' commercial activities and specific programs that fit with the country's wider policy agendas, according to *Chinese Government Subsidies to the Steel Industry*, a paper released by the Specialty Steel Industry of North America in 2007.<sup>26</sup> As such these are the most direct form of subsidy that the government uses to promote its policy initiatives in the steel industry.

The steel industry has been one of the largest beneficiaries of cash grants and capital infusions from the government for many years. All levels of the Chinese government, from national to provincial and municipal tiers, provide this type of subsidy. These subsidies typically involve financial support for technology innovation and commercialization, technology renovation and upgrading, environmental protection (incl. energy conservation, pollution clean-up, emission reduction, waste water treatment, desulfurization of gaseous exhaust), transformation and adjustment of the industrial structure (e.g. M&A, relocations, compensations for enterprises leaving industries with high overcapacities), employment and training (e.g. re-settlement of displaced workers, social security premiums, housing and amenities for employees, maintaining staff levels), etc.<sup>27</sup>

#### Examples of Usage in Recent Years

In 2014, Hebei Steel Group received a RMB 600,000 subsidy from the Ministry of Industry And Information Technology for Deep Intergradation of Information Technology and Industrialization Funding (中华人民共和国工业和信息化部信息化和工业化深度融合专项资金) ("MIIT").<sup>28</sup> This subsidy was provided in the form of a cash grant to encourage firms "to innovate any constructive means to support industrial transformation and development." This fund was in accordance with the Industrial Transformation and Upgrade Action Plan (2011-2015) and the Industrial Transformation Upgrading Investment Guideline to subsidize domestic firms for innovation in e-commerce.<sup>29</sup> When Hebei Steel Group, as well as Baosteel Group, Shagang Group, and Linggang Group, set up their own B2B platforms, they were subsidized by the aforementioned cash grant for the innovation of e-platforms.<sup>30</sup>

In July 2012, the Ministry and Finance ("MoF") and National Development and Reform Commission ("NDRC") issued the "Circular Economic Guiding Funding" (循环经济引导资金), aimed at improving resource utilization and environmental protection, especially for recycling steel, nonferrous metal, precious metal, plastics, rubber and glass.<sup>31</sup> This policy was to be implemented by local governments. In line with this circular, the Wuhan Development and Reform Commission (武汉发展和改革委员会) and Wuhan Finance Bureau granted Wuhan Wuxin New

<sup>26</sup> Prepared by Kelley Drye Collier Shannon  
[http://www.ssina.com/news/releases/pdf\\_releases/chinese\\_govt\\_subsidies0407.pdf](http://www.ssina.com/news/releases/pdf_releases/chinese_govt_subsidies0407.pdf)

<sup>27</sup> Taube, Markus. *Assessment of the Normative and Policy Framework Governing the Chinese Economy and Its Impact on International Competition*. Munich: THINK!DESK China Research & Consulting, 25 June 2015 ("MES China Study")

<sup>28</sup> Hebei Steel Group Annual Report

<sup>29</sup> <http://www.miit.gov.cn/n11293472/n11293832/n12843926/n13917012/15474732.html>

<sup>30</sup> <http://www.steel178.com/hxweb/newsAction.do?method=getWebNewsInfold&newsid=25372>

<sup>31</sup> [http://jjs.mof.gov.cn/zhengwuxinxi/zhengcefagui/201209/t20120918\\_683365.html](http://jjs.mof.gov.cn/zhengwuxinxi/zhengcefagui/201209/t20120918_683365.html)  
<http://www.whxhj.com/news/732.html>

Construction Material Co Ltd (武汉武新新型建材有限公司) RMB 1,450,000 in Circular Economic Guiding Funding in August 2014.<sup>32</sup> The funding was aimed at subsidizing projects related to energy-savings, pollution prevention and retreatment, or carbon emissions. These would either a) be expected to save up to 1000 tons of standard coal or b) involve total investment of at least RMB 10 million.<sup>33</sup>

### Developments and Trends in Usage

The Chinese government continues to provide cash grants to Chinese steel producers. The figures in the table below, from a research paper released in 2014 that compiled data from China's listed steel companies' annual reports, show an upward trend nationwide in the number of listed steel companies covered by government cash grants from 2006 to 2012.<sup>34</sup>

Year	Total # Of Listed Steel Companies In The PRC	Total # Of Steel Companies Receiving Cash Grants	% Of Listed Companies Receiving Cash Grants
2006	29	24	82.76
2007	32	25	78.13
2008	32	29	90.63
2009	33	31	93.94
2010	33	32	96.97
2011	35	34	97.14
2012	35	35	100

The increasing number of listed companies receiving cash grants seems to reflect sustained government support for the industry over the past several years. Except for the slight drop in 2007, the percentage of listed steel companies receiving cash grants increased annually, showing that the government provided support to a growing number of steel companies.

The number of listed steel enterprises that continued to receive cash grants after 2012 was not available, but more recently, 2013 analysis found that the Chinese steel industry still benefitted from this type of subsidy.<sup>35</sup>

Statistics about the total value of cash grants the government provides to the steel industry are unavailable, but direct capital support to large companies appears to have grown overall since 2008. Hebei Steel, for example, received just RMB 1,958,600 in cash grants in 2008, but RMB 70,346,400 in 2010. In 2012, the company received a total of RMB 171,900,800 in cash grants, and by 2014 it received almost four times that amount with cash grants totaling RMB 654,862,052.<sup>36</sup> In the first half of 2014, Baosteel, Xinxing Tube (新兴铸管) and Zhongqing Steel received government cash grants of RMB 130 million, RMB 397 million and RMB 509 million, respectively.<sup>37</sup>

Despite this funding support, estimates from China Steel Association for the profitability of the overall steel industry are low: 2.4% in 2011, 0.04% in 2012, 0.62% in 2013 and 0.9% in 2014.<sup>38</sup> Many steel enterprises appear to rely on these government subsidies to counteract what would be an overall deficit in their actual operations. Moreover, the government seems to have continued to prop up some companies with the largest losses. According to statistics from China Steel Association, the top five loss-making steel enterprises in 2012 were Ansteel Group, Shandong Steel Group, Magang Group, Ansteel Group, and Valin Steel Group, which recorded losses of RMB 4.38 billion, RMB 3.84 billion,

<sup>32</sup> <http://info.glinfo.com/14/1120/09/E6FCF201ED7D8254.html>

<sup>33</sup> <http://www.wuhaneca.org/view.php?id=13950>

<sup>34</sup> <http://www.docin.com/p-903150620.html>

<sup>35</sup> Haley, Usha C. V., and George T. Haley. *Subsidies to Chinese Industry: State Capitalism, Business Strategy, and Trade Policy*. Oxford: Oxford UP, 2013.

<sup>36</sup> <http://data.eastmoney.com/notice/20150428/2eErX6y1czgtP8.html>

<sup>37</sup> [http://www.chinacem.com/22/20150401/2201\\_2554292.shtml](http://www.chinacem.com/22/20150401/2201_2554292.shtml)

<sup>38</sup> [http://www.chinacem.com/22/20150401/2201\\_2554292.shtml](http://www.chinacem.com/22/20150401/2201_2554292.shtml)

RMB 3.8 billion, RMB 3.5 billion and RMB 3.46 billion for the year, respectively. Despite this, these companies received cash grants in 2012 of RMB 442 million, RMB 77.9 million, RMB 70.18 million, RMB 63.39 million, and RMB 365.02 million.<sup>39</sup> That some listed steel companies continue to run a deficit despite receiving government grants underscores their operational inefficiency.<sup>40</sup>

## 4.2. Equity Infusions and Conversions

### Description of the Policy / Action

The Chinese government sometimes provides a direct cash injection or debt relief in exchange for equity in the company, usually in the form newly created shares. In the case of equity infusions, the simplest form of support in exchange for equity, the government simply “buys” more shares in a company as a way to inject capital. This straightforward exchange of equity for cash seems to have occurred much less frequently in recent years, though according to an investigation notice by the European Commission, they still occurred as of 2014.<sup>41</sup>

More typically the government will provide debt relief in exchange for these shares, which it usually does either by requiring state-owned banks to forgive the debt<sup>42</sup> or by arranging for non-performing debt to be transferred somewhere else, such as asset management companies (“AMC”).<sup>43</sup> AMCs, although technically run independently of the government (because one of their main purposes is to remove bad debt from local government financing vehicles and SOES), are regulated by the CBRC.

As explained in a Specialty Steel Industry of North America (“SSINA”) paper, since steel companies are already state-owned, the government is essentially just increasing the number of shares it holds in a company without changing its ownership position in the enterprise. As such, an equity infusion or conversion is essentially a direct cash grant or debt relief for the company; the only difference is the nominal exchange of equity.<sup>44</sup>

### Examples of Usage in Recent Years

In May 2014, the state-holding enterprise Baotou Steel (Group) LLC announced that it was seeking investment for a debt-to-equity swap amounting to RMB 830 million. The company is owned by the Inner Mongolian government (73.77%), Huarong Asset Management Company (16.98%), Xinda Asset Management Company (7.05%) and Oriental Asset Management Company (2.19%).<sup>45</sup> Further research confirmed that the investment was made by Shanghai Security Exchange in August 2014 and the investor was Inner Mongolia Baosteel United Steel Co Ltd (内蒙古包钢钢联股份有限公司).<sup>46</sup>

According to a corporate announcement, Xinyu Steel Co Ltd (新余钢铁股份有限公司) converted the debt of RMB 2.76 billion into the equivalent amount of shares between 2008 and 2013. The debt-to-equity swap was approved by China Securities Regulatory Commission and implemented by Shanghai Securities Exchange.<sup>47</sup>

In May 2011, Hebei Steel was approved by China Securities Regulatory Commission to convert debt of RMB 3.8 billion into 3,741,822,429 shares and this was implemented by Shenzhen Securities Exchange<sup>48</sup> While there is no

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<sup>39</sup> <http://www.docin.com/p-903150620.html>

<sup>40</sup> <http://www.chinabgao.com/info/79568.html>

<sup>41</sup> [http://trade.ec.europa.eu/doclib/docs/2014/august/tradoc\\_152719.init.en.C267-2014.pdf](http://trade.ec.europa.eu/doclib/docs/2014/august/tradoc_152719.init.en.C267-2014.pdf)

<sup>42</sup> <http://www.cecc.gov/sites/chinacommission.house.gov/files/CECC%20Hearing%20-%20WTO%20-%20David%20Horn%20Written%20Statement.pdf>

<sup>43</sup> <http://english.caixin.com/2014-01-08/100626405.html>

<sup>44</sup> [http://www.ssina.com/news/releases/pdf\\_releases/chinese\\_govt\\_subsidies0407.pdf](http://www.ssina.com/news/releases/pdf_releases/chinese_govt_subsidies0407.pdf)

<sup>45</sup> <http://www.cfae.cn/pro/1399179524197976583303.shtml>

<sup>46</sup> <http://stock.stockstar.com/notice/JC2014080700003113.shtml>

<sup>47</sup> <http://www.chinairn.com/news/20130928/100956281.html>

[http://quotes.money.163.com/f10/ggmx\\_600782\\_1195430.html](http://quotes.money.163.com/f10/ggmx_600782_1195430.html)

<sup>48</sup> [http://stockdata.stock.hexun.com/2009\\_ggzydetail\\_000709\\_60237644.shtml](http://stockdata.stock.hexun.com/2009_ggzydetail_000709_60237644.shtml)

information to confirm which entity / body bought the shares, it is assessed likely that they were acquired by the government.

### **Developments and Trends in Usage**

Since fundamental changes in the financial system in 1994, many SOEs have conducted state development projects under “planned economic principals” with the support of capital loans, but the explosion of financial crises worsened the economic environment. With the fall in exports and produce price slump, a number of SOEs started to face deficits. To guide the enterprises through this difficult period, the State Council encouraged the SOEs to optimize debt structure and launch debt-to-equity swap in 1999.<sup>49</sup>

According to statistics from the State-owned Asset Supervision and Administration Commission of Hebei Province, a total of 28 SOEs in Hebei Province were approved to convert debt to equity amounting to RMB 17.5 billion in early 2000. Nationwide, 601 SOEs were involved in debt-to-equity swaps worth RMB 459.6 billion in 2000. These SOEs included Tangshan Steel Group Co Ltd, Chengde Steel LLC, Handan Mining Bureau, and Feng Feng Mining Bureau, amongst others.<sup>50</sup>

In more recent years, the equity infusion and conversions subsidies remain used in the form of support for corporate expansion, restructuring, and debt-relief.<sup>51</sup> Given the high levels of debt in the steel industry as discussed above,<sup>52</sup> we assess that it is highly likely that the government will continue to use equity-to-debt swaps in the future to mitigate the growing debt. Also, given that the 2015 Draft Steel Industry Adjustment Policy Guidance emphasizes industry consolidation,<sup>53</sup> debt-to-equity swaps are likely to be conducted in conjunction with mergers, favoring companies that the government has selected to remain in the industry.

## **4.3. Government Mandated Mergers and Acquisitions**

### **Description of the Policy / Action**

As problems with overcapacity have become increasingly acute in recent years, so have the government’s actions in response. The Chinese government has not just encouraged, but required mergers and acquisitions within the steel industry.<sup>54</sup>

Since the government owns most of the large steel companies in China, it has the authority to orchestrate M&A and industry consolidation through the State-owned Asset Supervision and Administration Commission (“SASAC”) and its local divisions, which are responsible for oversight and management of all SOEs.<sup>55</sup> To facilitate this policy, and in return for consolidating, the government has administered cash grants, ordered the banks to give preferential loans, and provided support by other means to its favored entities, according to comments the American Iron and Steel Institute submitted to the Office of the US Trade Representative in September 2014 (“2014 AISI Paper”).<sup>56</sup>

### **Examples of Usage in Recent Years**

In 2007, the Hebei government announced that it would accelerate the integration and consolidation of the Hebei provincial steel industry due to excessive production capacity in the Chinese steel industry, according to *Hebei*

<sup>49</sup> <http://www.hbsa.gov.cn/YanJiuZhongXin/2014-06-11-175212.html>

<sup>50</sup> <http://www.hbsa.gov.cn/YanJiuZhongXin/2014-06-11-175212.html>

<sup>51</sup> <http://www.chinairn.com/news/20130928/100956281.html>

<sup>52</sup> <http://www.chinairn.com/news/20130928/100956281.html>

<sup>53</sup> <http://www.96369.net/news/201503/channelid-14-columnid-34-329741.html>

<sup>54</sup> <http://www.96369.net/news/201503/channelid-14-columnid-34-329741.html>

<sup>55</sup> [http://www.uscc.gov/sites/default/files/Research/10\\_26\\_11\\_CapitalTradeSOEStudy.pdf](http://www.uscc.gov/sites/default/files/Research/10_26_11_CapitalTradeSOEStudy.pdf)

<sup>56</sup> <https://www.steel.org/~media/Files/AISI/Public%20Policy/2014/AISI%20Comments%20Regarding%20Chinas%20WTO%20Compliance%20Final.pdf>



*Economic Daily* and a media report from *Xiben New Line Stock*. Specifically, the Hebei government planned to register one new group company (namely the current Hebei Steel Group) by merging Tang Steel Group (唐钢集团) and Han Steel Group (邯钢集团).<sup>57</sup> As Hebei Steel Group explained in the fund-raising account of its 2008 annual report, these two companies had merged into the group and Hebei SASAC coordinated the merger.<sup>58</sup>

Research identified seven major steel enterprise restructurings in 2014. Of these, four were in Hebei Province, one was in Shanxi Province, one was in Sichuan Province, and one trans-provincial between Hebei and Ulanhot.<sup>59</sup> Some examples of recent mergers conducted to meet policy requirements and improve production capacity are provided below, noting that as smaller players they would otherwise have been eliminated in the next three years.<sup>60</sup>

- In May 2014, Hebei Yongnian County Yongyang Steel Co Ltd (河北永年县永洋钢铁公司) merged with another seven steel mills to establish Hebei Yongyang Tegang Group Co Ltd (河北永洋特钢集团有限公司).
- In December 2014, Tangshan Guofeng Steel Company (唐山国丰钢铁公司) led a merger with another nine steel companies and established Tangshan Bohai Steel Co Ltd (唐山渤海钢铁有限公司).
- In September 2014, Fanda Steel Group transferred 100% shares of its wholly-owned subsidiary Ulanhot Steel LLC to Hebei Jingye Group LLC.

The government has also encouraged capable steel companies to seek opportunities in overseas markets. In 2012, the National Development and Reform Commission (“NDRC”) approved Hebei Steel Group, China’s largest steel plant by output, to acquire 19.9% shareholding in the Canadian iron ore miner, Alderon Iron Ore Corporation, and a 25% interest in its principal asset, known as the Kami project.<sup>61</sup> However, the government has also previously used its influence to postpone mergers between local and overseas steel companies that were viewed to interfere with its plans for the industry. For instance, Evraz Steel Group intended to purchase shares of Delong Steel Co Ltd (德龙钢铁有限公司) based in Henan in January 2008, but the plan was postponed indefinitely by the local government due to “concerns for the safety of the industry.” Another example is when the government barred a planned merger in 2007 between Mittal Steel Company and the Chinese Orient Group (东方集团).<sup>62</sup>

More recently, in 2013, Tangshan Iron & Steel (Group) Co acquired 10% of Switzerland’s iron and steel trader JCDecaux Co. At the same time, there was a signing ceremony between the two companies for a capital agreement on steel product exports worth US\$1.2 billion. JCDecaux sold 30 million tons of iron and steel products through its global sales networks.<sup>63</sup>

## Developments and Trends in Usage

An enduring problem with China’s steel industry is that production is fragmented and distributed in a manner that makes transportation and logistics difficult. By restructuring the steel industry, China seeks to improve efficiency in the supply chain as well as strengthen new production capacities and eliminate companies with substandard production. While the State Council began to encourage M&A in the industry with the 1997 *Reform and Development Action Plan for State-owned Enterprises* (关于 1997 年国有企业改革与发展的意见), efforts to restructure the industry have accelerated in recent years due to pressures from overcapacity in domestic steel production and the changing international market.<sup>64</sup>

<sup>57</sup> [http://paper.hbjrb.com/html/2008-06/12/content\\_24269.htm](http://paper.hbjrb.com/html/2008-06/12/content_24269.htm)  
<http://www.xbsteel.com/xbsite/html/2009-04/76735.html>

<sup>58</sup> <http://www.chinamoney.com.cn/fe/Info/10421777>

<sup>59</sup> <http://www.steel178.com/hxweb/newsAction.do?method=getWebNewsInfold&newsid=25406>

<sup>60</sup> Ibid

<sup>61</sup> [http://www.chinaccm.com/8/38/3803/Content/2012/0709/380302\\_772099.shtml](http://www.chinaccm.com/8/38/3803/Content/2012/0709/380302_772099.shtml)

<sup>62</sup> [http://blog.sina.com.cn/s/blog\\_4b1d9f8f0100d6va.html](http://blog.sina.com.cn/s/blog_4b1d9f8f0100d6va.html)

<sup>63</sup> [http://www.chinadaily.com.cn/m/hebei/2013-03/22/content\\_16337336.htm](http://www.chinadaily.com.cn/m/hebei/2013-03/22/content_16337336.htm)

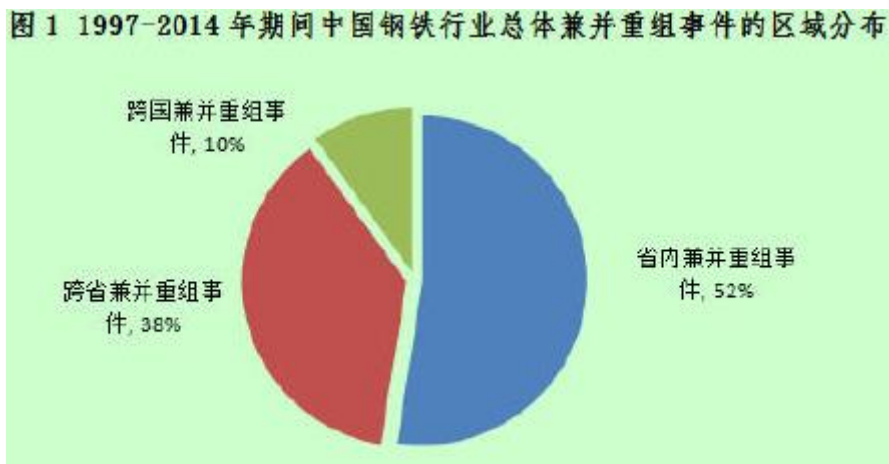
<sup>64</sup> [http://info.hktcdc.com/report/indprof/indprof\\_060402.htm](http://info.hktcdc.com/report/indprof/indprof_060402.htm)



As of 2012, the ten largest Chinese steel producers accounted for just less than 50% of total steel production.<sup>65</sup> The Chinese government continues to encourage mergers and acquisitions within the steel industry and aims to have the ten largest steel producers account for 60% by the end of 2015, according to the 12<sup>th</sup> Five-Year Steel Program at Art III(III)6,<sup>66</sup> though this deadline was extended to 2025 when it became clear that the targets would not be met in time.<sup>67</sup>

In addition to the 12<sup>th</sup> Five-Year plan, a draft of China’s Steel Policy released in March 2015 encourages mergers and acquisitions in the industry to “*form an industry structure of coordinated development between major leading enterprises and specialized small and medium enterprises.*” The pace of these mergers and acquisitions should be “*accelerated,*” presumably with government support and supervision, according to the policy.<sup>68</sup> Another steel policy, the *Steel Industry Transformation and Development Action Plan (2015-2017)*, expected to be published before the end of 2015 by the Ministry of Industry and Information Technology (“MIIT”), aims to eliminate 80 metric ton/year steel capacity in three years, encourage M&A, and eliminate substandard producers to reduce the number of steelmakers from the current 2,460 to around 300 in the next three years. This plan also aims to maintain zero growth in energy consumption and further reduce overall emissions.<sup>69</sup>

The focus of the government’s efforts to consolidate has been on an interprovincial level. The chart below shows the regional distribution of M&A of steel producers from 1997 to 2014. M&A of transnational steel mills (in green) account for 10%, trans-provincial M&A (in red) accounts for 38%, and interprovincial M&A (in blue) accounts for 52%.<sup>70</sup> This indicates that more M&A activity in the steel industry has occurred within a given province rather than between different provinces or on a national level.



Source: CCID<sup>71</sup> Steel Industry M&A Database <sup>72</sup>

Hebei Province will likely be the focus for government-driven M&A activity over the next three years, given that the province has the largest number of steel companies, many of which are substandard and privately owned. According to Hebei Provincial Statistics Bureau, by the end of 2014, the province had over 700 steel companies, but of the 148 smelters, only 76 met the industrial standards.<sup>73</sup>

<sup>65</sup> <http://www.reuters.com/article/2013/01/31/china-steel-output-idUSL4N0B02B020130131>

<sup>66</sup> [http://www.china.com.cn/policy/txt/2011-11/08/content\\_23851410\\_3.htm](http://www.china.com.cn/policy/txt/2011-11/08/content_23851410_3.htm)

<sup>67</sup> <http://www.scmp.com/business/commodities/article/1744825/beijing-extends-steel-sector-consolidation-10-years>

<sup>68</sup> <http://www.steelnet.org/new/20150420.pdf>

<sup>69</sup> <http://news.21-sun.com/detail/2015/06/2015062210020003919.shtml>

<sup>70</sup> <http://www.ccidgroup.com/sdgc/5463.htm>

<sup>71</sup> CCID stands for China Center for Information Industry Development

<sup>72</sup> <http://www.ccidgroup.com/sdgc/5463.htm>

<sup>73</sup> <http://www.steel178.com/hxweb/newsAction.do?method=getWebNewsInfold&newsid=25406>

## 4.4. Preferential Loans and Directed Credit

### Description of the Policy / Action

The Chinese government channels financing to certain industries and enterprises that reinforce its policy directives through the “Big Four” state-owned banks that dominate the banking sector, according to the 2007 SSINA paper.<sup>74</sup> In what has become known as “*policy-driven lending*,” loans are granted based on alignment with central or provincial governments’ policy directives, rather than creditworthiness or other market-based factors.<sup>75</sup> This financing usually comes at extremely low, non-market interest rates on non-commercial terms, and often shores up inefficient state-owned companies, according to the 2014 AISI paper.<sup>76</sup>

From the perspective of global markets, many believe that this preferential financing has given the Chinese steel industry an unfair advantage in the global market. Historically, China’s steel industry has been one of the largest beneficiaries of this type of cheap lending, according to various trade complaints by the US and the EU.<sup>77</sup>

Note that we include loan interest subsidies/discounts (essential government cash grants for the purpose of paying off loans) in this category of subsidies in this paper. This is because loan interest subsidies effectively gives companies reduced interest rates.

### Examples of Usage in Recent Years

In March 2009, the Bank of Communications Shanghai Branch offered a loan of RMB 750 million to Baosteel Group to purchase a 56.15% stake of Ningbo Steel Co Ltd (宁波钢铁有限公司).<sup>78</sup> This was the first case of lending specifically to support the government’s steel industry consolidation policy.

Also in 2009, Tianjin Steel Co Ltd (天津钢铁有限公司) received a RMB 43.9 million energy emission loan under the “green credit” program. The loan period was five years and was supported by Industrial Bank, Beijing Bank, Shanghai Pudong Development Bank and IFC.<sup>79</sup>

More recently, in 2014, the State Ethnic Affairs Commission (国家民委) granted Shougang Group a discount on interest it owed on a loan worth RMB 12,791,400, and the Ministry of Commerce and Ministry of Finance allocated RMB 13,183,809 in loan interest discounts for products imported, according to its 2014 annual report.<sup>80</sup>

### Developments and Trends in Usage

Both the State Council and CBRC issue documents to encourage or discourage bank loans. Based on analysis of available reports, bank loans were encouraged between 2003 and 2007; became getting harder to obtain from 2008; fell from 2010 to 2012; were discouraged at first in 2013 by the state council; and later in 2013 were encouraged if relevant to merger and industry layout adjustment by CBRC.

<sup>74</sup> [http://www.ssina.com/news/releases/pdf\\_releases/chinese\\_govt\\_subsidies0407.pdf](http://www.ssina.com/news/releases/pdf_releases/chinese_govt_subsidies0407.pdf)

<sup>75</sup> <http://www.chinausfocus.com/2022/wp-content/uploads/Part+02-Chapter+16.pdf>

<sup>76</sup> <https://www.steel.org/~media/Files/AISI/Public%20Policy/2014/AISI%20Comments%20Regarding%20Chinas%20WTO%20Compliance%20Final.pdf>

<sup>77</sup> <http://enforcement.trade.gov/frn/summary/prc/2014-27410-1.pdf>

<https://ustr.gov/about-us/policy-offices/press-office/fact-sheets/2012/september/wto-case-challenging-chinese-subsidies>

[http://www.steel.org/~media/Files/AISI/Public%20Policy/pp\\_PAISI\\_WTO\\_china\\_sept09.pdf](http://www.steel.org/~media/Files/AISI/Public%20Policy/pp_PAISI_WTO_china_sept09.pdf)

<https://www.steel.org/~media/Files/AISI/Public%20Policy/2014/AISI%20Comments%20Regarding%20Chinas%20WTO%20Compliance%20Final.pdf>

<http://www.mineweb.com/news/iron-and-steel/dumping-china-and-arcelormittal/>

<sup>78</sup> <http://finance.people.com.cn/GB/8895830.html>

<sup>79</sup> <http://finance.stockstar.com/JL200906230000990.shtml>

<sup>80</sup> <http://data.eastmoney.com/notice/20150327/2WvI2W4plduBnG.html>

## Reduced Use of Credit Loans for Expansion

In recent years, both state-owned and privately-operated steel companies have been finding it increasingly difficult to obtain lending, much less preferential loans, due to the government restrictions on steel production capacity expansion.

- Between 2003 and 2007, steel companies, both privately-owned and SOEs, were prioritized when banks gave loans.<sup>81</sup>
- Credit loan grants became stricter starting from 2008.<sup>82</sup>
- From 2010 to 2012, loans borrowed by 50 steel companies listed in Shanghai, Shenzhen and Hong Kong were respectively RMB 411 billion, RMB 326 billion and RMB 270 billion.<sup>83</sup>
- A report dated 26 March 2013 issued by China Steel Industry Association reported that the CBRC demanded that major banks should pay special attention to several high risk industries including the steel industry, before lending, i.e. they should be more circumspect. One banking source said the head banks have withdrawn authority from the branch banks in various local areas to provide credit loans to overcapacity industries and energy-saving and emission reduction controlling industries.<sup>84</sup>
- In July 2013, the State Council issued a document to ban any kind of new credit loan and direct financing to industries with serious overcapacity.<sup>85</sup>
- Since September 2013, it has been very difficult for both state-owned and private steel companies to obtain credit loans.<sup>86</sup>

## Loans for Environmental Protection

In November 2013, CBRC encouraged credit loans to steel companies if the loans were for mergers or environmental protection.<sup>87</sup>

The government has meanwhile encouraged lending to the steel industry for projects related to environmental protection and industry consolidation.<sup>88</sup> To align with government policies to upgrade industrial technology and improve environmental protection, 21 banks had provided RMB 4.9 trillion in “*green credit*” by the end of June 2013 to support steel companies that reduced emissions and conserve coal and water.<sup>89</sup> In 2014, although the Green Credit Loan program was in place, it was not easy for steel companies to get loans.

In March 2014, CBRC issued “*Supporting Industry Restructuring and Solving Overcapacity Guide Suggestion*” to CBRC branches and local banking industry financing institutions, to inform the banking industry about policy lines, to enforce green credit loans and to support industry restructure.<sup>90</sup>

## M&A Lending

Meanwhile, coverage and depth of lending for M&A transactions has also grown in recent years. To encourage consolidation of the steel industry, in November 2013, the CBRC increased the lending period for M&A loans from five years to seven years, according to Shang Fulin (尚福林), the president of the CBRC.<sup>91</sup> According to statistics

<sup>81</sup> <http://bbs.money.163.com/bbs/agu/274822701.1.html>

<sup>82</sup> <http://www.loancn.com/zhishi/newsdetail-38488.html>  
<http://info.machine.hc360.com/2008/11/26083252580.shtml>

<sup>83</sup> <http://bbs.money.163.com/bbs/agu/274822701.1.html>

<sup>84</sup> [http://www.chinaccm.com/21/20130326/2101\\_1154147.shtml](http://www.chinaccm.com/21/20130326/2101_1154147.shtml)

<sup>85</sup> [http://www.he.xinhuanet.com/gangtie/2013-11-05/c\\_118005088.htm](http://www.he.xinhuanet.com/gangtie/2013-11-05/c_118005088.htm)

<sup>86</sup> [http://www.he.xinhuanet.com/gangtie/2013-11-05/c\\_118005088.htm](http://www.he.xinhuanet.com/gangtie/2013-11-05/c_118005088.htm)

<sup>87</sup> [http://www.he.xinhuanet.com/gangtie/2013-11-05/c\\_118005088.htm](http://www.he.xinhuanet.com/gangtie/2013-11-05/c_118005088.htm)

<sup>88</sup> <http://www.cscscn.com/news/html/Inews/10255.html>

<sup>89</sup> <http://www.cscsf.com/content.php?id=38715>

<sup>90</sup> <http://www.chinairn.com/news/20140328/142442731.html>

<sup>91</sup> <http://www.yicai.com/news/2013/11/3086585.html>

from China's central bank, lending for M&A transactions in all industries had reached RMB 227.7 billion nationwide by the third quarter of 2014.<sup>92</sup>

Additionally, in March 2015 the CBRC revised the M&A Loan Risk Management Guidance for Commercial and increased commercial banks' quotas for M&A lending from 50% to 60% of the total transaction, as well as removing red tape in the loan application procedures.<sup>93</sup> Industry insiders commented that the M&A lending would mainly focus on the modern equipment manufacturing, transnational programs, and industrial restructuring to reduce overcapacity.<sup>94</sup>

Apart from the "Big Four" state-owned banks, other banks have conducted M&A lending, including to the steel industry. Citic Bank was one of the pioneers among domestic banks to receive approval for providing M&A loans, and it has provided financing for over 80 M&A transactions including the merger of Shougang Group and Tonghua Steel.<sup>95</sup>

However, the banks were still very strict with loans to steel companies, according to a report dated in June 2014.<sup>96</sup> In 2015, bank loans for steel industry were over RMB 90 billion less than in 2014.<sup>97</sup>

## 4.5. Land-Use Subsidies

### Description of the Policy / Action

There is no private ownership of land in China; all land remains the property of the state. While businesses can acquire land-use rights and own buildings and structures on that land, the government ultimately owns the land and has the authority to determine how it can be allocated. The Ministry of Land and Resources and its local Land and Resource Bureaus oversee land-use registration and can grant land-use rights for a definite or indefinite period of time, this for a price it sets or it allocates for free. Thus, the government is in a position to offer favored enterprises cheap prices for land or even provide it for free, according to the 2007 SSINA paper.<sup>98</sup>

It is not possible to determine whether Chinese steel producers are paying market rates for their land, since there is no market. However, there are instances of many steel companies having paid prices that are clearly artificially low.<sup>99</sup> In addition, other forms of government support for land use include direct land-use subsidies, compensation for land use expenses and relocation funding for example.

### Examples of Usage in Recent Years

According to its 2010-2012 annual reports, Ansteel Group received land-use subsidies amounting to RMB 2,231,600 in 2012<sup>100</sup>, RMB 2,231,600 in 2011,<sup>101</sup> and RMB 10,949,679 in 2010 from Anshan Municipal Government.<sup>102</sup>

As per its 2009-2013 annual reports, Shougang Group received compensation of RMB 44 million for land-use expenses from Guohua Municipal Finance Bureau (敦化市财政局) in 2013.<sup>103</sup> In addition, it received reimbursements

<sup>92</sup> [http://www.zczi.com/news/2015-06-17/content\\_2420.html](http://www.zczi.com/news/2015-06-17/content_2420.html)

<sup>93</sup> <http://money.163.com/15/0318/09/AKVR7H5Q00253B0H.html>

<sup>94</sup> <http://money.163.com/15/0318/09/AKVR7H5Q00253B0H.html>

<sup>95</sup> <http://bank.hexun.com/2015-06-15/176738014.html>

<sup>96</sup> <http://finance.chinairn.com/News/2014/06/05/150849886.html>

<sup>97</sup> <http://news.cableabc.com/finance/20150731009050.html>

<sup>98</sup> [http://www.ssina.com/news/releases/pdf\\_releases/chinese\\_govt\\_subsidies0407.pdf](http://www.ssina.com/news/releases/pdf_releases/chinese_govt_subsidies0407.pdf)

<sup>99</sup> [http://www.ssina.com/news/releases/pdf\\_releases/chinese\\_govt\\_subsidies0407.pdf](http://www.ssina.com/news/releases/pdf_releases/chinese_govt_subsidies0407.pdf)

<sup>100</sup> [http://wenku.baidu.com/link?url=iUSUtoleQygXouwsLLNo7SL2KNXhLi4xxRcKrNnCntxKpC1nyQjia9udAMP25TJTubEqQtLTMin7xRsvWI37G2gh6T0QYezxXaHhxvu\\_](http://wenku.baidu.com/link?url=iUSUtoleQygXouwsLLNo7SL2KNXhLi4xxRcKrNnCntxKpC1nyQjia9udAMP25TJTubEqQtLTMin7xRsvWI37G2gh6T0QYezxXaHhxvu_)

<sup>101</sup> [http://wenku.baidu.com/link?url=\\_ShazuY8w6jHGXRuMli6qqkywpygOWsKcQ3ekOyUSCnOw3-62MzXIDWcprcnnGddQ5f41KM\\_-Xx6IGE7p4-9xiU87pJ7hAL3eMsolxP9i7](http://wenku.baidu.com/link?url=_ShazuY8w6jHGXRuMli6qqkywpygOWsKcQ3ekOyUSCnOw3-62MzXIDWcprcnnGddQ5f41KM_-Xx6IGE7p4-9xiU87pJ7hAL3eMsolxP9i7)

<sup>102</sup> [http://wenku.baidu.com/link?url=pJFmBmjuxCwBePr7KQkuip7uyDmZbcJdFidNHYKMD1QFuGKrW4wgCMzF6zf2pUGQWyt1mCfpZyCVGoeSw8\\_qwvkdBOKzC2jrOSpMVxjOC-u](http://wenku.baidu.com/link?url=pJFmBmjuxCwBePr7KQkuip7uyDmZbcJdFidNHYKMD1QFuGKrW4wgCMzF6zf2pUGQWyt1mCfpZyCVGoeSw8_qwvkdBOKzC2jrOSpMVxjOC-u)

<sup>103</sup> <http://data.eastmoney.com/notice/20140430/2Wvl2Se3RuNcrJ.html>

of RMB 16 million, RMB 5,112,640, and RMB 52,961,200 for land-use expenses in 2012, 2010, and 2009, respectively.<sup>104</sup>

## Developments and Trends in Usage

Due to stricter environmental protection regulations and urban development layout requirements, an increasing number of steel mills have relocated to remote areas in the past few years. The government subsidies for relocation compensation have become of growing interest to steel companies in China.<sup>105</sup>

Alongside this development, it appears that steel companies continue to receive land-use subsidies, but through a more convoluted process. The companies initially purchase land at a low price with special land-use subsidies, and they subsequently transfer the land-use rights to their parent entity at a much higher price. Meanwhile the old facilities located in the central areas would be developed for commercial use.<sup>106</sup>

According to an announcement published in January 2013, Chongqing Iron and Steel Group (重庆钢铁集团) (“Chongqing Steel”) purchased three land lots, No.CS-3-001, No.CS-3-005 and CS-3-006, situated at Jiangnan Steel City (江南钢城). The purchased land covered up to 1,063,200 square meters and the transfer price was RMB 494 million.<sup>107</sup> However, in November 2014, Chongqing Steel transferred a portion of this land, covering 659,271.7 square meters, to Chongqing Real Estate Group at a price of RMB 1,055,486,200. This doubled the 2013 transfer price for half the amount of land.<sup>108</sup>

A 2012 audit report also revealed that Chongqing Steel’s Jingjiang logistics base developed by Chongqing Steel was required to pay the full land-use taxes for the first three years upon receiving the land utilization certificate. However, Jiangsu Jingjiang government agreed to refund all land-use taxes for the first three years in the form of “support incentives.” When construction was completed, Chongqing Steel was to pay the taxes in accordance with the prevailing rules for the first five years after the facility was put into use, while Jingjiang government was to rebate 50% of the land-use taxes as soon as the payments were submitted.<sup>109</sup>

Although both the *Plan for Economizing Land Utilization* issued by the Ministry of Land and Resources in 2014<sup>110</sup> and *Steel Industry Adjustment Policy (2015 revision)*<sup>111</sup> prohibited providing land resources and reduced land-use expenses in a veiled form, such as through subsidies, awards, and tax rebates, steel companies still seem to be benefiting from land use at below-market-value prices.<sup>112</sup>

## 4.6. Subsidies for Utilities

### Description of the Policy / Action

One way to provide sizable support to the steel industry indirectly is by enabling cheap use of utilities, particularly electricity, since steel manufacturing is very energy-intensive.<sup>113</sup> The NDRC sets guidelines for prices of most utilities, including natural gas and electricity, and prices depend upon type of use (residential vs. commercial) and business sector (e.g. agricultural vs. manufacturing).<sup>114</sup> Also, local authorities control local utilities and have the authority to

<sup>104</sup><http://www.cfi.net.cn/p20100304000247.html>

<sup>105</sup><http://news.hexun.com/2014-02-15/162171391.html>

<sup>106</sup>[http://epaper.stcn.com/paper/zqsb/html/epaper/index/content\\_578238.htm](http://epaper.stcn.com/paper/zqsb/html/epaper/index/content_578238.htm)

<sup>107</sup> <http://money.163.com/13/0111/19/8KVBRSSU00253B0H.html>

<sup>108</sup> [http://finance.ifeng.com/a/20141128/13315373\\_0.shtml](http://finance.ifeng.com/a/20141128/13315373_0.shtml)

<sup>109</sup> [http://quotes.money.163.com/f10/ggmx\\_601005\\_1022018.html](http://quotes.money.163.com/f10/ggmx_601005_1022018.html)

<sup>110</sup> [http://www.bsteel.com.cn/bsinfo/jrgzgc/201406/t20140609\\_1531250.html](http://www.bsteel.com.cn/bsinfo/jrgzgc/201406/t20140609_1531250.html)

<sup>111</sup> <http://www.96369.net/news/201503/channelid-14-columnid-34-329741.html>

<sup>112</sup> [http://finance.ifeng.com/a/20140607/12495079\\_0.shtml](http://finance.ifeng.com/a/20140607/12495079_0.shtml)

<sup>113</sup> [http://www.ssina.com/news/releases/pdf\\_releases/chinese\\_govt\\_subsidies0407.pdf](http://www.ssina.com/news/releases/pdf_releases/chinese_govt_subsidies0407.pdf)

<sup>114</sup> <http://www.wantchinatimes.com/news-subclass-cnt.aspx?id=20130515000080&cid=1102>

give certain enterprises preferential rates and deep discounts. While the Chinese government has allowed the market to influence certain utility prices, such as thermal energy, it still controls electricity prices for industry and provides discounts and subsidies in electricity and other utilities to the steel industry.

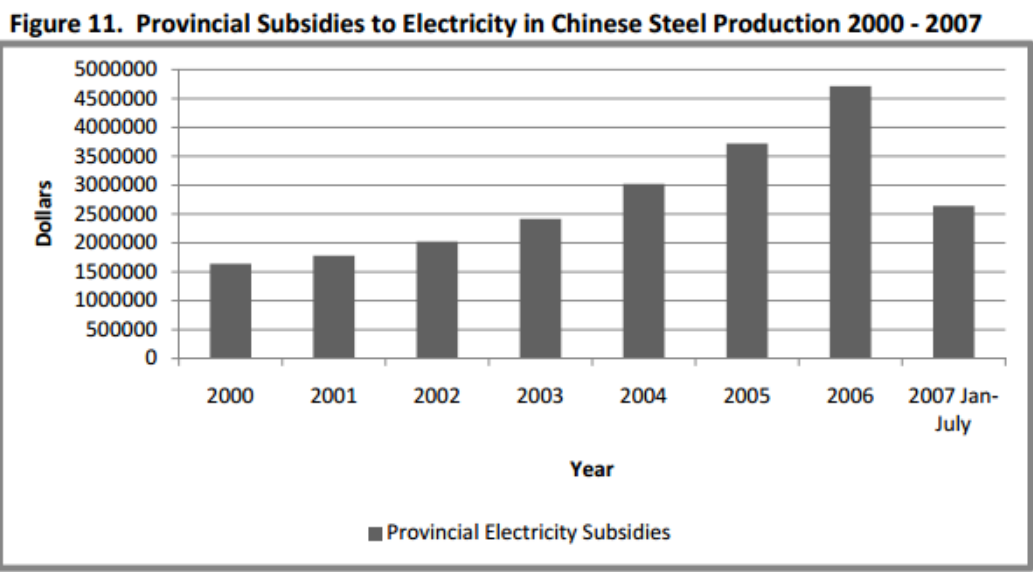
Certain favored industries, such as the steel industry, have long benefited from utility discounts, particularly in the form of energy subsidies, according to a 2013 book *Subsidies to Chinese Industry: State Capitalism, Business Strategy, and Trade Policy*, by Usha and George Haley.<sup>115</sup>

### Examples of Usage in Recent Years

Steel companies have also received numerous specific subsidies for electricity use. For example, in 2014 Ansteel Group received an electricity payment discount of RMB 68,433,528, rewards for electricity use worth RMB 3,769,794, and incentive funding for industrial electricity use amounting to RMB 2,940,000, according to its annual report.<sup>116</sup> Also in 2014, Baosteel Group Xinjiang Bayi received an electricity price subsidy of RMB 288,593 under the name “Ferrous Metal Processing Company Electricity Charge Discounts”.<sup>117</sup>

### Developments and Trends in Usage

China has provided subsidies for coal, electricity and natural gas usage; coal subsidies in particular have been significant. A report published in 2008 revealed that Beijing provided USD 15.7 billion in energy subsidies specifically for the Chinese steel industry in 2007, which was an increase of 3.8% since 2000.<sup>118</sup>



Source: *Interfax China Metals Weekly, China Statistical Yearbooks, Dragonomics*<sup>119</sup>

The Chinese steel industry has continued to benefit from these utility discounts in recent years, particularly in the form of energy subsidies, according to the 2013 report *Subsidies to Chinese Industry*.<sup>120</sup>

The State Council, China’s highest-level government authority, has successively adjusted downward prices for coal-fired power for industrial and commercial use in October 2013, September 2014 and again in 2015. This was preceded

<sup>115</sup> Haley, Usha C. V., and George T. Haley. *Subsidies to Chinese Industry: State Capitalism, Business Strategy, and Trade Policy*. Oxford: Oxford UP, 2013.

<sup>116</sup> <http://app.finance.ifeng.com/data/stock/ggzv.php?id=14945932&symbol=000898>. No more recent data was located from this organisation.

<sup>117</sup> [http://download.hexun.com/Txtdata/stock\\_detail\\_1200750140.shtml](http://download.hexun.com/Txtdata/stock_detail_1200750140.shtml)

<sup>118</sup> [https://s.bsd.net/aamweb/main/page/file/15ea8b9e822c672fcc\\_vwm6bjnih.pdf](https://s.bsd.net/aamweb/main/page/file/15ea8b9e822c672fcc_vwm6bjnih.pdf)

<sup>119</sup> [https://s.bsd.net/aamweb/main/page/file/15ea8b9e822c672fcc\\_vwm6bjnih.pdf](https://s.bsd.net/aamweb/main/page/file/15ea8b9e822c672fcc_vwm6bjnih.pdf)

<sup>120</sup> Haley, Usha C. V., and George T. Haley. *Subsidies to Chinese Industry: State Capitalism, Business Strategy, and Trade Policy*. Oxford: Oxford UP, 2013.



by the State Council's issuance in December 2012 of guidance on deepening electricity-coal market reform, suggesting that electricity prices be adjusted annually, based on the prices of coal.<sup>121</sup> Then in 2015, Prime Minister Li Keqiang announced that the price of coal-fire electricity would be decreased an additional RMB .02 cent /kwh.<sup>122</sup>

## 4.7. Raw Material Price Controls

### Description of the Policy / Action

The Chinese government has employed macro-controls to keep the prices of main raw materials low. This has included placing export restrictions on certain materials needed for steel production to ensure domestic supply is abundant; prices are low as a result.<sup>123</sup> Raw material prices are thus indirectly subsidized, and the steel industry can enjoy below-market prices. Moreover, SOEs can essentially buy raw materials from each other at very low costs.<sup>124</sup>

While China has been required to discontinue some export controls by the WTO, price controls on raw materials to the steel industry persist in the form of “export restraints and other measures,” according to the 2014 AISI Paper.<sup>125</sup>

### Examples of Usage in Recent Years

In 2012, the WTO ruled that China had been using export restrictions to control the price of certain raw materials, including coke used for steel production, to the advantage of domestic industry and at the expense of global markets. This decision concerned bauxite, coke, fluorspar, magnesium, manganese, silicon carbide, silicon metal, yellow phosphorus and zinc, and many believe that China still conducts export controls for other raw materials.<sup>126</sup>

According to its 2013 annual report, in 2013 Shandong Steel Group received a fund for “2# Ore Body Mineral Resource Protection Program” worth RMB 4,041,258 from the government, a compensation subsidy from the government for mineral resource worth RMB 10,000,000, and a subsidy of prospecting project with RMB 8,965.<sup>127</sup> In 2012, it received subsidies in mining waste-related projects worth RMB 39,586, prospecting projects worth RMB 116,104, and “2# Ore Body Mineral Resource Protection Program” worth RMB 1,058,933.<sup>128</sup>

### Developments and Trends in Usage

The raw materials for basic oxygen furnace (“BOF”) steel production (iron ore, coking coal, and thermal coal) make up a significant portion of steel-manufacturing costs. According to research conducted in 2008, Chinese steel producers' costs were generally 20 to 25% lower than those of the American and European producers.<sup>129</sup>

China has been forced to eliminate some export restrictions. As mentioned above, in 2012, the WTO ruled in favor of a complaint that the US, EU and Mexico filed against China for their measures restricting exportation of raw materials bauxite, coke, fluorspar, magnesium, manganese, silicon carbide, silicon metal, yellow phosphorus and zinc, thereby elevating the prices of these raw materials on the world market while keeping domestic prices low.<sup>130</sup>

Prices for some raw materials used in steel production have declined simply due to reduced demand from the steel industry, as overcapacity and other macro factors have caused slower production. Julian Zhu, managing director of

<sup>121</sup> [http://finance.ifeng.com/a/20150408/13616869\\_0.shtml](http://finance.ifeng.com/a/20150408/13616869_0.shtml)  
[http://www.rfa.org/english/commentaries/energy\\_watch/china-coal-04272015103208.html](http://www.rfa.org/english/commentaries/energy_watch/china-coal-04272015103208.html)

<sup>122</sup> <http://money.163.com/15/0408/19/AMMVM44800253BOH.html>

<sup>123</sup> [http://www.ssina.com/news/releases/pdf\\_releases/chinese\\_govt\\_subsidies0407.pdf](http://www.ssina.com/news/releases/pdf_releases/chinese_govt_subsidies0407.pdf)

<sup>124</sup> Haley, Usha C. V., and George T. Haley. *Subsidies to Chinese Industry: State Capitalism, Business Strategy, and Trade Policy*. Oxford: Oxford UP, 2013.

<sup>125</sup> <https://www.steel.org/~media/Files/AISI/Public%20Policy/2014/AISI%20Comments%20Regarding%20China's%20WTO%20Compliance%20Final.pdf>

<sup>126</sup> <http://www.chinaperformancegroup.com/2013/07/export-restrictions-on-raw-materials-from-china/>

<sup>127</sup> [http://quotes.money.163.com/f10/ggmx\\_600022\\_1381198.html](http://quotes.money.163.com/f10/ggmx_600022_1381198.html)

<sup>128</sup> [http://wenku.baidu.com/link?url=ppR17\\_G6b\\_mfewP9VG5fRR\\_MWYI8kluuSrGFOKFDAPsoy\\_Q19V2aDa5oeFgEdZ2dqKN-qLRNdoFA6p8ct7x2KgBcpLManGV7yJoYPgiUkW](http://wenku.baidu.com/link?url=ppR17_G6b_mfewP9VG5fRR_MWYI8kluuSrGFOKFDAPsoy_Q19V2aDa5oeFgEdZ2dqKN-qLRNdoFA6p8ct7x2KgBcpLManGV7yJoYPgiUkW)

<sup>129</sup> [https://s.bsd.net/aamweb/main/page/file/15ea8b9e822c672fcc\\_vwm6bjnih.pdf](https://s.bsd.net/aamweb/main/page/file/15ea8b9e822c672fcc_vwm6bjnih.pdf)

<sup>130</sup> <http://www.chinaperformancegroup.com/2013/07/export-restrictions-on-raw-materials-from-china/>  
<http://www.csiel.org/upFj/China's%20Experience.pdf>

Asia Pacific Investment Research at the US bank Goldman Sachs, predicted in 2012 that China's demand for key raw materials such as steel and coal would moderate amid persistent overcapacity and weaker demand.<sup>131</sup> It was further expected that the demand for the raw materials and iron ore would reduce significantly.<sup>132</sup> Indeed the average global price of iron ore dropped from USD 170 per ton in 2011 to USD 80 per ton in 2014.<sup>133</sup> According to Shanghai Securities News in April 2015, China may introduce a nationwide subsidy for local iron ore producers aimed at shoring up slumping prices.<sup>134</sup>

## 4.8. Tax Policies and Benefits

### Description of the Policy / Action

The Chinese government at both national and local levels provides a variety of tax exemptions, reductions, and credits which directly benefit the steel industry. China's general industry policies mandate tax incentives for specified industries, including steel. The *Policy for the Steel Industry Development* (钢铁产业发展政策) ("2005 Steel Policy") released by the NDRC in 2005 specifically encouraged the use of providing "tax refunds" to support the industry.<sup>135</sup> In 2009, an update to the 2005 Steel Policy released by China's Ministry of Industry and Information Technology ("MIIT") called the *Steel Adjustment and Revitalization Plan* ("Revitalization Plan") called for reimbursement for export tax on steel, according to the 2014 AISI report.<sup>136</sup>

China's use of tax rebates on steel exports has led to strong objections from players on the global steel markets; they argue that this does not comply with WTO rules.<sup>137</sup> Although no official complaints have been raised to the WTO regarding China's tax rebate policy for the steel industry, China has responded to international pressure by scaling back some of its export tax reimbursements. Still, the 2015 AISI paper contends that some export support still persisted as of September 2014.<sup>138</sup>

### Examples of Usage in Recent Years

According to its annual reports, Hebei Steel Group received RMB 130,000 from the government in 2014 as a reward for its considerable tax contribution.<sup>139</sup> In 2013, tax discounts worth RMB 24,873,105.67 were granted to the group. In addition, Hebei Steel Group received RMB 50,000 in rewards for being a significant tax contributor in 2013.<sup>140</sup>

Baosteel Group Xinjiang Bayi also received various tax discounts from the government in 2014, according to its 2014 annual report. These benefits included tax exemptions worth RMB 571,200 received by the company, a government reward for "advanced enterprise in paying tax" of RMB 250,000, and a reward of RMB 50,000 with the title of "advanced group in paying tax".<sup>141</sup>

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<sup>131</sup> <http://www.ft.com/cms/s/0/a4cb6556-f7fd-11e1-bec8-00144feabdc0.html#axzz3gymHZBj>

<sup>132</sup> <http://futures.hexun.com/2015-04-09/174819072.html>

<sup>133</sup> <http://news.hexun.com/2014-09-23/168770447.html>

<sup>134</sup> <http://www.bloomberg.com/news/articles/2015-04-08/china-plans-iron-ore-subsidy-for-miners-amid-rout-news-reports>

<sup>135</sup> [http://www.sina.com/news/releases/pdf\\_releases/chinese\\_govt\\_subsidies0407.pdf](http://www.sina.com/news/releases/pdf_releases/chinese_govt_subsidies0407.pdf)

[http://www.gov.cn/gongbao/content/2006/content\\_320630.htm](http://www.gov.cn/gongbao/content/2006/content_320630.htm)

<sup>136</sup> <https://www.steel.org/~media/Files/AISI/Public%20Policy/2014/AISI%20Comments%20Regarding%20Chinas%20WTO%20Compliance%20Final.pdf>

<sup>137</sup> [http://www.gov.cn/gongbao/content/2006/content\\_320630.htm](http://www.gov.cn/gongbao/content/2006/content_320630.htm)

<sup>138</sup> <http://www.bloomberg.com/news/articles/2015-01-13/china-s-steel-exports-hit-record-before-tax-rebate-dropped>

<https://www.steel.org/~media/Files/AISI/Public%20Policy/2014/AISI%20Comments%20Regarding%20Chinas%20WTO%20Compliance%20Final.pdf>

<sup>139</sup> <http://app.finance.ifeng.com/data/stock/ggzv.php?id=15008378&symbol=000709>

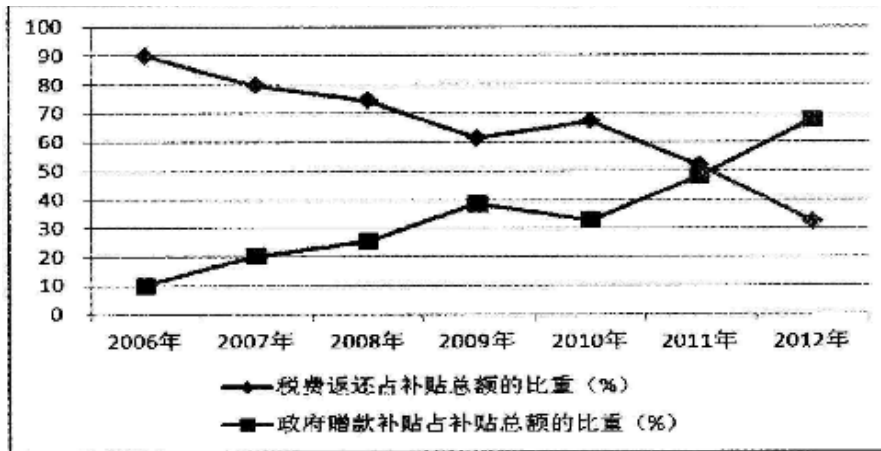
<sup>140</sup> [http://quotes.money.163.com/f10/ggmx\\_000709\\_1394921.html](http://quotes.money.163.com/f10/ggmx_000709_1394921.html)

<sup>141</sup> [http://download.hexun.com/Txtdata/stock\\_detail\\_1200750140.shtml](http://download.hexun.com/Txtdata/stock_detail_1200750140.shtml)



## Developments and Trends in Usage

Tax rebates occur across the categories of value-added tax, business tax, income tax, consumption tax, tariffs and additional tax of education. As shown in the chart below, tax rebates accounted for a majority of total subsidies given to listed steel companies between 2006 and 2011.<sup>142</sup>



Upper line: Percentage of total government subsidies accounted for by tax rebates

Bottom line: Percentage of other subsidies

Source: 2006-2012 annual reports of listed steel companies

As shown on the above graph, the tax rebates were initially significantly higher than the percentage of other government grants. But the government provided increasingly less support in the form of tax rebates on an annual basis, so that the percentage of total subsidies from tax rebates converged with that of other types of support in 2011, and dropped to just 30% of the total by 2012.

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### Most plate products in China do not attract any tax rebate, apart from stainless plate or alloy steel plate

HS codes	Description	Tax rebate (%)
720810	flat-rolled products of iron or nonalloy steel, 600mm wide or more, in coils, not further worked than hot-rolled, with patterns in relief	0
720825	flat-rolled products of iron or nonalloy steel, 600mm wide or more, coils, hot-rolled worked only, pickled, 4.75mm thick or more, Nesoi	0
720836	flat-rolled products of iron or nonalloy steel, 600mm wide or more in coils, hot-rolled worked only, more than 10mm thick, Nesoi	0
720837	flat-rolled products of iron or nonalloy steel, 600mm wide or more, in coils, hot-rolled worked only, 4.75mm to 10mm thick, Nesoi	0
721114	flat-rolled high-strength iron or nonalloy steel under 600mm wide, hot-rolled, not clad, coated or plated 4.75mm thick or more	0
720840	flat-rolled iron or nonalloy steel, 600mm or more wide, hot-rolled, not clad, plated or coils, patterns in relief	0
720851	flat-rolled products of iron or nonalloy steel, width 600mm or more, not in coils, hot-rolled worked only, over 10mm thick, Nesoi	0
720852	flat-rolled iron or nonalloy steel, 600mm or more wide, hot-rolled, not clad, plated, coated or coils, 4.75mm to 10mm thick	0
720890	flat-rolled iron or nonalloy steel products, 600mm or more wide, hot-rolled, not clad, plated or coated, Nesoi	0
722530	flat-rolled alloy steel (other than stainless) in coils, 600mm or more wide, hot-rolled, Nesoi	9
722540	flat-rolled alloy steel (other than stainless) not in coils, 600mm or more wide, hot-rolled, Nesoi	13
72254091	alloy steel containing boron	13
722691	flat-rolled alloy steel (other than stainless) products, under 600mm wide, hot-rolled, Nesoi	9
72269191	alloy steel containing boron	9

Source: Custom's Import and Export Tariff of China, 2014

As indicated in the above chart from 2014, many steel products did not benefit from tax rebates last year.<sup>143</sup> In January 2015, China removed the VAT rebate on exports of some boron-added steel products, including hot-rolled wire rod,

<sup>142</sup> <http://www.docin.com/p-903150620.html>

<sup>143</sup> [http://www.crugroup.com/about-cru/cruinsight/Chinese\\_steel\\_exports\\_under\\_a\\_new\\_export\\_rebate\\_regime](http://www.crugroup.com/about-cru/cruinsight/Chinese_steel_exports_under_a_new_export_rebate_regime)

bars, plate and narrow strip.<sup>144</sup> These four products accounted for almost a third of total steel exports between January and November 2014.<sup>145</sup> China's removal of a tax rebate on boron steel exports signaled an end to the preferential treatment that had allowed steel exporters to receive rebates of as high as 13% on their sales of boron-bearing steel overseas. After ending the export-tax rebate on boron steel alloys, the China Iron and Steel Association entreated the government to raise tax rebates for other high-value-added steel products to promote industrial renovation and upgrades.<sup>146</sup>

The Ministry of Commerce's official list of products receiving tax rebates still includes exported steel products containing element, for which companies received a 5% export tax rebate.<sup>147</sup> This appears to be the last remaining steel product to receive any sort of export rebate. Due to this, in 2015 an industry insider predicted that Chinese steelmakers will begin to replace boron additive with chromium to continue to benefit from tax rebates, though the cost of chromium is much higher than that of boron.<sup>148</sup>

## 4.9. Currency Policies

### Description of the Policy / Action

The People's Bank of China ("PBoC"), China's central bank, controls the value of the RMB (or yuan) against the dollar by purchasing US dollars (and securities) and selling RMB, or vice versa. Based on review of the CNY:USD currency conversion rate, the PBOC kept the exchange rate at approximately RMB 6.2 per dollar from April to July 2015, and the widest range in fluctuation in the year prior and a half to August was a low below RMB 6.1 in January 2014 compared to a high of RMB 6.26 in March 2015.

Foreign government have been arguing for years that by keeping its currency artificially low, China makes its products comparatively inexpensive on the global markets. While the US Trade Department did not label China currently manipulator yet again in 2015,<sup>149</sup> many argue that the Chinese steel industry in particular benefits from a weak currency conjunction with all of the other supporting and beneficial policies, allowing it an unfair advantage on the global markets.<sup>150</sup> However, China has actually been doing the opposite of devaluation of its currency for most of 2015. It has in fact been keeping the currency artificially strong, fighting against macroeconomic pressures to devalue, given that this would likely provoke an international backlash, and potentially undo any benefits to exports.<sup>151</sup> Furthermore, China kept the currency high to prevent capital from flowing out of China.<sup>152</sup>

Despite this, on 11 August 2015, the PBoC finally allowed RMB to plunge 3.5-4% over the period of just a couple of days, leading to criticism and also stoking fears about the overall health of the Chinese economy. The PBoC released a statement that the yuan's devaluation was aimed at making the currency's exchange rate more "*market-determined*,"<sup>153</sup> though there was media speculation the move was intended to boost Chinese exports or to help the yuan become a globalized currency. However, this seems unlikely to boost Chinese steel exports, as global demand remains low. Furthermore, the weaker currency means iron ore imports needed to make steel will become more expensive. We note that the recent devaluation was a macro policy rather than a specific currency subsidy directed at the steel industry.

<sup>144</sup> [http://www.csteelnews.com/sjzx/zcfg/201501/t20150101\\_268688.html](http://www.csteelnews.com/sjzx/zcfg/201501/t20150101_268688.html)

<sup>145</sup> <http://www.woodmac.com/public/views/china-steel-rebate-cut>

<sup>146</sup> <http://www.wantchinatimes.com/news-subclass-cnt.aspx?id=20150226000069&cid=1205>

<sup>147</sup> [http://wenku.baidu.com/link?url=Fe6eQmR17lvzODLnUHQd-wV8GANclOAbid4U1E5AwLPoU05nvY5cxWcUlhZ05CKRrOQB\\_AkgZy\\_nU0eG-ipTxZKGCKInCWn-I5V4-pA8Yz\\_](http://wenku.baidu.com/link?url=Fe6eQmR17lvzODLnUHQd-wV8GANclOAbid4U1E5AwLPoU05nvY5cxWcUlhZ05CKRrOQB_AkgZy_nU0eG-ipTxZKGCKInCWn-I5V4-pA8Yz_)

<sup>148</sup> <http://www.angang.com.cn/xydt/296336.shtml>

<sup>149</sup> [http://news.xinhuanet.com/english/2015-04/10/c\\_134139864.htm](http://news.xinhuanet.com/english/2015-04/10/c_134139864.htm)

<sup>150</sup> [http://www.ssina.com/news/releases/pdf\\_releases/chinese\\_govt\\_subsidies0407.pdf](http://www.ssina.com/news/releases/pdf_releases/chinese_govt_subsidies0407.pdf)

<https://www.steel.org/~media/Files/AISI/Public%20Policy/2014/AISI%20Comments%20Regarding%20Chinas%20WTO%20Compliance%20Final.pdf>

<sup>151</sup> <http://www.economist.com/news/finance-and-economics/21644205-devaluing-yuan-would-do-china-more-harm-good-currency-peace>

<sup>152</sup> <http://fortune.com/2015/08/11/why-china-devalued-yuan/>

<sup>153</sup> <http://www.wsj.com/articles/china-moves-to-devalue-the-yuan-1439258401>

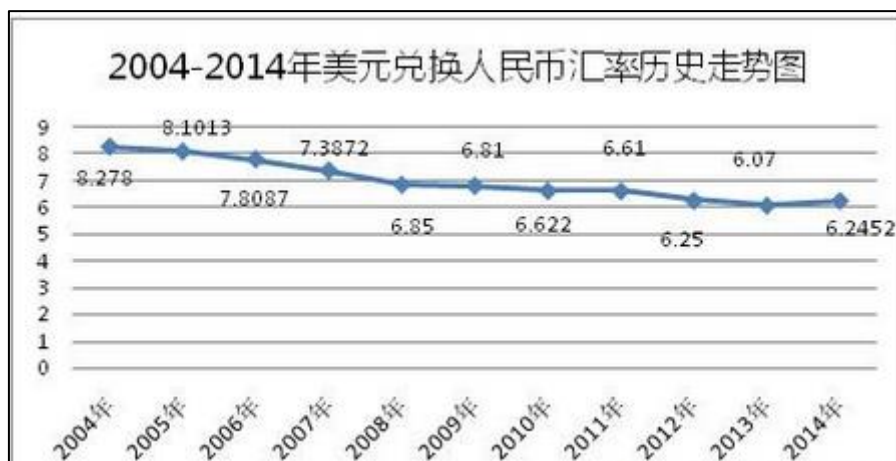
## Examples of Usage in Recent Years

For many years, steel industry lobbyists, members of the US Congress, and other US government departments have accused China of keeping its currency artificially low by hoarding foreign reserves, in order to give Chinese exports an advantage over competitors. The general argument is that while China has allowed more movement in the value of the yuan against the US dollar since 2010, it has kept the value of the yuan against other currencies under tight controls by selling it and buying foreign reserves like the US dollar.<sup>154</sup> In April 2014, the US Treasury accused China of “impeding” the market by accruing \$510 billion in new foreign reserves to increase its total holdings by \$3.8 trillion in 2013.<sup>155</sup>

Meanwhile, the US steel companies have long complained the value of the yuan was giving Chinese steel enterprises an unfair advantage. For example, in 2013, the president of the American Iron and Steel Institute (a consortium of steel enterprises) wrote a letter to President Obama asking him to address several issues related to the steel industry during his upcoming meeting with Chinese president Xi Jinping, including a complaint that “China continues to engage in systematic currency manipulation in order to gain an unfair advantage for its exports while curbing imports.”<sup>156</sup>

## Developments and Trends in Usage

As the possibility of the RMB becoming a global currency becomes more of a reality, China has made vague promises to allow the RMB to float across a wider range.<sup>157</sup> And it has done so to a certain extent; as the below chart shows, the RMB has gradually strengthened against the US\$ from 2004 to 2014:<sup>158</sup>



As shown in the chart, the yuan exchange rate against the US dollar has constantly devaluated since 2004, from 8.278 in 2004 to 6.20 in 2015.<sup>159</sup> Although the yuan has constantly come under criticism, the international community does not currently label China as a currency manipulator. On 26 May 2015, the International Monetary Fund released a press statement (no.15/237), stating that: “China has made good progress in recent years in reducing the very large current account surplus and accumulation of foreign exchange reserves... While undervaluation of the Renminbi was a major factor causing the large imbalances in the past, our assessment now is that the substantial real effective

<sup>154</sup> [http://money.cnn.com/2010/11/10/news/economy/what\\_is\\_currency\\_manipulation/](http://money.cnn.com/2010/11/10/news/economy/what_is_currency_manipulation/)

<sup>155</sup> <http://blogs.telegraph.co.uk/finance/ambroseevans-pritchard/100027105/suspicion-grows-that-china-is-exporting-deflation-worldwide-by-driving-down-yuan/>

<sup>156</sup> <https://www.steel.org/~media/Files/AISI/Press%20Releases/2013/June/AISI%20Letter%20to%20President%20Obama%20on%20President%20Xi%20Visit.pdf>

<sup>157</sup> <http://www.wsj.com/articles/SB10001424052702304071004579406810684766716>

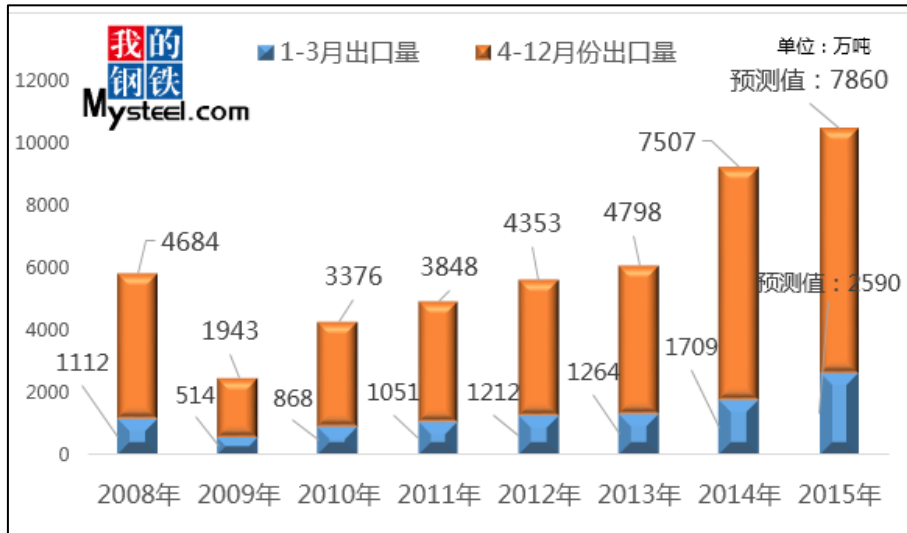
<sup>158</sup> [http://investigate.800j.com.cn/2014/zxbg\\_0730/9569.html](http://investigate.800j.com.cn/2014/zxbg_0730/9569.html)

<sup>159</sup> [http://investigate.800j.com.cn/2014/zxbg\\_0730/9569.html](http://investigate.800j.com.cn/2014/zxbg_0730/9569.html)

appreciation over the past year has brought the exchange rate to a level that is no longer undervalued..”<sup>160</sup> The remarks indicated that the IMF no longer considered China’s currency to be undervalued.

Similarly, while the US Treasury has stated on an annual basis that China’s currency was “undervalued,” it has avoided conclusively labeling China a “currency manipulator,”<sup>161</sup> particularly when the prospects of China joining the US-led Trans-Pacific Partnership have been on the line this year.

China’s domestic steel export volume has increased year on year since 2009 as a result of policy support and overproduction in the past few years.<sup>162</sup> The domestic Steel Export Volume from 2008 to 2015 (predicted value) is shown in the graph below:<sup>163</sup>



Shen Meng, executive director of Chanson Capital stated that the devaluation of China’s steel exports has indeed played a catalytic role: “Devaluation will stimulate exports of steel, but we need to clearly understand that the steel industry are among the industry, although part of its downstream sales strengthened by this, but most are based on the premise of China’s steel raw material obtained through imports, imports of iron ore is bound to be the impact of devaluation, so devaluation of the steel industry can be described as advantages and disadvantages, and degree sensitive steel prices on the international financial situation, despite drastic changes in control, is the key to deciding the benefit or damage.”<sup>164</sup>

As previously mentioned, China let its currency to suddenly drop in value, where it has stabilized at about RMB 6.4 to 1 USD since August 15, about 3.5% lower than it had been prior to the decline. It is important to note, however, that prior to this devaluation, China had been keeping its currency artificially high, not low,<sup>165</sup> and the PBoC’s actions are in fact responding to market pressures rather than working against them.<sup>166</sup> It is also important to note that while the devaluation will help to improve competitiveness of Chinese products on global markets, it may not be much help to steel exports, as global demand for Chinese steel remains soft. Furthermore, the devaluations means an increased price on imports of iron ore need to produce steel, a problem that supply disruptions from the devastating explosions at China’s port in Tianjin only serves to aggravate.<sup>167</sup>

<sup>160</sup> <https://www.imf.org/external/np/sec/pr/2015/pr15237.htm>

<sup>161</sup> <http://www.treasury.gov/resource-center/international/exchange-rate-policies/Pages/index.aspx>

<sup>162</sup> [http://www.csteelnews.com/sjzx/scfx/201504/t20150413\\_279907.html](http://www.csteelnews.com/sjzx/scfx/201504/t20150413_279907.html)

<sup>163</sup> [http://www.csteelnews.com/sjzx/scfx/201504/t20150413\\_279907.html](http://www.csteelnews.com/sjzx/scfx/201504/t20150413_279907.html)

<sup>164</sup> [http://www.infostarter.com/eng/news/news\\_25474.cfm](http://www.infostarter.com/eng/news/news_25474.cfm)

<sup>165</sup> <http://www.economist.com/news/finance-and-economics/21644205-devaluing-yuan-would-do-china-more-harm-good-currency-peace>

<sup>166</sup> <http://ftalphaville.ft.com/2015/08/18/2137588/there-really-isnt-such-thing-as-a-policy-independent-exchange-rate-anyway/>

<sup>167</sup> <http://www.bloomberg.com/news/articles/2015-08-12/tianjin-china-blast-affects-port-handling-coal-metal-ore-oil>

## 4.10. Lax Enforcement of Environmental Regulation

### Description of the Policy / Action

One of the ways the government has provided indirect support to the steel sector is by not strictly enforcing regulations on environmental protection. While China's central government has issued increasingly stringent environmental protection policies, reaching the same level of standards as set by the US and European countries, these regulations are not implemented or enforced at the local level. Industries favored by the government, as well enterprises that contribute significantly to local economic development, have been spared. Steel production has become a fundamental part of the economy in some areas, and therefore local officials take measures to protect them.<sup>168</sup>

This problem persists due to inherent problems with the structure of the Chinese government and how these regulations are enforced. There is an ongoing struggle between local governments, which need to maintain GDP growth and tax revenue by whatever means necessary, and the state, which needs to show the public that it is responding to environmental concerns.

### Examples of Usage in Recent Years

An article released in January 2015 reported that Ansteel Group's steel mill in Xinyang city (安钢集团信阳) received complaints from local residents for discharging industrial wastes and polluting the air. However, the local government and Environmental Protection Bureau allegedly did nothing address these public concerns.<sup>169</sup>

In 2013, an investigative journalist wrote an exposé about two polluting steel mills in Zouping county, Shandong province. The journalist interviewed the director of a local Environmental Production Bureau, who claimed that he was unfamiliar with the small steel mills. When the journalist presented evidence that two local steel mills were polluting counter to standards, the official evaded responsibility by saying that this was not his concern. Checks with the Zouping Development and Reform Bureau found no record that the steel mills even existed; therefore, the bureau said they were unable to monitor production.<sup>170</sup> A government official in the country claimed that the town is economically dependent on the two steel mills and that was why local officials turned a blind eye to the problem.

Since lax enforcement of environmental standards is not something that is publically reported, there are most certainly many other recent instances of lax enforcement of environmental regulation in the steel industry that are not available in the public domain.

### Developments and Trends in Usage

Although the central government has been making efforts to implement energy-saving projects and reduce pollution and emissions, governments on the provincial and municipal level undermine this with weak enforcement of regulations, allowing polluting steel mills to continue production to increase income from taxes and local GDP growth, according to a 2013 investigative journalism article.<sup>171</sup> Despite the health consequences that the steel production emissions have caused local residents, triggering public dissatisfaction, often little effort has been taken to enforce the shutdown of the steel plants that do not operate according to environmental standards.

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<sup>168</sup> Haley, Usha C. V., and George T. Haley. *Subsidies to Chinese Industry: State Capitalism, Business Strategy, and Trade Policy*. Oxford: Oxford UP, 2013.

<sup>169</sup> <http://msgc.xfrb.com.cn/newsf/2015/01/07/142059609364.htm>

<sup>170</sup> [http://www.ndidu.com/zixunguanzhu/minshengguanzhu/zhongguojiaodianxinwenwang/2013-01-11/4009\\_3.html](http://www.ndidu.com/zixunguanzhu/minshengguanzhu/zhongguojiaodianxinwenwang/2013-01-11/4009_3.html)

<sup>171</sup> <http://tieba.baidu.com/p/2094752788>

An assessment by the Alliance for American Manufacturing (AAM) of environmental regulation concerning China's rapidly growing steel industry from 2013 documents China's ineffective enforcement of pollution-control standards, failure to use adequate pollution-prevention measures, and the resulting high levels of pollution.<sup>172</sup>

In some regions of China, less-developed cities with planned economies rely heavily on steel production for tax income and GDP, even though their activity violates central environmental policies. The local governments play an important role in business registration procedures and enjoy a certain amount of discretion in dealing with environmental issues. Local Environmental Protection Bureaus responsible for enforcement of environmental regulations often have to contend with other bureaus and local government officials with more authority and conflicting agendas, and often they lack the capacity to implement and enforce existing laws. The results are substandard production, illegal emissions, and disregard of the harm to the environment and public health.<sup>173</sup>

In May 2014, China passed amendments to its Environmental Protection Law ("EPL"), which comprises of harsher penalties for violation of environmental laws, allowing not just higher fines but closures of illegally polluting facilities, and sanctions civil society organizations to bring public interest lawsuits on behalf of citizens. Equally important, it holds local government officials more accountable for environmental practices of local businesses by making performance-enforcing environmental policy part of their overall evaluations, and it gives provincial-level governments freedom to enact additional regulations. While stricter execution of the EPL has been seen with the passing of the amendments, and with greater fines and more closures and seizures of unlawful firms, it is still too early to see what effect the revised law will have on the steel industry.<sup>174</sup>

## 4.11. Benefits for Purchase of Domestic Inputs and Equipment

### Description of the Policy / Action

China has provided tax reductions and other benefits to encourage the purchase of domestically-produced goods, machinery and equipment.<sup>175</sup> Before China joined the WTO in 2001, enterprises that purchase domestically manufactured equipment earned a refund on value-added taxes of business tax. Also, article 18 of the 2005 Steel Policy encouraged Chinese steel companies to buy domestically-made equipment and only import equipment if domestically-made equipment was not available.<sup>176</sup> Foreign-invested enterprises ("FIE") also were covered in the same program. However, this policy was discontinued as of January 2008,<sup>177</sup> after the US raised the issue, along with other tax policies, for dispute settlement with the WTO.

### Examples of Usage in Recent Years

As China has stopped providing benefits to steel companies that use domestically-made equipment of support since 2008, no recent cases of this type of support were located. The two most recent cases found were from 2008, as follows:

- In 2008, Shanxi Provincial Local Taxation Bureau announced that Changzhi Steel (Group) Co Ltd (长治钢铁集团有限公司) spent a total of RMB 34,710,700 on domestic equipment purchases and was entitled to enjoy the equivalent tax credit for the corporate income taxes.<sup>178</sup>

<sup>172</sup> <http://www.aamfg.org/publications/assessment-of-environmental-regulation>

<sup>173</sup> [http://www.520319.cn/Article/362328\\_5.shtml](http://www.520319.cn/Article/362328_5.shtml)

<sup>174</sup> <https://www.uschina.org/revised-environmental-protection-law-has-teeth-will-it-bite>  
<http://asiafoundation.org/in-asia/2014/05/28/chinas-environmental-protection-law-lays-groundwork-for-greater-transparency/>  
<https://www.chinadialogue.net/article/show/single/en/6939-New-environmental-law-targets-China-s-local-officials>

<sup>175</sup> [http://www.ssina.com/news/releases/pdf\\_releases/chinese\\_govt\\_subsidies0407.pdf](http://www.ssina.com/news/releases/pdf_releases/chinese_govt_subsidies0407.pdf)

<sup>176</sup> <http://www.cecc.gov/resources/legal-provisions/steel-industry-development-policy>

<sup>177</sup> <http://www.hntax12366.com/fzfgread.asp?id=407>

<sup>178</sup> <http://www.xhcpa.net/sonweb/pg/Article.asp?id=70551>



- In 2008, Guangzhou Shouteng Automobile Parts Co Ltd (广州寿藤汽车配件有限公司) purchased domestic equipment worth of RMB 4,762,000 in 2007 and received RMB 1,904,800 tax credits to balance out the corporate income taxes.<sup>179</sup>

### **Developments and Trends in Usage**

Steel enterprises expanded their production capacities partly thanks to the favorable policies for purchasing domestically-made equipment and inputs. Domestically-produced equipment not only saved costs but it also became increasingly more advanced, benefitting from technology transfers (foreign enterprises and foreign invested enterprises transferring technology to Chinese firms were exempt from business tax).<sup>180</sup> According to the regulation, the investment in domestically-produced equipment that is in line with the state industry support and the equipment costs can balance out the equivalent corporate income taxes.<sup>181</sup>

Comprehensive search of media sources and records did not locate any instance of continued use of this preferential policy since 2008.

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<sup>179</sup> [http://gz.gd-n-tax.gov.cn/pub/gdgsww/xxgk/ssfg/fgk/ssfgwjz/zsgl/nssb/201108/t20110804\\_208447.html](http://gz.gd-n-tax.gov.cn/pub/gdgsww/xxgk/ssfg/fgk/ssfgwjz/zsgl/nssb/201108/t20110804_208447.html)

<sup>180</sup> <http://www.icbc.com.cn/icbc/%E7%BD%91%E4%B8%8A%E6%9C%9F%E8%B4%A7/%E6%9C%9F%E8%B4%A7%E5%AD%A6%E8%8B%91/%E5%9F%BA%E6%9C%AC%E5%B8%B8%E8%AF%86/%E9%92%A2%E6%9D%90%E4%BB%B7%E6%A0%BC%E7%9A%84%E5%BD%B1%E5%93%8D%E5%9B%A0%E7%B4%A0.htm>

<sup>181</sup> [http://wenku.baidu.com/link?url=al7Hp6tr3\\_exQ7JYkkHjQS\\_T8I9xY2kkJgMZnZBllAJwwznJOQimRtLpu7ZtL5rcrOXt37HyNIW-3-k6LzX4xMC2KxXPrMha\\_8GBQUBtU\\_](http://wenku.baidu.com/link?url=al7Hp6tr3_exQ7JYkkHjQS_T8I9xY2kkJgMZnZBllAJwwznJOQimRtLpu7ZtL5rcrOXt37HyNIW-3-k6LzX4xMC2KxXPrMha_8GBQUBtU_)

## 5. TYPES AND AMOUNT OF STATE SUPPORT RECEIVED BY THE STEEL PRODUCERS

Comprehensive research was conducted to obtain details of types and amounts of steel subsidies received by each of the Steel Producers as detailed below. This information is largely obtained from the annual reports of the respective companies, except where indicated.

### 5.1. Hebei Steel Group

#### **Types of State Support Received**

Between 2008 and 2014, Hebei Iron & Steel Group Co Ltd (河北钢铁集团有限公司) (“Hebei Steel Group”) has received a variety of cash grants and capital infusions, which include a large number of subsidies for technology-related upgrading and development and environmental protection. The group has also benefitted from tax benefits, preferential loans, and energy and water subsidies. Moreover, further to government-mandated mergers, Hebei Steel Group has become the largest steel company China.

#### **Amounts of State Support Received**

Hebei Steel Group reports subsidies as either non-operational profit or defers them to a later accounting period. Although these deferred subsidies are received during a given accounting period, they are recorded in a later period for accounting purposes, and are therefore reported here as of year they were recorded. However, when deferred subsidies are accounted for as non-operational profit in later years, this is not clearly indicated in the annual reports.

#### Total Amount of Subsidies Received

2014: Hebei Steel Group reported in its annual report that it had received a total of RMB 70,904,110.30 in governmental subsidies that it recorded as non-operational profit. In addition, Hebei Steel Group also had deferred subsidies amounting to RMB 15,043,460 that it did not record as profit in 2014.

2013: According to its 2013 annual report, Hebei Steel Group received a total of RMB 84,286,424 in government subsidies (recorded as non-operational profit). The total amount of deferred subsidies in 2013 was RMB 46,113,461.96.

2012: The company reported receiving a total of RMB 33,997,323 in government subsidies, which was recorded as non-operational profit in 2012. The annual report claims an even larger sum of deferred subsidies, totaling RMB 45,146,003.46.

2011: According to its annual report, Hebei Steel Group received a total of RMB 120,760,388 in governmental subsidies (registered as non-operational profit). The total amount of deferred subsidies was RMB 40,017,208.

2010: The group reported receiving total government subsidies of RMB 52,772,008 in 2010. The annual report claims deferred subsidies worth RMB 21,917,208.

2009: The group received a total of RMB 66,231,033 in government subsidies that was recorded as non-operational profit. The total amount of its deferred subsidies by the end of 2009 was RMB 37,139,531.

2008: The group received a total of RMB 33,796,600 in governmental subsidies in 2008. The annual report did not provide any breakdown of this total amount.



Comprehensive research identified the following state support and subsidies received by Hebei Steel Group since 2008, listed below in reverse chronological order by subsidy or support type. We note that Hebei Steel Group provides very detailed information about the subsidies received, but does not give consolidated figures by subsidy type. Figures were calculated based on information reported by Hebei Steel Group. All findings and calculations are based on Hebei Steel Group's annual reports and announcements unless otherwise indicated.

#### Cash Grants and Capital Infusions

Hebei Steel Group received the following cash grants from the provincial Finance Bureau, based calculations from the annual report, as detailed below:

Cash Grants (RMB)			
Type	2012	2013	2014
Coastal strong county awards (沿海强县突出贡献奖金)	200,000	200,000	50,000
Financial subsidy from Science & Technology Association Forum (中科院论坛财政拨款)	6,215,000	N/A	5,000
National technology support plan (国家科技支撑计划专项款)	1,602,000	N/A	N/A
Provincial Finance Bureau steel research funds (转钢研院科研经费省财政厅拨款)	30,000	8,325	202,628
Steel Research (钢研院建设经费)	125,000	914,485	170,445
<b>Total</b>	<b>8,172,000</b>	<b>1,122,810</b>	<b>428,073</b>

Also in 2014, the group reported various governmental subsidies in its annual report, with details listed below:

- North District Heat Recovery from Circulating Cooling of Sintering Machine Engineering Project (北区烧结环冷余热工程): RMB 350,000;
- Oxide pellets desulphurization project (氧化球团脱硫项目): RMB 32,500;
- “Vanadium and Titanium Production Expanding And Reconstruction Engineering Project (钒钛产品扩能改造工程项目)”: RMB 377,622;
- “Sinter Flue Gas Desulfurization Project (烧结机烟气脱硫工程)”: RMB 172,059;
- Oxide pellets funding (氧化球团补助资金): 5 million;
- Steel Research Institute Industrial Upgrading (调转钢研院产业升级科目): RMB 14,134.91;
- Steel Research Institute “Conversion of Low-Grand Coal to Ash-Free Coal Project (钢研院低变质煤制备无灰煤项目)”: RMB 122,263;
- Technology Center Equipment Renovation Subsidies (技术中心仪器设备更新改造补助费): RMB 300,000;
- Funding from People's Republic Of China Ministry Of Industry And Information Technology, Deep Intergradation Of Information Technology And Industrialization (收中华人民共和国工业和信息化部信息化和工业化深度融合专项资金): RMB 600,000;
- “Sintering Flue Gas Desulfurization Project Subsidies (烧结机烟气脱硫项目财政补贴)”: RMB 3 million; and

- Frequency Control Project (变频调速项目): RMB 500,000.

In 2013, the group reported receiving various governmental subsidies for projects that it reported as non-operational income, as detailed below:

- “Vanadium and Titanium Production Expansion and Reconstruction Engineering Project (钒钛产品扩能改造工程项目)”: RMB 545,455;
- Steel Research Institute’s Industrial Upgrading (调转钢研院产业升级科目): RMB 2,047,423.49
- Steel Research Institute “Conversion of Low grade Coal to Ash-Free Coal Project (钢研院低变质煤制备无灰煤项目)”: RMB 100,000;
- North District Heat Recovery From Circulating Cooling of Sintering Machine Engineering Project (北区烧结环冷余热工程): RMB 350,000;
- “High-Level Panel Of Automotive Cold-Rolled Product Development And Industrialization project (高级别汽车用冷轧面板产品研发及产业化)”: RMB 1.9 million;
- “Corrosion-Resistant Ship Plate For Large Oil Tanker R & D Projects (大型油船油舱用耐腐蚀船板研发项目)”: RMB 2.2 million; and
- “Information Technology R & D Project For the Integration Of Production And Marketing (产销一体信息化研发项目)”: RMB 5,380,000.

In 2012, the group reported other governmental subsidies for projects granted, according to its annual report:

- “Vanadium And Titanium Production Expanding And Reconstruction Engineering Project (钒钛产品扩能改造工程项目)”: RMB 545,455;
- “Operating Subsidies For Online Monitoring Equipment (在线监测设备运营补助)”: RMB 198,180; and
- Steel Research Institute’s Industrial Upgrading (调转钢研院产业升级科目): RMB 454,319.60.

In 2011, the group received RMB 50,000 from the Hebei Department of Industry and RMB 300,000 from the local county government. Also in 2011, the group reported various governmental subsidies for projects that it reported as non-operational income in its annual report. The details are listed below:

- Hebei Provincial Intellectual property funding (河北省知识产权经费): RMB 35,000;
- Subsidy for closing down retrograde production facilities from Financial Bureau: RMB 2,510,000;
- “Vanadium And Titanium Production Expanding And Reconstruction Engineering Project (钒钛产品扩能改造工程项目)”: RMB 500,000;
- “North District Heat Recovery From Circulating Cooling Of Sintering Machine Engineering Project Subsidy (北区烧结环冷余热工程)”: RMB 350,000; and
- Online Inspection Financial Subsidy (在线检测补助资金): RMB 198,180.

In 2010, the group reported receiving another RMB 500,000 subsidy for “Vanadium and Titanium Production, Expansion and Reconstruction Engineering Project (钒钛产品扩能改造工程项目)”.

In 2009, the group reported receiving the following:

- Total grants of RMB 45,723,10182 was well as development funding of RMB 590,000 from the Luan County government;
- RMB 50,000 as incentives for promoting famous brand products from the Chengde Municipal Finance Bureau (承德市财政局); and
- Other non-specified governmental subsidies totaling RMB 797,933.

<sup>182</sup> The announcement references are provided in its annual reports, namely Ji Jian Cai (2009) No.400 (冀财建 (2009) 400号) and Tang Lao (2009) No.7 (唐劳 (2009) 7号).

In addition Hebei Steel Group has received cash grants and capital infusions for environmental protection projects, as detailed in the table below:

Environmental Subsidies (RMB)					
Type	2010	2011	2012	2013	2014
Sewage Disposal and Waste Funds (污水处理专项资金)	17,941,667	5,291,667	359,470	491,590	244,697
Environment Protection Funding (环境保护专项资金)	1,025,000	11,125,000	359,091	159,091	5,110,140
Pollution Control Project Grants (环保污染治理项资金)	N/A	N/A	N/A	37,200,000	41,424,216
Rewards Energy Conservation and Emission Reduction (节能减排财政奖励)	457,333	71,648,667	359,470	650,681	4,753,809
<b>Total</b>	<b>19,424,000</b>	<b>88,065,333</b>	<b>1,078,030</b>	<b>37,850,681</b>	<b>51,532,862</b>

Hebei Steel Group has also received cash grants and capital infusions for technology-related projects, recorded as non-operational profit:

Technology subsidies (RMB)			
Type	2012	2013	2014
Vanadium Technology	43,333	43,333.33	3,782,752
Steel Production and Technology	150,000	N/A	1,359,134
Technology R & D Project Grants	2,680,000	2,206,200	1,512,000
Energy saving technical transformation rewards	2,060,000	615,641.03	1,242,819
<b>Total</b>	<b>4,933,333</b>	<b>2,865,174</b>	<b>7,896,705</b>

Deferred cash grants

Deferred General Cash Grants		
Type	2013	2014
Financial subsidy from Science & Technology Association Forum (中科院论坛财政拨款)	35,000	30,000
Provincial Department of Finance 'giant plan' funding (收省财政厅拨“巨人计划”资助经费)	1,491,675	1,989,047
Provincial Finance Bureau financial subsidy for steel research institute (转钢研院科研经费省财政厅拨款)	15,659	10,342
'Steel Research Institute' industrial upgrading (调转钢研院产业升级科目)	686,257	672,122
Steel Research Institute Construction funding (钢研院建设经费)	1,444,855	1,279,728
<b>Total</b>	<b>3,673,446</b>	<b>3,981,239</b>

- Some other governmental subsidies were deferred by the end of 2014, including “North Sintering Residual Heat Power Generation Project (北区烧结余热发电项目)” worth RMB 350,000, “Oxide pellets desulphurization project (氧化球团脱硫项目)” worth RMB 195,000, “Vanadium and Titanium Production, Expansion and Reconstruction Engineering Project (钒钛产品扩能改造工程项目)” worth RMB 377,622.38, “Sinter Flue Gas Desulfurization Project (烧结机烟气脱硫工程)” worth RMB 688,235, and funding for “Steel Research Institute Conversion of Low-Grade Coal To Ash-Free Coal Project (钢研院低变质煤制备无灰煤项目)” worth RMB 277,737.
- Deferred government subsidies by the end of 2013 include subsidies for the “North Sintering Residual Heat Power Generation Project (北区烧结余热发电项目)” worth RMB 350,000, “Vanadium and Titanium Production, Expansion and Reconstruction Engineering Project (钒钛产品扩能改造工程项目)” worth RMB 545,455, and the “Steel Research Institute Conversion of Low Grade Coal to Ash-free Coal Project (钢研院低变质煤制备无灰煤项目)” worth RMB 400,000.
- Deferred government subsidies by the end of 2012 include funding for” North Sintering Residual Heat Power Generation Project (北区烧结余热发电项目)” worth RMB 350,000 and the “Vanadium and Titanium Production, Expansion and Reconstruction Engineering Project (钒钛产品扩能改造工程项目)” worth RMB 545,455.
- Deferred government subsidies by the end of 2010 induce subsidies for “North Sintering Residual Heat Power Generation Project (北区烧结余热发电项目)” worth RMB 4,550,000 and the “Vanadium and Titanium Production Expansion and Reconstruction Engineering Project (钒钛产品扩能改造工程项目)” worth RMB 500,000.

- Deferred government subsidies by the end of 2009, including subsidies for the “Cryogenic Residual Heat Power generation Project” worth RMB 1,670,000, “North Sintering Residual Heat Power Generation Project” worth RMB 2,240,000, and “North Blast Furnace Gas Power Generation Project” worth 8,010,000.

Deferred Environment Protection Associated Cash Grants (RMB)						
Type	2009	2010	2011	2012	2013	2014
Special funding for sewage treatment	1,875,000	291,667	291,667	359,470	359,470	244,697
Environmental protection grants		125,000	125,000	159,091	159,091	933,669
Energy-saving grants	15,700,000	15,700,000	62,500	3,270,242	4,897,935	4,473,551
<b>Total</b>	<b>17,575,000</b>	<b>16,116,667</b>	<b>479,166.66</b>	<b>3,788,803</b>	<b>5,416,496</b>	<b>5,651,917</b>

Deferred Technology related Cash Grants (RMB)				
Type	2011	2012	2013	2014
Vanadium Extraction Technology Innovation Funds (提钒技术创新经费)		43,333	43,333	30,952
Key Industry Promotion And Technical Transformation Project (重点产业振兴和技术改造项目)	35,000,000	35,000,000	35,000,000	1,512,000
Development And Application Of New High Strength Steels, Steel Research Institute (钢研院新型高强钢的开发与应用)				1,070,866
<b>Total</b>		<b>35,043,333</b>	<b>35,043,333</b>	<b>2,613,818</b>

#### Tax Benefits to the Steel Industry

- 2014: Hebei Steel Group received RMB 130,000 in tax rewards from the government.
- 2013: The group received governmental tax discounts worth RMB 24,873,106 as well as RMB 50,000 as reward for significant tax contribution.
- 2010: Leting County Finance Bureau (乐亭县财政局) granted Hebei Steel Group a RMB 300,000 award for being a remarkable tax contributor and the Shuangrui District Finance Bureau (双滦区财政局) granted a tax award for a land replacement deed tax worth RMB 1,694,800.

No deferred tax subsidies were reported in the annual reports of Hebei Steel Group.

### Preferential Loans and Directed Credit

The company reported the following loan subsidies for” Vanadium and Titanium Resources Comprehensive Utilization Conversion Project (钒钛资源综合利用改造项目)”:

- 2014: RMB 270,833;
- 2013: RMB 406,250;
- 2012: RMB 406,250;
- 2011 RMB 312,500; and
- 2010: RMB 312,500.

The company also deferred loan subsidies for this project, as follows:

- 2014: RMB 270,833;
- 2013: RMB 406,250;
- 2012: RMB 406,250;
- 2011: RMB 312,500;
- 2010: RMB 312,500; and
- 2009: RMB 4,687,500.

### Utilities subsidies

The group reported receiving the following energy and water price-related subsidies from the government, registered as non-operational profit, based on calculations detailed below:

- 2014: RMB 4,880,867;
- 2013: RMB 4,595,525;
- 2012: RMB 9,558,725;
- 2011: RMB 56,795,542;
- 2010: RMB 438,041; and
- In December 2009, the group company received national financial subsidy of RMB 32.9 million in total on “Energy Center Demonstrative Project Construction (能源中心示范项目建设)”, which was allocated to the three main subsidiaries of the Group Company, namely Tang Gang (唐钢), Han Gang (邯钢) and Cheng Gang (承钢), which received RMB 15 million, RMB 10 million and RMB 7.9 million, respectively.<sup>183</sup>

The group also deferred subsidies for water and electricity expenses, as follows:

- 2009: RMB 937,500 in water expense discounts and RMB 2,019,531.33 in electricity discounts;
- 2010: RMB 62,501 in water expense discounts and RMB 375,542 in electricity discounts;
- 2011: RMB 62,501 in water expense discounts and RMB 375,542 in electricity discounts;
- 2012: RMB 81,250 in water expense discounts and RMB 197,232 in electricity discounts;
- 2013: RMB 81,250 in water expense discounts and RMB 197,232 in electricity discounts; and
- 2014: RMB 54,167 in water expense discounts and RMB 122,891 in electricity earmark discounts.

### Government-Mandated Mergers

According to *Hebei Economic Daily* and media reports from *Xiben New Line Stock*, the Hebei government began to ramp up integration of the Hebei Provincial steel industry in 2007 due to excessive production capacity. More

<sup>183</sup> <http://www.hebgjt.com/showNews.jsp?id=33610>

specifically, the Hebei Government planned to register one new group company (namely Hebei Steel Group) by merging Tang Steel Group (唐钢集团) and Han Steel Group (邯钢集团).<sup>184</sup> Based on a fundraising description of Hebei Steel Group, Tang Steel Group (唐钢集团) and Han Steel Group (邯钢集团) were merged into the group, as one enterprise solely funded by the State. Hebei SASAC managed the merger.<sup>185</sup>

## 5.2. Baosteel Group

### Types of State Support Received

Baosteel Group Corporation (宝钢集团有限公司) (“Baosteel Group”) stopped publishing annual reports after 2008, according to its official website. However, the group has four main subsidiaries, according to media reports:<sup>186</sup> Baoshan Iron & Steel Co Ltd (宝山钢铁股份有限公司) (“Baoshan Iron & Steel”),<sup>187</sup> Baosteel Group Xinjiang Bayi Iron & Steel Co Ltd (宝钢集团新疆八一钢铁有限公司) (“Xinjiang Bayi”),<sup>188</sup> Ningbo Iron & Steel Co Ltd (宁波钢铁有限公司),<sup>189</sup> and Baosteel Group Guangdong Shaoguan Iron & Steel Co Ltd (宝钢集团广东韶关钢铁有限公司).<sup>190</sup> Comprehensive research was conducted into the government subsidies of Baosteel’s two largest subsidiaries, Baoshan Iron & Steel and Xinjiang Bayi as representative of the subsidies the group has received.

Baosteel Group received a number of cash grants and capital infusions from 2008 to 2014. In addition, it also received government support in tax benefits, utilities, land-use rights and preferential loans and directed credit.

### Amounts of State Support Received by Baoshan Iron & Steel

Comprehensive research identified the following state support received by Baoshan Iron & Steel since 2008, listed by subsidy type in reverse chronological order.

#### Total Amount of Subsidies Received

2014: Baoshan Iron & Steel reported in its annual report that it had received a total of RMB 637,191,272 in subsidies from the government that it recorded as non-operational profit. In addition, the company also had deferred subsidies amounting to RMB 1,268,675,356.46 that it did not record as profit in 2014.<sup>191</sup>

2013: Baoshan Iron & Steel received a total of RMB 391,903,997 in government subsidies that it recorded as non-operational profit, according to its 2013 annual report. The total amount of deferred subsidies in 2013 was RMB 1,218,672,931.60.<sup>192</sup>

2012:<sup>193</sup> The company reported receiving a total of RMB 698,766,382 in government subsidies which recorded as non-operational profit in 2012. However, no specific terms of these subsidies were revealed in annual report.<sup>194</sup>

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<sup>184</sup> [http://paper.hbjrb.com/html/2008-06/12/content\\_24269.htm](http://paper.hbjrb.com/html/2008-06/12/content_24269.htm)  
<http://www.xbsteel.com/xbsite/html/2009-04/76735.html>

<sup>185</sup> <http://www.chinamoney.com.cn/fe/Info/10421777>

<sup>186</sup> [http://www.csteelnews.com/sjzx/tjsj/gnsctj/201502/t20150203\\_272810.html](http://www.csteelnews.com/sjzx/tjsj/gnsctj/201502/t20150203_272810.html)

<sup>187</sup> <http://bg.baosteel.com/>

<sup>188</sup> <http://www.81steel.com.cn/>

<sup>189</sup> <http://www.ningbosteel.com/index.asp>

<sup>190</sup> <http://www.sgss.com.cn>

<sup>191</sup> [http://tv.baosteel.com/ir/pdf/report/600019\\_2014.pdf](http://tv.baosteel.com/ir/pdf/report/600019_2014.pdf)

<sup>192</sup> [http://tv.baosteel.com/ir/pdf/report/600019\\_2013.pdf](http://tv.baosteel.com/ir/pdf/report/600019_2013.pdf)

<sup>193</sup> For the years preceding 2013, we do not disclose the deferred profits from government subsidies the company received.

<sup>194</sup> [http://tv.baosteel.com/ir/pdf/report/600019\\_2012.pdf](http://tv.baosteel.com/ir/pdf/report/600019_2012.pdf)



2011: According to the company's 2011 annual report, it received a total amount of RMB 485,817,570 in governmental subsidies which registered as non-operational profit. However, no specific terms of these subsidies were revealed in annual report.<sup>195</sup>

2008 to 2010: Baoshan Iron & Steel reported that it received government subsidies of a total amount RMB 507,705,701 in 2010; RMB 221,670,980 in 2009 and RMB 221,671,000. No specific items were reported in the annual report.

### Cash Grants and Capital Infusions

All grants were reported in annual report we located on the company's official website<sup>196</sup>, unless otherwise indicated.

In 2014, Baoshan Iron & Steel reported receiving the cash grants and capital infusions listed below:

- Compensation worth RMB 30,465,912 for demolition and relocation.
- "Foreign Economic and Technical Cooperation Special Fund" worth RMB 256,660,000 received.
- "High-tech Achievement Fund" worth RMB 65,611,888.
- A government subsidy related to technology transformation assets for preceding year worth RMB 47,015,363 was accounted into non-operating profit.
- The government also issued a finance subsidy to the company for employee's professional training which worth RMB 31,503,257.
- Other unspecified cash grants worth RMB 205,934,870.

The group received the following cash grants in 2013, according to its annual report:

- RMB 59,921,691 subsidy recorded as "High-tech Achievement Fund" in the 2013 annual report.
- The company received a compensation for demolition and relocation of RMB 59,876,337.
- A subsidy of technology transformation assets for preceding year for RMB 44,059,169.
- Government issued a financial fund especially for land infrastructure construction to the company with RMB 30,756,648.
- For environment protection purpose, the government issued RMB 11 million to the company to control waste gas pollution.
- Other unspecified cash grants worth RMB 186,290,150.

### **Amounts of State Support Received by Xinjiang Bayi**

Comprehensive research identified the following state support received by Xinjiang Bayi since 2008, listed by subsidy type in reverse chronological order.

### Total Amount of Subsidies Received

2014: Xinjiang Bayi reported in its annual report that it had received a total of RMB 79,415,229 in subsidies from the government that it recorded as non-operational profit.<sup>197</sup>

2013: Xinjiang Bayi received a total of RMB 80,812,397 in government subsidies recorded as non-operational profit, according to its 2013 annual report.<sup>198</sup>

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<sup>195</sup> <http://tv.baosteel.com/ir/pdf/report/ar2011.pdf>

<sup>196</sup> <http://www.baosteel.com/group/contents/1821/30315.html>

<sup>197</sup> <http://www.chinamoney.com.cn/fe/Info/11546855>

<sup>198</sup> <http://www.chinamoney.com.cn/fe/Info/7595727>

2012: Xinjiang Bayi received a total amount of RMB 44,644,724 in government subsidies, which it recorded as non-operational profit in 2012.<sup>199</sup> For this year, all the information came from the company's 2012 auditing report.

2011: Xinjiang Bayi reported in its auditing report that it had received a total of RMB 78,104,178 in governmental subsidies which recorded as non-operational profits.<sup>200</sup>

2010: Xinjiang Bayi received a total amount of RMB 52,119,208 in government subsidies, which it recorded as non-operation profit in 2010 auditing report.<sup>201</sup>

2009: According to Xinjiang Bayi's 2009 auditing report, Xinjiang Bayi received a total of RMB 32,810,784, which is recorded as non-operational profit.<sup>202</sup>

2008: According to Xinjiang Bayi's 2008 auditing report, Xinjiang Bayi received a total of RMB 11,826,278 recorded as non-operational profit.<sup>203</sup>

### Cash Grants and Capital Infusions

All grants were reported in Xinjiang Bayi's annual report, unless otherwise indicated.

In 2014, Xinjiang Bayi reported receiving the cash grants and capital infusions listed below. We note that due to the volume of cash grants found, only grants valued at more than RMB 5 million are included below:

- The company received capability-building grants for import trade enterprises with the amount of RMB 15,570,000.
- The government issued freight allowances of RMB 15,328,204 for the company.
- The financial allocation which was deferred in preceding year has been accounted in 2014 with the title of Bayi Iron & Steel Co Ltd infrastructure construction project of RMB 8,619,999.
- "2013 Industrial Company Pollution Source Abatement Fund" was received by the company with RMB 5,890,000.
- Government rewarded the company in obsolete outdated industrial capacity with RMB 5,610,000.

The company received the following cash grants in 2013, according to its annual report (only subsidies over RMB 5 million listed):

- "2012 City Additional Charge" of RMB 5,160,000 was returned by Urumqi Treasury Payment Center (财政部国库收付中心) in 2013.
- A central finance reward fund for energy-saving technology transformation on "combined heat and power phase-2 project" was received by the company with the amount of RMB 9,769,666.
- Another central finance reward fund for energy-saving technology transformation worth RMB 13,823,250 received by the company.
- Government issued grants for afforestation and road maintenance to the company with 18,658,113.

The company reported receiving the following cash grants in 2012 (only subsidies over RMB 5 million listed):

- Government subsidies for import capability-building of RMB 10,073,800 received by the company.
- Subsidies of autonomous region trade imports and rewards of exports worth RMB 11,875,800.
- A compensation of "Coal to Gas" worth RMB 1,120,000 received by the company.
- "2006 Geological Exploration in Coal Mine Special Fund" issued by central finance worth RMB 5,320,000.

<sup>199</sup> <http://www.chinamoney.com.cn/fe/Info/5679410>

<sup>200</sup> <http://www.chinamoney.com.cn/fe/Info/4127918>

<sup>201</sup> <http://www.chinamoney.com.cn/fe/Info/3228880>

<sup>202</sup> <http://www.chinamoney.com.cn/fe/Info/2752723>

<sup>203</sup> <http://www.chinamoney.com.cn/fe/Info/2752661>

- The company received grants in independent innovation financial fund of RMB 3,800,000.
- A patent reward worth RMB 1,293,800 received by the company.
- The government issued grants for college students' social security with RMB 1,852,134.
- Deferred profits of the company's infrastructure construction were accounted in 2012 with the amount of RMB 1,600,000.

In 2011, the grants received by the company were listed as below:

- Financial rewards and construction grants of RMB 70,645,948 issued by local finance bureaus etc.
- Kumul Finance Bureau etc. awarded Xinjiang Bayi in obsoleting outdated capacity with RMB 4,965,500.

The company reported its received cash grants in 2010 as below, only subsidies over RMB 1 million included.

- Kumul Finance Bureau awarded the company in obsoleting outdated capacity of RMB 12,130,000.
- Subsidies of autonomous region trade imports worth RMB 11,597,900 received by the company from Bozhou Finance Bureau and Urumqi Finance Bureau.
- "Urban public utilities surcharges" of RMB 3,105,500 received from Changji Treasury Payment Center.
- The company received RMB 2,350,000 of afforestation grants from Toutunhe Finance Bureau.
- Rewards of import and export frontier trade worth RMB 1,342,980 received by the company.
- The company received an area-wide cooperation fund with RMB 1,200,000 from Xinjiang Commerce Department.
- Urumqi Finance Bureau rewarded the company in obsolete outdated industrial capacity with RMB 3,000,000.

The company reported its received cash grants in 2009 as below (only subsidies over RMB 1 million included).

- Frontier trade supportive fund of RMB 19,175,000 issued by Bozhou Finance Bureau.
- Urumqi Commerce Bureau issued a "Wuchang Finance Bureau Region Return Coordination Fund" of RMB 1,500,000 to the company.

The company reported its received cash grants in 2008 as below (only subsidies over RMB 1 million included).

- Frontier trade supportive fund of RMB 2,798,836 issued by Bozhou Finance Bureau.
- Kumul Finance Bureau rewarded the company in obsolete outdated industrial capacity with RMB 1,200,000.

#### Tax Benefits to the Steel Industry

In 2014, Xinjiang Bayi received various tax discounts from government, which were reported in its annual report.

- Tax exemption worth RMB 571,200 received by Xinjiang Bayi.
- Government rewarded the company by "advanced enterprise in paying tax" in RMB 250,000.
- Subsequently, the company received rewards of RMB 50,000 with the title of "advanced group in paying tax".

In 2013, government issued tax compensations to Xinjiang Bayi.

- Tax exemption of RMB 862,019 received by the company.
- A reward fund named "2012 Taxation Rewards" worth RMB 150,000 received by the company.

In 2011, the company received discount interests of RMB 2,492,730 from Ministry of Finance and State Administration of Taxation etc.

In 2010, the tax benefits received by the company were listed as below, according to the auditing report.

- Autonomous Region Finance Bureau returned VAT of RMB 11,116,054 to the company. Subsequently, another VAT refund of RMB 454,835 issued by Ministry of Finance.

- Kazakhstan National Committee returned taxes of RMB 1,206,891 to the company.
- Tax reduction of RMB 115,332 for the Gangue Power Factory (矽石电厂) from Urumqi Dabancheng National Tax Bureau.

In 2009, government issued tax rewards to Xinjiang Bayi.

- VAT payment rewards of RMB 281,300 and RMB 5,773,651 received by the company.
- Tax reduction of RMB 472,655 for the Gangue Power Factory (矽石电厂) from Dabancheng National Tax Bureau.

In 2008, the company received multiple tax preferences from the government.

- Tax reduction of RMB 652,793 for the Gangue Power Factory (矽石电厂) from Dabancheng National Tax Bureau.
- Xinshi District National Tax Bureau reduced VAT of color sandwich panels by half with the amount of RMB 8,794 to the company.
- Tax refund of RMB 2,077,269 received by the company.

#### Subsidies for Utilities

- 2014: Xinjiang Bayi received an electricity price subsidy named “Ferrous Metal Processing Company Electricity Charge Discounts” with RMB 288,593.
- 2013: A subsidy for natural gas operation of RMB 110,517 from Urumqi Heating Bureau. Subsequently, RMB 26,800 with the same tile issued by Urumqi Treasury Payment Center (财政国库收付中心).
- 2012: The company received an electricity price subsidy named “Ferrous Metal Processing Company Electricity Charge Discounts” with RMB 81,333.
- 2010: Kumul Finance Bureau issued electricity charge grants to the company with RMB 413,821.
- 2009: Finance Bureau issued urban public utilities surcharges (electricity surcharges) of RMB 3,238,500 to the company. In addition, Kumul Finance Bureau issued grants of electricity charges in RMB 771,443 to the company.
- 2008: Finance Bureau issued urban public utilities surcharges (electricity surcharges) of RMB 2,404,700 to the company.

#### Subsidies for Land-use Rights

- 2013: The company received a compensation for land-use of RMB 600,000.

#### Preferential Loans and Directed Credit

2012: Government subsidies in the form of discount interests of RMB 60,800. In addition, discount interests from 2011 in the amount of RMB 38,000 were accounted for in 2012.

In 2010 auditing report, Baosteel Group Iron & Steel received various discount interest in government subsidies.

- Ministry of Finance issued discount interest in importing grinding machine to the company of RMB 1,112,025; another discount interest of 2009 central enterprises importing products with RMB 420,000 received by the company also issued by Ministry of Finance.
- Autonomous Region Finance Department issued discount interests in CDQ energy-saving transformation project with RMB 110,000; 1#2500 cube blast furnace with RMB 100,000; 2\*55 Hole Coke Furnace with RMB 100,000; information-based project with RMB 86,666.

In 2009, the Autonomous Region Finance Department issued discount interests in CDQ energy-saving transformation project with RMB 110,000.

In 2008, Autonomous Region Finance Department issued discount interests in CDQ energy-saving transformation project with RMB 210,833.

### **Impact of Government Investigation**

In March 2015, Baosteel was among 26 companies targeted for inspections in relation to ‘senior violations of discipline and law’, a term usually used for corruption in China. It remains unclear how this may affect the level of subsidies received by the company, if at all. We note that, as mentioned in the 12<sup>th</sup> FYP, the Chinese government wants to build Baosteel along with other major steel SOEs into international influential conglomerates suggesting that it will continue to be supported.<sup>204</sup>

## **5.3. Shagang Group**

### **Types of State Support Received**

Shagang Group Co Ltd (江苏沙钢集团有限公司) has received a number of cash grants and capital infusions from 2008 to 2014. It has also benefited from tax payment subsidies, which were located through media research.

### **Amounts of State Support Received**

Comprehensive research identified the following state support received by Shagang Group since 2008, listed in reverse chronological order by subsidy type. Some information about subsidies is sourced from the company’s annual reports, auditing reports or company announcements. However, no specific details about government subsidies were located in this documentation. In addition, comprehensive media was also conducted to identify government subsidies Shagang Group has received.

### Total Amount of Subsidies Received

Shagang Group reported that it has received total government subsidies in the amount of RMB 204,258,877,<sup>205</sup> RMB 154,962,870 in 2013,<sup>206</sup> and RMB 517,960,069 in 2012;<sup>207</sup> the company also reported receiving total government subsidies in the amount of RMB 529,166,102 in 2011,<sup>208</sup> RMB 539,506,268 in 2010<sup>209</sup> and RMB 129,960,609 in 2009.<sup>210</sup> According to the auditing report of the company in 2008, the company did not receive any government subsidy in 2008.<sup>211</sup>

### Cash Grants and Capital Infusions

In 2014, the subsidiary Shafang Finance Company (沙钢财务公司) received “Zhangjiagang Financial Service Outsourcing Supportive Fund Rewards (张家港市财政服务外包扶持资金奖励)” worth RMB 663,600<sup>212</sup>.

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<sup>204</sup> <http://www.infzm.com/content/108612>  
<http://www.reuters.com/article/2015/03/31/china-corruption-baoshan-steel-idUSL3N0WX2R020150331>  
<http://finance.sina.com.cn/chanjing/gsnews/20150331/141321854534.shtml>

<sup>205</sup> <http://www.chinamoney.com.cn/fe/Info/11547660>

<sup>206</sup> <http://www.chinamoney.com.cn/fe/Info/7547380>

<sup>207</sup> <http://www.chinamoney.com.cn/fe/Info/5680300>

<sup>208</sup> <http://www.chinamoney.com.cn/fe/Info/4159362>

<sup>209</sup> <http://www.chinamoney.com.cn/fe/Info/3188446>

<sup>210</sup> <http://www.chinamoney.com.cn/fe/Info/567631>

<sup>211</sup> <http://www.chinamoney.com.cn/fe/Info/1347721>

<sup>212</sup> <http://www.gb87.com/news/Show83960.html>

At the beginning of 2014, Shagang Group received “National Energy-Saving Technology Transformation Financial Reward Fund (国家节能技改专项财政奖励资金)” worth RMB 15,980,000.<sup>213</sup>

In 2014, Shagang Group received national special financial reward funding of RMB 5 million for “Large Blast Furnace Dehumidification Energy-Saving Transformation Project (大型高炉鼓风脱湿节能改造项目)” from the Ministry of Finance.<sup>214</sup>

In 2014, Huaigang Special Steel Co Ltd (淮钢特钢有限公司) received “Jiangsu Province 2014 First Industry and Information Industry Transformation Leading Fund (江苏省 2014 年度第一批工业和信息产业转型引导资金)” worth RMB 100,000.<sup>215</sup>

In 2013, Zhangjiagang Government rewarded the company a special rewarding fund for the good results of Shagang Steel’s 2013 technology standards implementation with RMB 450,000.<sup>216</sup>

In 2013, the company received government financial rewards worth RMB 235,000 from Zhangjiagang Government.<sup>217</sup>

In 2013, the subsidiary Huaigang Special Steel Co Ltd (淮钢特钢有限公司) received “Jiangsu Province 2013 Enterprises Innovation and Achievements Transformation Special Supportive Fund (江苏省 2013 年省级企业创与成果转化专项资金扶持)” worth RMB 15 million.<sup>218</sup>

In 2013, Huaigang Special Steel Co Ltd (淮钢特钢有限公司) received “Support Enterprise Development Fund (扶持企业发展资金)” of RMB 32 million from Jiangsu Huai’an Industrial Park Qingpu Industrial Park Financial Bureau.<sup>219</sup>

In 2010, according to a government announcement which indicated that Huaigang Special Steel Co Ltd (淮钢特钢有限公司) received “Converter Comprehensive Transformation Project (转炉大圆坯综合改造项目)” supportive fund RMB 5,730,000 from Huai’an Finance Bureau.<sup>220</sup>

In 2009, the subsidiary Huaigang Special Steel Co Ltd (淮钢特钢有限公司) of Shagang Group received rewards worth RMB 200,000 in “Efficiency Power Plant Project (能效电厂项目)” from Committee of Economy and Trade of Jiangsu Province (江苏省经贸委).<sup>221</sup>

### Tax Benefits

On 28 February 2015, the subsidiary Shagang Group Anyang Yongxing Steel Co Ltd (沙钢集团安阳永兴钢铁有限公司) received rewards worth RMB 130,000 for “2014 Enterprise with Excellent Tax Payment Performance (2014 年度纳税优秀企业)” from Anyang County’s Government and Committee.<sup>222</sup>

<sup>213</sup> <http://www.sdsajt.com/post-17787.html>

<sup>214</sup> [http://www.ggzchina.com/News\\_Show.php?id=4306](http://www.ggzchina.com/News_Show.php?id=4306)

<sup>215</sup> <http://www.huaigang.com/Item/Show.asp?m=1&d=5726>

<sup>216</sup> <http://cj.lysbs.com/news/junshi/165475.html>

<sup>217</sup> <http://info.glinfo.com/13/0903/10/0E6653CC4D5078EC.html>, <http://www.mtzyw.com/17-25212.html>

<sup>218</sup> <http://business.sohu.com/20131031/n389332412.shtml>

<sup>219</sup> <http://stock.sohu.com/20130111/n363197655.shtml>

<sup>220</sup> [https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=75&cad=rja&uact=8&ved=0CDIQFjAEOEzqFQoTCKOOh\\_LM8MYCFSHYpgodfugETg&url=http%3A%2F%2Fjrb.huaian.gov.cn%2Ffiledown%3Ffile%3D%252Fupload%252F201001%252F295460.attach%257C%25CB%25C4%25BC%25BE%25B6%25C8%25B7%25FE%25CE%25F1%25C6%25F3%25D2%25B5%25CA%25B5%25BC%25A8%25C7%25E9%25BF%25F6%25B9%25AB%25CA%25BE.d oc&ei=XYawVePrJKGwmwX-OJPwBA&usg=AFQjCNFvFo25xmuf3L\\_qRRpd8qKiK4RV8w&bvm=bv.98197061,d.dGY](https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=75&cad=rja&uact=8&ved=0CDIQFjAEOEzqFQoTCKOOh_LM8MYCFSHYpgodfugETg&url=http%3A%2F%2Fjrb.huaian.gov.cn%2Ffiledown%3Ffile%3D%252Fupload%252F201001%252F295460.attach%257C%25CB%25C4%25BC%25BE%25B6%25C8%25B7%25FE%25CE%25F1%25C6%25F3%25D2%25B5%25CA%25B5%25BC%25A8%25C7%25E9%25BF%25F6%25B9%25AB%25CA%25BE.d oc&ei=XYawVePrJKGwmwX-OJPwBA&usg=AFQjCNFvFo25xmuf3L_qRRpd8qKiK4RV8w&bvm=bv.98197061,d.dGY)

<sup>221</sup> <http://www.sxcoal.com/news/552476/articlenew.html>

<sup>222</sup> <http://sha-steel-yx.com/xxshow.asp?id=623>

## 5.4. Ansteel Group

### **Types of State Support Received**

Ansteel Group Corporation (鞍钢集团公司) has received a number of cash grants and capital infusions, tax benefits and utilities subsidies from 2008 to 2014. It has also benefited from other subsidies on land use and loan interest.

### **Amounts of State Support Received**

Comprehensive research identified the following state support received by Ansteel Group since 2008, listed by subsidy type in reverse chronological order.

#### Total Amount of Subsidies Received

Ansteel Group reported that it has received total government subsidies amounting to RMB 385,244,639 in 2014, RMB 438,676,912 in 2013 and RMB 394,644,388 in 2012.<sup>223</sup>

In 2011, Ansteel Group received government subsidies worth RMB 387,316,459 in total.<sup>224</sup> The group reported receiving total government subsidies of RMB 534,765,715 in 2010 and total government subsidies of RMB 1,287,521,272 in 2009.<sup>225</sup>

#### Cash Grants and Capital Infusions

The group reported receiving the following cash grants and capital infusions in 2014 (only subsidies over RMB 10 million included):

- Military production line double dimension fee worth RMB 37,450,000;
- Infrastructure subsidies worth RMB 36,664,634;
- Heavy plate steel for defense use project cash grants worth RMB 20,000,000;
- Demolition compensation worth RMB 17,234,852;
- Technology earmarks worth RMB 11,893,580;
- Funding for strategic emerging industries promotion amounting to RMB 11,258,492; and
- Other unspecified cash grants worth RMB 29,244,930.

The group reported receiving the following cash grants and capital infusions in 2013 (only subsidies over RMB 10 million included):

- Governmental subsidies for social insurance of difficult enterprises amounting to RMB 70,438,171;
- Governmental supportive funding for Yingkou economic and technological development zones worth RMB 22,830,000;
- Heavy plate steel for defense use project cash grants worth RMB 20,000,000;
- Subsidies for production technology, study and development of low carbon, economic and clean steel worth RMB 18,010,000;
- Innovation financial subsidy amounting to RMB 17,060,000;
- “Subsidies for small and medium-sized flat steel balls” worth RMB 15,742,857;
- Housing company reallocation subsidy worth RMB 13,804,400;
- Enterprise development funding worth RMB 12,946,000;

<sup>223</sup> <http://www.chinamoney.com.cn/fe/Info/11426578>  
<http://www.chinamoney.com.cn/fe/Info/8390822>  
<http://www.chinamoney.com.cn/fe/Info/8390738>

<sup>224</sup> <http://www.chinamoney.com.cn/fe/Info/8390682>

<sup>225</sup> <http://www.chinamoney.com.cn/fe/Info/8390654>



- Subsidies for study and industrialization of high-strength steel for mechanical engineering use, amounting to RMB 11,080,000; and
- Other unspecified cash grants worth RMB 48,622,970.

The group reported receiving the following cash grants and capital infusions in 2012 (only subsidies over RMB 10 million included):

- Governmental support for Yingkou economic and technological development zone worth RMB 121,730,000;
- Cash grants without specific explanation, amounting to RMB 63.9 million;
- Heavy plate steel for defense use project cash grants worth RMB 16,773,000;
- Subsidies for iron sintering systems engineering and desulfurization worth RMB 13,790,000;
- New steel industry environmental governance funding worth RMB 12,573,716;
- Subsidies for comprehensive mineral materials utilities worth RMB 10 million; and
- Other unspecified cash grants worth RMB 58,608,135.

The group received the following cash grants in 2011, according to its annual report (only subsidies over RMB 10 million included):

- CDM Project CO2 emission reduction funding worth RMB 132,140,491;
- Cash grants for environmental governance worth RMB 56,011,382;
- Scientific study funding amounting to RMB 54,682,100;
- 5500MM heavy plate steel engineering cash grants worth RMB 16,773,000;
- Reconstruction funding for disaster area, smelting maintenance grants and medical subsidies for retired employees worth RMB 15,870,000 in total;
- Social insurance subsidies amounting to RMB 15,842,822;
- Thick plate ultra-fast cooling technology development funding worth RMB 12 million; and
- Other unspecified cash grants worth RMB 12,850,330.

The group received the following cash grants in 2010, according to its annual report (only subsidies over RMB 10 million included):

- Cash grants and environmental governance subsidies worth RMB 226,763,397 in total from Panzhihua Municipal Land and Resources Bureau and Panzhihua Municipal Finance Bureau;
- Technical subsidies for preparation of new energy-saving silicon steel and high-strength, high-toughness, wear-resistant steel rail production worth RMB 44,550,000;
- Social insurance subsidies amounting to RMB 38,028,076 from Chengdu Social Security Office and Chendu Employment Agency;
- 5500MM heavy plate steel engineering cash grants worth RMB 33,591,666;
- Technical subsidies for domestic steel technology for large hydroelectric generation worth RMB 22,590,000;
- Enterprise development funding amounting to RMB 20,241,100 from Jiangyou Municipal Bureau of Finance;
- Cold-rolled plate shape control technology development funding and thick plate ultra-fast cooling technology development funding worth RMB 19,980,000 in total;
- Job subsidy amounting to RMB 13,975,500 from Panzhihua Labor and Social Security Bureau;
- Scientific study funding amounting to RMB 11,992,586 from Sichuan Provincial Finance Bureau; and
- Other unspecified cash grants worth RMB 26,245,427.

The group reported receiving the following cash grants and capital infusions in 2009 (only subsidies over RMB 10 million included):

- Cash grants and environmental governance subsidies worth RMB 355,032,970 in total from Panzhihua Municipal Land and Resources Bureau and Panzhihua Municipal Finance Bureau;
- Job subsidy amounting to RMB 20,763,167 from Panzhihua Labor and Social Security Bureau;

- Subsidies for eastern geological environment control worth RMB 14,400,000; and
- Other unspecified cash grants worth RMB 35,640,116.

#### Land-Use Rights

- 2012: land-use subsidies amounting to RMB 2,231,600;
- 2011: land-use subsidies amounting to RMB 2,231,600; and
- 2010: land-use subsidies amounting to RMB 10,949,679 from Anshan Municipal Government.

#### Preferential Loans and Directed Credit

- 2014: loan interest discounts worth RMB 1,700,000 granted by governmental authority;
- 2013: subsidy of RMB 1,346,700 for imported product interest payments; and
- 2010: loan interest discounts worth RMB 2,000,000 and RMB 1,000,000 from Sichuan Provincial MOF.

#### Tax Benefits for the Steel Industry

- 2014: VAT refund amounting to RMB 25,070,140;
- 2014: property tax return and land-use tax return worth RMB 8,761,991;
- 2013: tax payment exemption worth RMB 2,944,553;
- 2012: tax payment exemption worth RMB 2,869,705
- tax refund for software products worth RMB 2,951,085;
- 2011: tax refund worth RMB 4,856,933
- tax payment exemption worth RMB 2,607,983;
- 2011: tax refund worth RMB 1,200,000 from Tianjin Free Trade Zone Airport Industrial Park Ministry of Finance (天津空港保税区财政局).
- 2010: tax refund for software products worth RMB 5,731,334;
- 2009: tax refund for software products worth RMB 1,174,644;
- 2009: tax refund worth RMB 5,554,398 from PRC Ministry of Science and Technology
- financial subsidies for tax payment from Panzhihua local Tax Bureau amounting to RMB 5,259,000;
- 2009: tax payment exemption in arrears worth RMB 807,464,716; and
- 2009: VAT payment discounts worth RMB 1,171,966 from Panzhihua Municipal Government.

#### Utilities subsidies

- 2014: electricity payment discount worth RMB 68,433,528;
- 2014: rewards for electricity use worth RMB 3,769,794;
- 2014: incentive funding for industrial electricity use amounting to RMB 2,940,000;
- 2013: electricity payment subsidy worth RMB 7,773,500 from MoF;
- 2013: electricity payment subsidy from Putian governmental authority worth RMB 1,438,065;
- 2011: electricity payment subsidies worth RMB 3,771,402;
- 2010: electricity payment subsidies worth RMB 1,954,300 from MoF and Ministry of Education;
- 2010: special period electricity usage discounts worth RMB 1,002,000; and
- 2009: electricity prices discounts for January, February and March 2009 worth RMB 1,331,200.

## 5.5. WISCO

### Types of State Support Received

Wuhan Iron & Steel Co Ltd (武汉钢铁股份有限公司) (“WISCO”) has received a number of cash grants and capital infusions in 2013 and 2014. It has also benefited from preferential loans, tax benefits, and environmental subsidies.

### Amounts of State Support Received

Comprehensive research identified the following state support received by WISCO since 2008, listed in reverse chronological order by subsidy type. Unless otherwise indicated, information about subsidies is sourced from the company’s annual reports or company announcements.

### Total Amount of Subsidies Received

WISCO reported that it has received total government subsidies in the amount of RMB 53,256,454.92 in 2014 (as of November),<sup>226</sup> RMB 176,468,152.41 in 2013,<sup>227</sup> and RMB 344,803,628.73 in 2012.<sup>228</sup> The company also reported receiving total government subsidies in the amount of RMB 28,929,063.57 in 2010.<sup>229</sup> According to the 2009 3rd quarter report of WISCO, the company had received government subsidies of RMB 12,691,275.04 that year.<sup>230</sup>

### Cash Grants and Capital Infusions

- October 2014: WISCO’s Quality Inspection Centre (质量检测中心) received “National Skill Master Studio Finance Subsidies” (国家级技能大师工作室财政补助) of RMB 100,000 from the Ministry of Finance and Ministry of Human Resources and Social Security.
- October 2014: WISCO’s Equipment Maintenance Factory (设备维修总厂) received “National Skill Master Studio Finance Subsidies” (国家级技能大师工作室财政补助) of RMB 100,000 from Wuhan Finance Bureau and Wuhan Human Resources and Social Security Bureau.
- September 2014: WISCO (Guangzhou) Steel Processing Co Ltd (武钢(广州)钢材加工有限公司) received a bonus of RMB 5,000 for Reaching the Work Safety Standardization (安全生产标准化达标奖励) from Guangzhou Luogang District Work Safety Supervision and Administration Bureau (广州市萝岗区安全生产监督管理局)
- September 2014: Wuhan Weishike Steel Processing and Delivery Co Ltd (武汉威仕科钢材加工配送有限公司) received Wuhan Commerce Bureau Start-up Funding (武汉市商贸局开办费资助) of RMB 200,000.
- August 2014: Wuhan Wuxin New Construction Material Co Ltd (武汉武新新型建材有限公司) received RMB 1,450,000 in Circular Economic Guiding Funding (循环经济引导资金) from the Wuhan Development and Reform Commission (武汉发展和改革委员会) and Wuhan Finance Bureau.
- August 2014: Wuhan Wuxin New Construction Material Co Ltd received RMB 100,000 in Funding for Prevention of Occupational Accidents (工伤事故预防财政拨款) from the Wuhan Administration of Work Safety Supervision (武汉安全生产监督管理局)
- June 2014: WISCO Metal Resource Co Ltd Taizhou Branch Company (武汉钢铁集团金属资源有限责任公司台州分公司) received RMB 314,854 in Steel Service Industry Guiding Funding (钢铁服务业引导资金) from the Wenling Municipal Government.

<sup>226</sup> [http://quotes.money.163.com/f10/ggmx\\_600005\\_1556286.html](http://quotes.money.163.com/f10/ggmx_600005_1556286.html)

<sup>227</sup> <http://finance.sina.com.cn/stock/t/20131224/010017725603.shtml>  
[http://finance.eastmoney.com/news/1354\\_20131223347985319.html](http://finance.eastmoney.com/news/1354_20131223347985319.html)  
<http://www.zgjsteel.com/page/newsview.aspx?lmdm=gcdt&newid=77438>  
<http://www.boardc.com/316bxgbnews/960.html>

<sup>228</sup> <http://www.cninfo.com.cn/finalpage/2013-04-27/62439705.PDF>

<sup>229</sup> <http://finance.ifeng.com/stock/gsgg/20110425/3928427.shtml>

<sup>230</sup> <http://q.stock.sohu.com/cn.gg.600005.1082910494.shtml>

- January 2014: Wuhan Wuxin New Construction Material Co Ltd received RMB 100,000 in “two-section” Living Subsidies from the Small-medium-sized Companies’ Development Fund (“两节”生活补助中小企业发展专项资金) from the Wuhan Qingshan District People’s Government (武汉青山区政府).
- December 2013: Wuhan Wuxin Construction Material Co Ltd received RMB 5 million in Hubei Province Industry Transformation Improvement Supportive Funding (湖北省工业转型升级支持资金).
- September 2013: Wuhan Iron & Steel Group Metal Resource Co Ltd Taizhou Branch Company (武汉钢铁集团金属资源有限责任公司台州分公司) received “off-site return enterprise bonus (异地回归企业奖励)” of RMB 207,138 from the Wenling Municipal Government.
- July 2013: WISCO E Cheng Steel Co Ltd (武汉钢铁集团鄂城钢铁有限责任公司) received funding in the amount of RMB 4,910,000 for the elimination of outdated industrial capacity.
- From October to November 2013, Hanyang Steel Bar Factory (汉阳棒材厂) received government subsidies in the amount of RMB 7,381,466.25 from the Hanyang Government (汉阳市政府).

In addition WISCO received the following cash grants and capital infusions for projects related to environmental protection:

- December 2014: WISCO E Cheng obtained a total of RMB 27,825.43 in subsidies for the government energy saving, emission reduction and ecological improvement from E’Zhou Government (鄂州市政府).<sup>231</sup>
- In November 2014: Wuhan Iron & Steel Group Metal Resource Co Ltd Powder Metallurgy Branch Company (武汉钢铁集团金属资源有限责任公司粉末冶金分公司) received “Environment Protection Fundiong” (环境保护专项资金) of RMB 800,000 from the Wuhan Environmental Protection Bureau.
- October 2014: Wuhan Iron & Steel Co Ltd Energy Factory (武汉钢铁股份有限公司能源动力总厂) received RMB 120,000 in Subsidies for the Construction and Maintenance of Facilities for Automatic Monitoring and Control of Pollution (污染源自动监控设施监视及运维工作补助) from the Wuhan Environment Bureau.
- 2014: Wuhan Wu Steel Dansike Technology Magnet Co Ltd (武汉市武钢丹斯克科技磁材有限公司) received RMB 300,000, and Wuhan Wuxin New Construction Material Co Ltd (武汉武新型建材有限公司) received RMB 3,050,900 from the government for dealing with environmental problems.
- 19 December 2013: WISCO E’Cheng received government subsidies of 153,494,101 for energy savings, emission reduction and ecological improvement.
- October 2013: Jinzi Company ELV Branch Company (金资公司报废汽车分公司) received central budget subsidies of RMB 6,930,000 for Wuhan Recycling System of Renewable Resources Experimental City Project (武汉市再生资源回收利用体系试点城市项目). Benefits in the amount of RMB 288,750 were deferred to the latter half of year.
- October 2013: Wuhan Iron & Steel Group Metal Resource Co Ltd Taizhou Branch Company (武汉钢铁集团金属资源有限责任公司台州分公司) received rebates of RMB 122,716.02 on the Zhejiang Province Local Fund for Water Conservation Projects (浙江省地方水利建设基金).
- As of year-end 2013: the group received RMB 297,157,959.91 in fiscal subsidies for supporting corporation development (企业发展支持资金). Of this amount Wuhan Iron & Steel Group E Cheng Steel Co Ltd (武汉钢铁集团鄂城钢铁有限责任公司) received RMB 280,330,842 from E Zhou Government (鄂州市政府) for dealing with environment issues, such as energy conservation, emissions reduction and ecological improvement.<sup>232</sup>

#### Preferential Loans and Directed Credit

- May and June 2014: WISCO received subsidized loans (贴息贷款补助) of RMB 10 billion from Wuhan Qingshan District Government.

<sup>231</sup> <http://www.tthejinguan.com/news.asp?articleid=586>

<sup>232</sup> [http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2013-04-19/600005\\_20130420\\_1.pdf](http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2013-04-19/600005_20130420_1.pdf)

- 2013: WISCO received discount interests of RMB 47,645,668.82. (Details about the issuer and which subsidiary received the interests were not located through media research).
- 2011: The group received government subsidies in the form of discount interests of RMB 29,708,631.14 in 2011. (Details about the issuer and which subsidiary received the interests were not located through media research).<sup>233</sup>

### Tax Benefits to the Steel Industry

- October 2014: WISCO received tax refund of RMB 5,099,813.50.
- June 2014: WISCO received tax refund of RMB 10,041,167.
- January 2014: Wuhan Iron & Steel Group E Cheng Steel Co Ltd (武汉钢铁集团鄂城钢铁有限责任公司) (“WISCO E Cheng”) received tax refund of RMB 157,196 from the Ningbo Government.
- In January 2014, Wuhan Iron & Steel Group Hanyang Steel Bar Factory (武汉钢铁股份有限公司汉阳棒材厂) received a tax refund of RMB 8,613,955 from the Wuhan Hanyang People’s Government (武汉市汉阳区人民政府).
- In May 2007, Tianjin Wugang Steel Delivery Co Ltd (天津武钢钢材配送有限公司) received a land-use tax refund of RMB 2,998,596 from the PRC government, but these subsidies were deferred to 2012. In May 2013, this refund was divided into two parts: RMB 1,425,030 for the first half of the year, and RMB 1,233,158 for the latter half of the year.

### Deferred subsidies

In addition, WISCO received the following deferred subsidies, but the type of government support was not specified.

- At the end of the first, second and third quarters of 2014, WISCO deferred profits from subsidies (摊销递延收益) in the amount of RMB 15,954,469.42, according to the Accounting System for Business Enterprise (企业会计准则) (“ASBE”).
- At the end of the end of the third quarter of 2013, the company had deferred profits (摊销递延收益) of RMB 3,830,823.14, according to the ASBE.

### Impact of Government Investigation

On 29 August 2015, the CDDI announced that Deng Qilin (邓崎琳), the former Chairman and party secretary of WISCO was under investigation for ‘senior violations of discipline and law’. He left his role at WISCO in June after the authorities completed an inspection further to allegations of potential misconduct; some senior management figures were allegedly taking advantage of their positions for personal gain. It is unclear what impact this may have on WISCO’s subsidies. The business has not been performing well in 2015 to date, with its revenue down 30% in H1 from the same period in 2014. This downturn may be related to receiving less government support, but the details of its 2015 subsidies will not be known until its next annual report.<sup>234</sup> However, we note that, as mentioned in the 12<sup>th</sup> FYP, the Chinese government wants to build WISCO along with other major steel SOEs into international influential conglomerates suggesting that it will continue to be supported.

## 5.6. Shougang Group

### **Types of State Support Received**

<sup>233</sup> <http://www.cninfo.com.cn/finalpage/2012-04-24/60890709.PDF>

<sup>234</sup> <http://www.reuters.com/article/2015/08/30/us-china-corruption-wuhan-steel-idUSKCN0QZ06620150830>  
[http://www.china.com.cn/cppcc/2015-08/31/content\\_36459853.htm](http://www.china.com.cn/cppcc/2015-08/31/content_36459853.htm)  
<http://finance.sina.com.cn/chanjing/gsnews/20150831/103323125885.shtml>  
<http://money.163.com/15/0831/00/B2ABUG8P00253B0H.html>

Shougang Group (首钢集团) has received a number of cash grants and capital infusions, tax benefits and preferential loan subsidies from 2008 to 2014. It has also benefitted from other subsidies on land-use and utilities.

### **Amounts of State Support Received**

Comprehensive research identified the following state support received by Shougang Group since 2008, listed by subsidy type in reverse chronological order.

#### Total Amount of Subsidies Received

In 2014, Shougang Group (首钢集团) reported in its annual report that it had received a total of RMB 654,862,052 in subsidies from the government that it recorded as non-operational profit. In addition, the company also had deferred subsidies amounting to RMB 935,469,467 that it did not record as profit in 2014.<sup>235</sup>

In 2013, Shougang Group received a total of RMB 381,328,496 in government subsidies. The total amount of deferred subsidies in 2013 was RMB 1,112,177,243.<sup>236</sup>

In 2012, the company reported receiving a total of RMB 534,883,560 in government subsidies, which it recorded as non-operational profit in 2012. The annual report also claims RMB 517,911,552 in deferred subsidies of in 2012.<sup>237</sup>

According to its annual report, Shougang Group received a total RMB 382,567,728 in governmental subsidies in 2011 (registered as non-operational profit in 2011). The annual report claims total deferred subsidies amounting to RMB 378,015,628 by the end of 2011.<sup>238</sup>

The group reported receiving total government subsidies of RMB 181,386,294 in 2010.<sup>239</sup> It also reported total government subsidies in the amount of RMB 103,016,464 in 2009 and RMB 23,854,944 in 2008.<sup>240</sup> The annual reports show no deferred subsidies from 2008 to 2010.

#### Cash Grants and Capital Infusions

All grants were reported in Shougang Group's annual report, unless otherwise indicated.

In 2014, Shougang Group reported receiving the cash grants and capital infusions listed below. Note that due to the volume of cash grants found, only grants valued at more than RMB 5 million are reported for 2014.

- Grants worth RMB 83,084,575 from a governmental subsidy;
- "Enterprise expansion" funding worth RMB 29,612,444 from an unnamed government authority;
- Subsidy for losses from demolition and shut down of businesses in the amount of RMB 7,146,723, granted by Beijing Municipal Shijingshan District People's Government (北京市石景山区人民政府);
- Reallocation compensation worth RMB 319,248,688 from Zhongshan Government (钟山区政府);
- Governmental cash grants worth RMB 74,426,040 as subsidies for difficult enterprise;
- Cash grants worth RMB 41,203,949 for technical transformation projects;
- Infrastructure construction funding worth RMB 76,311,737 from the Hebei Provincial Hui Autonomous County of Dachang Finance Bureau (河北省大厂回族自治县财政局); and
- Other unspecified cash grants worth RMB 39,775,968.

<sup>235</sup> <http://www.chinamoney.com.cn/fe/Info/11522356>

<sup>236</sup> <http://www.chinabond.com.cn/Info/18112095>

<sup>237</sup> <http://www.chinamoney.com.cn/fe/Info/5687111>

<sup>238</sup> <http://www.chinamoney.com.cn/fe/Info/4154691>

<sup>239</sup> <http://www.chinamoney.com.cn/fe/Info/3185422>

<sup>240</sup> <http://www.chinamoney.com.cn/fe/Info/821749>

<http://www.chinamoney.com.cn/fe/Info/765998>

The group received the following cash grants in 2013, according to its annual report (only subsidies over RMB 5 million included):

- RMB 15,391,882 financial subsidy for economy development, which was granted by Qinghuangdao Municipal Shanhaiguan Pass District People's Government (秦皇岛市山海关区人民政府);
- Subsidy of RMB 8,646,723 from the Beijing Municipal Shijingshan District People's Government and Guizhou Provincial People's Government for losses incurred from demolition and shutting down businesses;
- RMB 44,058,730 from the Jilin Finance Bureau in financial incentives for technical transformation projects; and
- A technical transformation subsidy worth RMB 5,166,317 from the Jilin Finance Bureau for steel engineering projects.

The group reported receiving the following cash grants in 2012 (only subsidies over RMB 10 million included)

- Infrastructure construction funding worth RMB 91,743,302 from Hebei Provincial Hui Autonomous County of Dachang Finance Bureau (河北省大厂回族自治县财政局);
- "Enterprise development" funding worth RMB 55,531,140 was offered by an unnamed governmental authority;
- RMB 16,556,083 for losses incurred from demolition and shutting down businesses from the Beijing Municipal Shijingshan District People's Government and the Guizhou Provincial People's Government;
- "Economy development" subsidy worth RMB 11,734,521 from the Qinghuangdao Municipal Shanhaiguan Pass District People's Government;
- Government financial incentives worth RMB 40,399,852 for technical transformation projects;
- "Enterprise Innovation Fund" of worth RMB 30 million from the Tonghua Municipal Finance Bureau; and
- Other unspecified cash grants worth RMB 11,199,874.

The group reported receiving the following cash grants in 2011 (only subsidies over RMB 10 million included):

- Subsidies totally 72,886,610 for providing stable job vacancies from the Beijing Labor and Social Security Bureau;
- Infrastructure construction funding worth RMB 72,115,521 from the Hebei Provincial Hui Autonomous Dachang County Finance Bureau (河北省大厂回族自治县财政局);
- Subsidy of RMB 45,188,903 from the Beijing Municipal Shijingshan District People's Government for losses incurred from demolition and shutting down businesses.
- A RMB 25,436,450 subsidy from the Qinghuangdao Municipal Shanhaiguan Pass District People's Government for economy development;
- Technical transformation subsidy of RMB 8.2 million and a subsidy of RMB 2,342,155 for a technology development project; and
- Other unspecified cash grants worth RMB 11,382,398.

The group reported the following grants and capital infusions from the government in 2010 (only subsidies over RMB 10 million included):

- Subsidies for losses incurred from demolition and shutting down business in the amount of RMB 28,994,491.
- Subsidy worth RMB 28,082,205 for providing jobs and social insurance;
- Land compensation worth RMB 10,000,000 for demolition work; and
- Infrastructure construction funding worth RMB 8,540,918 from the Hebei Provincial Hui Autonomous County of Dachang Finance Bureau (河北省大厂回族自治县财政局).

In 2009, the group reported receiving the following cash grants and capital infusions (due to the relatively smaller grants, all grants over RMB 1 million are reported):



- Subsidies on job and social insurance worth RMB 6,164,599;
- Governmental subsidies of RMB 4,780,000 for closing down outdated production facilities;
- Subsidies of RMB 1,914,411 from governmental authorities for reemployment of laid-off workers; and
- Other cash grants worth RMB 4,103,540 without detailed explanation in its annual report.

In 2008, the group received unspecified cash grants worth RMB 23,854,944.

Since 2008, the group has also received the following cash grants for environmental projects, according to its annual reports (only subsidies over 1 million included):

- 2014: Environmental protection funding worth RMB 11,262,655 for Tong Steel Ironmaking Plants' de-dusting improvement engineering (通钢炼铁厂 1#-5#高炉出铁场除尘改造工程);
- 2013: Environmental protection funding of RMB 14,170,480 from Guizhou Provincial National Development and Reform Commission;
- 2013: Subsidies on environmental protection worth RMB 18,719,039;
- 2011: Environmental protection funding worth RMB 8,578,383;
- 2010: Financial incentives for energy saving technology transformation of RMB 2,370,000 and environmental protection funding of RMB 1,616,914 from the Liupanshui Municipal Finance Bureau;
- 2008: Governmental compensation amounting to RMB 2,400,000 for limestone recycling.

#### Land-Use Subsidies

- 2013: Compensation of RMB 44 million from the Guohua Municipal Finance Bureau (敦化市财政局) for land-use expenses;
- 2012: Reimbursement of RMB 16 million for land-use expenses in Xinjiang Yili State;
- 2010: Reimbursement of RMB 5,112,640 for land-use expenses; and
- 2009: Reimbursement of RMB 52,961,200 for land-lease fees.

#### Tax Benefits

- 2014: Tax rebates worth RMB 8,469,890 from the Liupanshui Municipal National Tax Bureau (六盘水市国税局);
- 2013: Tax rebates worth RMB 8,391,146 from the Beijing Municipal Shijingshan National Tax Bureau;
- 2012: Total tax rebates of RMB 23,175,305 from the Ministry of Finance ("MoF"), National Tax Bureau ("NTB") and local tax authorities;
- 2011: Tax rebates of RMB 38,786,967 from the MoF, NTB and local tax authorities;
- 2010: tax rebates worth RMB 24,036,916 from the MoF and NTB;
- 2009: The group received a tax rebate worth RMB 15,185,193 from the NTB and exemption for RMB 10,907,520 in VAT payment arrears; and
- 2008: A tax rebate amounting to RMB 15,239,258 from the NTB.

## Subsidies for Utilities

- 2014: the group received electricity price subsidies worth RMB 3,113,890;
- 2013: Electricity price subsidies worth RMB 84,379,753 from the Guizhou Provincial Economic and Information Commission (贵州省经信委); and
- 2012: Electricity price subsidies worth RMB 51,462,285 from the Guizhou Provincial Economic and Information Commission.

## Preferential Loans and Directed Credit

In 2014, the State Ethnic Affairs Commission (国家民委) granted the group a loan interest discount worth RMB 12,791,400 and the Ministry of Commerce (“MoC”) and Ministry of Finance (“MoF”) allocated RMB 13,183,809 in interest discounts for products the group imported.

In 2013, the group received the following preferential loan subsidies (only subsidies over RMB 5 million included):

- Government subsidies in the form of discount interests of RMB 33,057,367;
- A subsidy worth RMB 12,264,641 for interest payments on imported products from the MoC and MoF; and
- Loan interest discounts of RMB 9 million for a cold-rolled sheet production line project from the Beijing Municipal Bureau of Industrial Development (北京市工业促进局).

In 2012, the group received the following preferential loan subsidies (only subsidies over RMB 5 million included):

- Financial interest allowance of RMB 127,966,182 from the MoC and MoF;
- Loan interest discount worth RMB 9 million for cold-rolled sheet production line project from the Beijing Municipal Bureau of Industrial Development;
- A subsidy of RMB 6,441,551 on interest payments for imported products the MoC and MoF.

In 2011, Beijing Municipal Bureau of Industrial Development granted the group loan interest discounts worth RMB 27 million for cold-rolled sheet production line projects and the MoC and MoF allocated RMB 9,793,922 as discounts on interest payments on loans for imported products.

In 2010, Shougang Group received loan interest discounts worth RMB 25 million in industrial development funding from the Beijing Economic and Information Commission (京经信委) and a subsidy worth RMB 15,756,748 for interest payments on imported products.

In 2009, the group received loan interest discounts worth RMB 5 million from unnamed government authorities.

## 5.7. Shandong Steel Group

### **Types of State Support Received**

Shandong Steel Group Co Ltd (山东钢铁集团有限公司) (“Shandong Steel”) has received a number of cash grants and capital infusions from 2008 to 2014. It has also benefited from subsidies on tax payments, land use rights, raw materials and utilities.

## Amounts of State Support Received

Comprehensive research identified the following state support received by Shandong Steel Group since 2008, listed in reverse chronological order by subsidy type. Unless otherwise indicated, information about subsidies is sourced from the company's annual reports, auditing reports or company announcements.

### Total Amount of Subsidies Received

Shandong Steel Group reported that it has received total government subsidies in the amount of RMB 487,578,115 in 2014,<sup>241</sup> RMB 377,033,621 in 2013,<sup>242</sup> and RMB 592,030,143 in 2012.<sup>243</sup> In 2014, Shandong Steel Group deferred RMB 2,783,277 in profits from subsidies.

The company also reported receiving total government subsidies in the amount of RMB 224,075,962 in 2011,<sup>244</sup> RMB 518,053,058 in 2010,<sup>245</sup> and RMB 353,474,721 in 2009.<sup>246</sup> According to Shandong Steel Group's audit report of in 2008, it received RMB 284,411,551 in government subsidies in 2008.<sup>247</sup>

### Cash Grants and Capital Infusions

In 2014, Shandong Steel Group reported receiving the cash grants and capital infusions listed below:

- Supportive funding of RMB 47,310,731 from the government;
- A special use fund worth RMB 3,090,000;
- A financial reward worth RMB 16,203,820;
- Subsidy funding worth RMB 259,131,800;
- The company also received a compensation worth RMB 69,241,996 for demolishing outdated capacity; and
- Other grants worth RMB 89,816,479.

In 2013, the group received the following cash grants, according to its annual report (only subsidies over RMB 5 million included):

- RMB 6 million from a "2013 Foreign Economic and Technical Cooperation Special Fund" (2013 年度对外经济技术合作专项资金);
- A cleaner production grant worth RMB 7 million;
- A subsidy for technology transformation worth RMB 125,444,800 from the Ministry of Finance;
- A financial subsidy worth RMB 6,427,300;
- Qihe County Finance Bureau issued corporation development funding of RMB 38,198,152;
- RMB 8.100,000 in funding for energy-savings and emission reduction.

The group reported receiving the following cash grants in 2012 (only subsidies over RMB 5 million included):

- Qihe County Financial Bureau issued corporation development funding worth RMB 36 million;
- Laiwu City's Government offered a subsidy worth RMB 85,830,000;
- "Laiwu City Projects Support Fund" (莱芜市项目扶持资金) worth RMB 45 million;
- Financial grants for combined-cycle power plant project (燃气蒸汽联合循环发电项目) worth RMB 8,620,000;
- The company received compensation for old factory demolish worth RMB 7,429,481; and
- Other cash subsidies worth RMB 5,249,516.

<sup>241</sup> <http://www.chinamoney.com.cn/fe/Info/11506313>

<sup>242</sup> <http://www.chinamoney.com.cn/fe/Info/7595789>

<sup>243</sup> <http://www.chinamoney.com.cn/fe/Info/5699634>

<sup>244</sup> <http://www.chinamoney.com.cn/fe/Info/4103091>

<sup>245</sup> <http://www.chinamoney.com.cn/fe/Info/3202498>

<sup>246</sup> <http://www.chinamoney.com.cn/fe/Info/405801>

<sup>247</sup> <http://www.chinamoney.com.cn/fe/Info/1409343>

The group reported receiving the following cash grants in 2011 (only subsidies over RMB 10 million included):

- “Heavy section steel preferential policy special fund (大型型钢优惠政策专项资金)” worth RMB 10,330,100;
- The Shenzhen Government gave a one-time subsidy (一次性落户) worth RMB 10 million for settlement in the city; and
- RMB 373,200 compensation for handing over reallocated land.

In 2010, the group received the following cash grants, according to its annual report (only subsidies over RMB 5 million included):

- A financial subsidy of RMB 43,708,000;
- A financial reward worth RMB 7,467,193; and
- Funding worth RMB 40 million for a “hematite pellet project (赤铁矿氧化球团项目)”.

The group reported receiving the following cash grants in 2009 (only subsidies over RMB 10 million included):

- A biological compensation fund worth RMB 15,670,000 from Shandong Province;
- Financial compensation worth RMB 12,150,000 for closing outdated capacity;
- A supportive fund worth RMB 105 million for Laiwu Steel Yinshan Area projects (莱钢银山前区项目资金扶持资金);
- Supporting funding worth RMB 18 million for “Industrial Enterprises Energy Management Center Construction Sample Project (工业企业能源管理中心建设示范项目)”;
- Subsidies worth RMB 32,680,000 from the Laiwu Financial Bureau;
- RMB 14.4 million in energy-saving technology transformation awards;
- RMB 15 million from the Shandong Province Finance Bureau; and
- Other unspecified cash grants worth RMB 22,166,748.

The group reported receiving the following cash grants in 2008 (only subsidies over RMB 30 million included):

- RMB 41,853,869 from dealing with fixed assets;
- A subsidy worth RMB 361,708,147;
- A subsidy of RMB 31,033,085 to pay its accounts payables; and
- Other subsidies of RMB 62,047,610.

#### Subsidies for Raw Material

The group received the following subsidies for raw material:

- In 2013, the group received funding worth RMB 4,041,258 fund for “2# Ore Body Mineral Resource Protection Program”, and compensation of RMB 10 million for mineral resources.
- In 2012, the group received subsidies worth RMB 1,058,933 for a “2# Ore Body Mineral Resource Protection Program”.
- In 2011, the group received subsidies of RMB 4,325,000 for “comprehensive utilization of mineral resources.”
- 2010, the group received a subsidy of RMB 865,000 for a “mineral resource saving and comprehensive application sample project (矿产资源节约与综合利用示范工程).”
- In 2009, the group received funding of RMB 1.3 million for “General Investigation in Linyi City Mine – Mazhuang Metallurgical Dolomite Ore (临沂市矿坑-马庄冶金用白云岩矿普查)” and subsidy for a flooded mine worth RMB 2.8 to the company.

## Tax Policies and Benefits

In 2013, the group received the following subsidies related to taxes:

- The company received a reward of RMB 4,125,994 for tax contribution;
- According to [2002] No. 15 File published by Communist Party of China Laiwu Municipal Party; Committee, Laiwu Gangcheng District Financial Bureau refunded taxes RMB 40 million in taxes to the group;
- The company received a refund of RMB 1,930,239 VAT and other taxes; and
- The company received a tax discount worth RMB 16,490,282 for integrated utilization of resources.

In 2012, the group received the following tax subsidies:

- Tax discount for integrated utilization of resources worth RMB 25,323,832;
- VAT refund of RMB 68,428,144;
- A RMB 5,271,915 reward for tax contribution;
- Laiwu Gangcheng District Bureau refunded taxes of RMB 110 million to the company; and
- VAT refunds worth RMB 2,259,000 and RMB 2,098,975.

In 2011, the group received the following tax subsidies:

- VAT discount worth RMB 21,722,392 for promotion of investment as well as a VAT refund of RMB 2,622,086;
- Income tax refund worth RMB 35,541,617 for integrated utilization of resources;
- Separate tax contribution awards of RMB 5,945,251 and RMB 1,095,000;
- Property tax relief with RMB 264,860; and
- A tax refund of RMB 679,340 from Zibo City.

In 2010, the government rewarded the company RMB 5 million for its tax contribution and also granted VAT refunds worth RMB 2,639,586 for being a “Beneficial Corporation (福利企业)”, and another RMB 94,832,860 “investment promotion (招商引资)”.

In 2009, the group received a tax refund worth RMB 81,980,373.

In 2008, the group received the tax refund worth RMB 5,825,543.

## Subsidies for Land Use

In 2013, the group received the following subsidies for land use:

- A land subsidy of RMB 30 million from the Laiwu Finance Bureau; and
- Land compensation worth RMB 19,899,507 from Laiwu Land Reserve Center (莱芜土地储备中心).

In 2012, the group received the following subsidies for land use:

- The Laiwu Land Reserve Center issued a land compensation of Meiyuan Residential Community (梅苑小区) to the company. In addition, the company received land compensation worth RMB 17,539,135 from Laiwu Land Reserve Center (莱芜土地储备中心).
- Laiwu Financial Bureau offered a land subsidy worth 30,000,000 to the company.

In 2011, the group received land compensation worth RMB 83,462,514.

In 2010, the group received a land subsidy worth RMB 25,944,000 to the company and compensation for land expenses worth RMB 140,410,000.

In 2008, the group received the land compensation worth RMB 133,657,822.

#### Subsidies for Utilities

In 2014, the government returned water resource fee (水资源费) to the company in the amount of RMB 1,700,000.

## 5.8. Magang Group

### **Types of State Support Received**

Magang (Group) Holding Co Ltd (“Magang Group”) (马钢 (集团) 控股有限公司) has received a number of cash grants and capital infusions from 2008 to 2014. It has also benefited from subsidies on land-use rights and raw materials.

Ma’anshan Iron & Steel Co Ltd (“Ma’anshan Iron & Steel”) (马鞍山钢铁股份有限公司) is the largest subsidiary of Magang Group in the steel industry, and is listed on the SSE (Shanghai Stock Exchange). Most government subsidies Magang Group receives for support in the steel industry are actually directed to Ma’anshan Iron & Steel, according to Magang Group annual reports.

### **Amounts of State Support Received**

Comprehensive research identified the following state support received by Magang Group since 2008, listed in reverse chronological order by subsidy type. Information about subsidies is partly sourced from the annual reports, auditing reports and company announcements for Magang Group and Ma’anshan Iron & Steel. But since details of the specific terms of government subsidies were not contained in annual reports, comprehensive media research was also conducted.

#### Total Amount of Subsidies Received

Ma’anshan Steel reported that it has received total government subsidies in the amount of RMB 538,621,712 in 2014,<sup>248</sup> RMB 452,710,625 in 2013,<sup>249</sup> and RMB 29,324,737 in 2012.<sup>250</sup> The company also reported receiving total government subsidies in the amount of RMB 64,855,490 in 2011,<sup>251</sup> RMB 40,906,100 in 2010,<sup>252</sup> and RMB 90,243,000 in 2009.<sup>253</sup> According to Magang Group auditing report, the government subsidies the company received reached RMB 9,897,600 in 2008.<sup>254</sup>

One media source indicated that Magang Group received government subsidies worth RMB 138 million mainly in loan repayment support and cash grants in 2010 and 2011.<sup>255</sup>

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<sup>248</sup> [http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2015-03-25/600808\\_2014\\_n.pdf](http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2015-03-25/600808_2014_n.pdf)

<sup>249</sup> [http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2014-03-26/600808\\_2013\\_n.pdf](http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2014-03-26/600808_2013_n.pdf)

<sup>250</sup> [http://www.masteel.com.cn/UserFiles/File/2013-03-27/600808\\_2012\\_n.pdf](http://www.masteel.com.cn/UserFiles/File/2013-03-27/600808_2012_n.pdf)

<sup>251</sup> [http://www.masteel.com.cn/UserFiles/File/2012-03-29/600808\\_2011\\_n.pdf](http://www.masteel.com.cn/UserFiles/File/2012-03-29/600808_2011_n.pdf)

<sup>252</sup> [http://www.masteel.com.cn/UserFiles/File/2011-03-23/600808\\_2010\\_n.pdf](http://www.masteel.com.cn/UserFiles/File/2011-03-23/600808_2010_n.pdf)

<sup>253</sup> [http://www.masteel.com.cn/UserFiles/File/2010-03-31/600808\\_2009\\_n.pdf](http://www.masteel.com.cn/UserFiles/File/2010-03-31/600808_2009_n.pdf)

<sup>254</sup> <http://www.chinamoney.com.cn/fe/Info/405769>

<sup>255</sup> <http://money.163.com/special/view377/>

## Cash Grants and Capital Infusions

One media source reported in 2014 indicated that Magang Group received a national energy-saving and emission reduction subsidy worth RMB 350 million for a sulfur dioxide emission reduction project during the past three years.<sup>256</sup>

In 2014, Magang Group received various cash grants and capital infusions, listed below (only subsidies over RMB 5 million included):

- The Ma'anshan Iron & Steel accounted for RMB 100,182,129 in capital-related deferred benefits in 2014's non-operational profits.
- Ma'anshan Iron & Steel received "New District Heating and Power Plant CCPP System Project (新区热电厂 CCPP 系统工程)" worth RMB 8,330,004.
- Ma'anshan Iron & Steel received a government subsidy worth RMB 14,705,004 for "flat cold-rolled plate (冷轧薄板项目)."
- Ma'anshan Iron & Steel also received a subsidy for "flat hot-rolled plate (热压薄板项目)" worth RMB 15,894,996.
- Ma'anshan Iron & Steel's transportation subsidiary received a RMB 5 million in compensation for demolishing a building.
- Ma'anshan Iron & Steel received grant of RMB 10,016,400 for a steel transformation project.
- Other government subsidies Ma'anshan Iron & Steel Co Ltd received as cash grants worth RMB 125,577,902 in total.

In 2013, the cash grants and capital infusions Magang Group received seem to be similar to 2014. Magang Group's annual reports did not receive any specific government subsidies. The company received the following subsidies according to media research:

- Ma'anshan Iron & Steel accounted for RMB 93,435,954 in capital-related deferred benefits in 2013's non-operational profits.
- Hefei Land Reserve Center (合肥市土地储备中心) issued RMB 1.2 billion to Magang Group (Hefei) Steel Co Ltd (马钢(合肥)钢铁有限公司) as compensation for requisition of land.<sup>257</sup>
- Magang Group received government subsidies in energy-saving and emission reduction worth RMB 230 million.<sup>258</sup>
- Magang Group received special fund worth RMB 10 million from Anhui Province Financial Bureau for the "New District Slag Treatment Recycle Project (马钢新区渣处理循环利用项目)."<sup>259</sup>
- Ma'anshan Iron & Steel received other government subsidies totaling RMB 78,702,031.

In 2012, Ma'anshan Iron & Steel received government subsidies worth RMB 138,323,961, while the government also issued rewards worth RMB 939,080 to Magang Group.

Similar to 2011, the group company received cash grants and capital infusions as follows:

- Ma'anshan Iron & Steel received RMB 48,513,893.
- Magang Group received government subsidies worth RMB 4 million related to education.
- Magang Group also received RMB 10,827,461 in government rewards.
- The group received other unspecified government subsidies of RMB 43,315,562.

In 2010, the government subsidies received by the group company are listed as below:

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<sup>256</sup> <http://news.bjx.com.cn/html/20140618/519801.shtml>

<sup>257</sup> <http://www.qddz.com.cn/main.jsp?m=content&c=index&a=show&catid=8&id=42750>

<sup>258</sup> <http://blog.tianya.cn/post-5242059-73177420-1.shtml>

<sup>259</sup> [http://www.yfdxgg.com/pt\\_newshow.asp?id=1405](http://www.yfdxgg.com/pt_newshow.asp?id=1405)



- Ma'anshan Iron & Steel received government subsidies of RMB 78,248,600.
- Education fees worth RMB 3 million were returned to Magang Group.
- Magang Group received government rewards of RMB 896,599.
- Government gave Magang Group RMB 43,550,000 in funding for the "South China Sea Li Wan 3-1 Oil Drilling Platform Project (南海荔湾 3-1 石油钻井平台项目)."<sup>260</sup>
- Magang Group received government subsidies of RMB 25 million for "Thermal Power Plant Integrated Power Generation Project (热电总厂煤气综合利用发电工程)"; another RMB 10 million for "Old District Energy Management Center Construction Sample Project (老区能源管理中心建设示范项目)"; and another RMB 10 million for "Dezincification Project (脱锌工程)."<sup>261</sup>
- The group received RMB 1 million in other unspecified government subsidies.

In 2009, the group company received following government subsidies:

- Magang Group received government issued subsidies of RMB 90,243,000.
- Magang Group received national financial rewards of RMB 210 million from the Ministry of Finance for the "Energy-Saving Technology Transformation Project Short-term Implementation Plan (十一五计划节能科技转型项目)."<sup>262</sup>
- Magang Group received other unspecified government subsidies worth RMB 4,999,143.

In 2008, the government subsidies the group company received as following:

- Ma'anshan Iron & Steel received government subsidies of RMB 9,897,600.
- Education fees of RMB 5 million were returned to Magang Group.
- Magang Group also received government rewards of RMB 885,164.
- The group received RMB 2,299,600 in other unspecified government subsidies.

### Tax Benefits

In 2014, the subsidiary Ma'anshan Iron & Steel Co Ltd (马鞍山钢铁股份有限公司) received a total of RMB 28,443,500 in tax refunds.

In 2013, Magang Group received various government subsidies related to taxes as below:

- Ma'anshan Government refunded land VAT and stamp taxes to Ma'anshan Iron & Steel worth RMB 280,572,361 in total.
- Ma'anshan Government returned land use charges worth RMB 43,734,173 to Magang Group.
- Ma'anshan Financial Bureau returned taxes of RMB 40,712,232 to Magang Group.
- Financial Department returned part of the newly-added land use charges from 2010 to 2012 to Magang Group, which worth RMB 23,570,000.

In addition, Magang Group received the following tax benefits from 2008 to 2010:

- 2012: RMB 16,985,263 in tax refunds;
- 2011: RMB 21,542,271 in tax refunds;
- 2010: the government returned RMB 9,486,840 in resource taxes;
- 2009: Resource tax refund of RMB 5,629,824; and
- 2008: a resource tax rebate in the amount of RMB 46,843,924.

<sup>260</sup> <http://ah.anhuinews.com/system/2011/07/27/004285026.shtml>, <http://www.masteel.com.cn/article/00000003077889001316e19cef00063/0>

<sup>261</sup> <http://www.xysti.com.cn/steel/ReadNews.asp?NewsID=6386>

<sup>262</sup> <http://www.mmi.gov.cn/index.php?m=content&c=index&a=show&catid=401&id=3542279>

### Subsidies for Raw Material

In 2013, the Ministry of Land and Resources and Ministry of Finance issued RMB 40 million in “Comprehensive Mineral Resources Utilization Funding (矿产资源综合利用)” to Magang Group.<sup>263</sup>

In 2008, the government offered Magang Group RMB 9,370,000 in grants for remnant ore extraction projects.

### Subsidies for Land-use

In 2014, Magang Group received a new district cash grant RMB 10,632,216 land plots no. 31836 and no. 31837.

In 2013, Magang Group received a new district financial subsidy of RMB 10,632,216 for land plots no. 31836 and no. 31837.

## 5.9. Bohai Steel

As part of the national “*Steel Industry Restructuring and Revitalization Plan*” released in March 2009, the government formed Bohai Steel Group Co Ltd (渤海钢铁集团有限公司) in 2010 from four state-owned steel companies: Tianjin Pipe Group Corporation (天津钢管集团股份有限公司), Tianjin Steel Group Co Ltd (天津钢铁集团有限公司) (“Tianjin Steel Group”), Tianjin Tiantie Metallurgy Group Co Ltd (天津天铁冶金集团有限公司) (“Tianjin Tiantie”) and Tianjin Metallurgy Group Co Ltd (天津冶金集团有限公司) (“Tianjin Metallurgy Group”).<sup>264</sup> According to the merger plan, Bohai Steel became one comprehensive steel company.

Investigative research found that only Tianjin Pipe Group Corporation (“TPCO”) releases annual reports to the public. Details of subsidies received by TPCO are contained in a separate section of this report. Comprehensive research was conducted to identify subsidies received by Bohai Steel Group’s other entities.

### **Types of State Support Received**

Bohai Steel is assessed to have received support for the aforementioned merger of the four Tianjin-based SOEs, though details about this support are not available in annual reports or media reports. Tianjin Tiantie reported receiving cash grants and other unspecified subsidies from 2008 to 2010. Otherwise, comprehensive media research found no other information about any other subsidies to the group.

### **State Support Received**

The Tianjin municipal government approved the plan to merge the four state-owned steel companies into and officially launched the plan by the end of 2009. In 2010, Tianjin State-owned Assets Supervision and Administration Commission (“SASAC”) paid the registered capital for Bohai Steel Group, and the four state-owned steel companies became subsidiaries of Bohai Steel.<sup>265</sup> Based on the official website of Bohai Steel, registered capital reached RMB 17 billion. There was no specific indication of any incentives provided to Tianjin Bohai Steel for this reorganization.

Tianjin Tiantie received the following subsidies:

- In 2010, Tianjin Tiantie reported receiving cash grants in the amount of RMB 9.5 million for mixed blast spray energy-saving projects.<sup>266</sup>

<sup>263</sup> <http://www.sxcoal.com/enterprise/2346319/articlenew.html>

<sup>264</sup> [http://yq.cpn.com.cn/yqqt/201409/t20140929\\_745624.htm](http://yq.cpn.com.cn/yqqt/201409/t20140929_745624.htm)  
<http://economy.enorth.com.cn/system/2010/07/15/004853119.shtml>

<sup>265</sup> <http://finance.qq.com/a/20100715/001086.htm>

<sup>266</sup> [http://www.tiantie.com/jianjie\\_moban.jsp?BigClassID=1&SmallClassID=12&NewsID=6007](http://www.tiantie.com/jianjie_moban.jsp?BigClassID=1&SmallClassID=12&NewsID=6007)

- Tianjin Tiantie received an unspecified amount of financial incentives from an unnamed government organization for use on energy-saving and recycling projects in 2007.<sup>267</sup>
- Tianjin Tiantie also received RMB 33.48 million from the National Development and Reform Commission in 2007 for a gas conversion recovery and hot-rolled coil removal projects.<sup>268</sup>

Focused research identified no government subsidies received by Tianjin Steel Group Co Ltd or Tianjin Metallurgy Group.

## 5.10. Benxi Steel

According to its official website, Benxi Steel Group Corporation (本钢集团有限公司) (“Benxi Steel Group Corp”) has five subsidiaries in steel industry:

- Benxi Iron & Steel (Group) Co Ltd (本溪钢铁(集团)有限责任公司) (“Benxi Iron & Steel Group”), Benxi Beiyang Iron & Steel (Group) Co Ltd (本溪北营钢铁(集团)股份有限公司) (“Benxi Beiyang Iron & Steel Group”),
- Bengang Steel Plates Co Ltd (本钢板材股份有限公司),
- Benxi Iron & Steel (Group) Mining Co Ltd (本溪钢铁(集团)矿业有限责任公司), and
- Benxi Steel Stainless Steel Cold-Rolling Dandong Co Ltd (本钢不锈钢冷轧丹东有限责任公司).<sup>269</sup>

Further AIC research found that Benxi Iron & Steel Group owns 83.42% of Bengang Steel Plates Co Ltd, and wholly owns the other two subsidiaries, namely Benxi Iron & Steel (Group) Mining Co Ltd and Benxi Steel Stainless Steel Cold-Rolling Dandong Co Ltd. Given this structure, Benxi Steel Group Corp two main steel subsidiaries are Benxi Iron & Steel Group and Benxi Beiyang Iron & Steel Group.

<i>Subsidiary Name (Chinese)</i>	<i>Subsidiary Name (English)</i>	<i>Subsidiary AIC Registry #</i>	<i>% Owned by Benxi Steel</i>
本溪钢铁(集团)有限责任公司	Benxi Iron & Steel (Group) Co Ltd	210500005026844	100%
本钢板材股份有限公司	Bengang Steel Plates Co Ltd	210000004931633	83.42% by Benxi Iron & Steel (Group) Co Ltd
本溪北营钢铁(集团)股份有限公司	Benxi Beiyang Iron & Steel (Group) Co Ltd	210500005021733	83.66%
本溪钢铁(集团)矿业有限责任公司	Benxi Iron & Steel (Group) Mining Co Ltd	210500005003385	100% by Benxi Iron & Steel (Group) Co Ltd
本钢不锈钢冷轧丹东有限责任公司	Benxi Steel Stainless Steel Cold-Rolling Dandong Co Ltd	210600004056338	100% by Benxi Iron & Steel (Group) Co Ltd

Comprehensive research found that Benxi Steel Group Corp has never issued any annual reports nor has it released announcements regarding the governmental subsidies it has received. However, both Benxi Iron & Steel Group and Benxi Beiyang Iron & Steel Group do issue annual reports. Comprehensive research was conducted into the government subsidies in these two subsidiaries’ annual reports, as detailed below. Comprehensive media research was also conducted into the subsidies Benxi Steel Group Corp and its subsidiaries have received.

### Types of State Support Received

<sup>267</sup> [http://www.tiantie.com/jianjie\\_moban.jsp?NewsID=2958](http://www.tiantie.com/jianjie_moban.jsp?NewsID=2958)

<sup>268</sup> [http://www.tiantie.com/jianjie\\_moban.jsp?BigClassID=1&SmallClassID=12&NewsID=595](http://www.tiantie.com/jianjie_moban.jsp?BigClassID=1&SmallClassID=12&NewsID=595)

<sup>269</sup> <http://www.bxsteel.com/GenSit.asp?page=3>

Benxi Iron & Steel (Group) Co Ltd has received a number of cash grants from 2008 to 2014, and has also benefited from subsidies on tax payments, and land-use subsidies. Benxi Beiyong Iron & Steel Group has received a number of cash grants, together with some other subsidies like utilities compensation and tax refund.

Benxi Beiyang Iron & Steel Group started issuing annual reports since 2012. Comprehensive research identified the following state support received by Benxi Beiyong Iron & Steel Group since 2012, listed by subsidy type in reverse chronological order. Unless otherwise indicated, information about subsidies is sourced from the company's annual reports or company announcements.

### **Amounts of State Support Received**

Comprehensive research identified the following state support received by Benxi Iron & Steel Group and Benxi Beiyong Iron & Steel Group since 2008, listed in reverse chronological order by subsidy type. Unless otherwise indicated, information about subsidies is sourced from the company's annual reports or company announcements.

### Total Amount of Subsidies Received

The total amount of government support Benxi Iron & Steel Group received each year since 2008, according to its annual report, is listed below:

- 2014: RMB 40,817,990 (recorded as non-operational profit); deferred subsidies amounting to RMB 512,524,978.06 that it did not record as profit in 2014.<sup>270</sup>
- 2013: RMB 352,118,478 (recorded as non-operational profit); the total amount of deferred subsidies in 2013 was RMB 449,026,307;<sup>271</sup>
- 2012: RMB 191,217,042.21 (registered as non-operational profit in 2012); deferred subsidies amounted to RMB 254,393,825 by the end of 2012.<sup>272</sup>
- 2011: RMB 67,052,225;<sup>273</sup>
- 2010: RMB 25,537,131;<sup>274</sup>
- 2009: RMB 13,350,620;<sup>275</sup> and
- 2008: RMB 32,989,780.<sup>276</sup>

Benxi Iron & Steel Group does not provide a detailed breakdown of these subsidies in 2008 and 2009

Benxi Beiyong Iron & Steel Group reported the following total government subsidies in its annual report:

- 2014: RMB 40,655,000;
- 2013: RMB 75,077,015;
- 2012: RMB 39,502,000;
- 2011: RMB 22,334,800;<sup>277</sup>
- 2010: RMB 8,524,000;
- 2009: RMB 17,556,000; and
- 2008: RMB 27,120,000<sup>278</sup>

<sup>270</sup> <http://www.chinamoney.com.cn/fe/Info/11478237>

<sup>271</sup> <http://www.chinamoney.com.cn/fe/Info/7601040>

<sup>272</sup> <http://www.chinamoney.com.cn/fe/Info/5671316>

<sup>273</sup> <http://www.chinamoney.com.cn/fe/Info/4156728>

<sup>274</sup> <http://www.chinamoney.com.cn/fe/Info/3188908>

<sup>275</sup> <http://www.chinamoney.com.cn/fe/Info/1018842>

<sup>276</sup> <http://www.chinamoney.com.cn/fe/Info/789834>

<sup>277</sup> [http://www.shclearing.com/xxpl/cwbg/nb/201504/t20150429\\_83913.html](http://www.shclearing.com/xxpl/cwbg/nb/201504/t20150429_83913.html)

<http://www.chinamoney.com.cn/fe/Info/7496302>

<http://www.chinamoney.com.cn/fe/Info/5562790>

<sup>278</sup> [http://stock.finance.sina.com.cn/bond/view/announcement\\_show.php?id=502334489](http://stock.finance.sina.com.cn/bond/view/announcement_show.php?id=502334489)

[http://stock.finance.sina.com.cn/bond/view/announcement\\_show.php?id=502334488](http://stock.finance.sina.com.cn/bond/view/announcement_show.php?id=502334488)

The annual reports do not disclose a detailed breakdown of governmental subsidies Benxi Beiyong Iron & Steel Group received in 2008, 2009 and 2011.

#### Cash Grants and Capital Infusions

Benxi Iron & Steel Group reported receiving the following cash grants and capital infusions in 2014 (only subsidies over RMB 1 million included):

- Compensation of RMB 7,124,300 for the demolition of hot springs;;
- Government grants worth RMB 2 million for a heat pipes network renovation project;
- Funding worth RMB 10 million for the demonstration project on mixing iron to improve recovery rate for dressing plants; and
- Other unspecified cash grants that transferred from deferred income worth RMB 18,154,282.

Benxi Beiyong Iron & Steel Group reported receiving the following cash grants and capital infusions in 2014 (only subsidies over RMB 1 million included):

- Sintering flue gas desulfurization environmental governance funds worth RMB 2.7 million;
- New flue gas desulfurization facilities sewage charges disposable income worth RMB 3 million;
- Economical use and energy-saving incentives worth RMB 8.91 million;
- Environmental management funding for desulphurization facilities worth RMB 4 million; and
- Financial subsidies on Industrial Energy Management Center Construction Demonstration projects worth RMB 12 million.

Benxi Iron & Steel Group reported receiving the following cash grants and capital infusions in 2013 (only subsidies over RMB 1 million included):

- Governmental subsidies on infrastructure expenses worth RMB 15,610,000;
- Financing grants amounting to RMB 4,092,471;
- Hot springs demolition compensation amounting to RMB 81,088,000; and
- Other unspecified cash grants that transferred from deferred income worth RMB 156,847,193.

Benxi Beiyong Iron & Steel Group reported receiving the following cash grants and capital infusions in 2013 (only subsidies over RMB 10 million included):

- Central sewage charges subsidies from Liaoning Provincial Ministry of Finance worth RMB 30 million;
- Special fund for energy saving and emission reduction from Benxi Municipal Planning and Development Department worth RMB 20.98 million; and
- Financial subsidies on Industrial Energy Management Center Construction Demonstration projects worth RMB 12 million.

Benxi Iron & Steel Group reported receiving the following cash grants and capital infusions in 2012:

- Financing grants amounting to RMB 12,746,403;
- Special fund for environment protection worth RMB 1.1 million;
- Slag utilization project funding worth RMB 3.6 million;
- Grants worth RMB 59,561,027 from the Municipal Environmental Protection Bureau; and
- Other unspecified cash grants that transferred from deferred income worth RMB 27,468,631.

Based on 2012 annual report, Benxi Beiyong Iron & Steel Group reported receiving cash grants totaling RMB 27.05 million including employment subsidies, sewage treatment plant policy funds and environmental protection special

fund from Provincial Ministry of Finance. Additionally, the company received financial subsidies for Industrial Energy Management Center Construction Demonstration projects worth RMB 12 million.

Benxi Iron & Steel Group reported receiving the following cash grants and capital infusions in 2011:

- Eliminate backward production capacity grants amounting to RMB 34,800,000;
- Environmental pollution control engineering funding worth 8,400,000;
- Earmarks for Liaoning Provincial Automotive Board Engineering Laboratory worth RMB 300,000; and
- Other funding amounting to RMB 2,632,146.

In 2010, Benxi Iron & Steel Group reported receiving financing grants amounts to RMB 2,893,109.

Based on 2010 annual report, Benxi Beiyong Iron & Steel Group reported receiving sewage charges and environmental subsidies amounting to RMB 8,524,000.

Benxi Iron & Steel Group reported receiving the following cash grants and capital infusions in 2009 (only subsidies over RMB 1 million included):

- Subsidies on iron ore resource utilization worth RMB 4,044,527 (noting this is also a raw materials subsidy);
- Cash rewards amounting to RMB 2,833,333;
- Site backfilling subsidies from Ministry of Finance in Dandong Frontier Cooperation Zone amounting to RMB 2,090,715; and
- Exports and technology innovation support fund worth RMB 1,696,000.

#### Tax Benefits to the Steel Industry

Benxi Iron & Steel Group received the following tax benefits:

- 2014: Tax refund amounting to RMB 2,635,407
- 2013: Corporate income tax refund worth RMB 1,641,512;
- 2012: Corporate income tax refund worth RMB 510,000;
- 2011: Tax refund amounting to RMB 2,027,967 and tax refund worth RMB 18,827,112;
- 2010: Tax refund worth RMB 22,644,021;
- 2009: Tax refund worth RMB 597,059.

In 2014, Benxi Beiyong Iron & Steel Group received Tax payment refund worth RMB 9,919,000

#### Land-Use Rights

Benxi Iron & Steel Group reported the following land-use:

- 2013: Return of land transfer payments worth RMB 4,219,500
- 2013: Governmental subsidies on low-rent housing amounting to RMB 6,150,000;
- 2013: Return of land requisition expense worth RMB 82,469,799;
- 2012: Land requisition expense refund worth RMB 86,230,980.

#### Utilities subsidies

In 2013, Benxi Beiyong Iron & Steel Group received electricity usage compensation worth RMB 5.48 million.

#### Deferred subsidies

Benxi Iron & Steel Group had the following deferred subsidies in 2014 (only subsidies over RMB 10 million included):

- Industrial enterprise energy management center construction demonstrative project subsidies worth RMB 11,600,000;
- Environmental pollution control engineering project funding worth RMB 22,942,000;
- Cold rolled high strength steel renovation project worth RMB 250,000,000;
- High-grade galvanized sheet production line funding worth RMB 41,040,000;
- Sintering waste heat utilization project and desulphurization renovation project funding worth RMB 21,020,000;
- Power plant boiler flue gas desulphurization project funding worth RMB 24,000,000;
- Special funds for introduction of foreign advanced technology worth RMB 14,420,000;
- Subsidies on land use rights worth RMB 62,657,999; and
- Other unspecified deferred subsidies worth RMB 19,762,978.

## 5.11. Valin Steel Group

Valin Steel Group Co Ltd (湖南华菱钢铁集团有限责任公司) (“Valin Steel Group”) has four subsidiaries in the steel industry, as follows:

- Valin Iron & Steel Co Ltd (“Valin Iron & Steel”) (湖南华菱钢铁股份有限公司);
- Hunan Xiangtan Iron and Steel Co Ltd (“Xiangtan Iron & Steel”) (湘潭钢铁集团有限公司)
- Valin Lysteel Co Ltd (“Lysteel”) (湖南华菱涟源钢铁有限公司); and
- Hengyang Valin Steel Tube Co Ltd (“Hengyang Tube”) (衡阳华菱钢管有限公司).

Since annual reports for Valin Steel Group were only located for 2012 to 2014, details of government subsidies received by Valin Iron & Steel Co Ltd, the group’s largest subsidiary in the steel industry, from 2008 to 2014 are also included. In addition, comprehensive media research was conducted to ascertain government subsidies that Valin Steel Group received from 2008 to 2014.

### **Types of State Support Received**

Valin Steel Group received a number of cash grants and capital infusions from 2008 to 2014. In addition, it also received government support in the form of tax benefits, land-use benefits and preferential loans.

### **Amounts of State Support Received**

Comprehensive research identified the following state support received by Valin Steel Group from 2009 to 2014, listed in reverse chronological order by subsidy type. Unless otherwise indicated, information about subsidies was located in the company’s annual reports or company announcements.



## Total Amount of Subsidies Received

Valin Steel Group reported that it has received total government subsidies amounting to RMB 385,796,440 in 2014<sup>279</sup> and RMB 308,878,646 in 2013.<sup>280</sup> Moreover, Valin Steel Group also received government subsidies of RMB 118,459,346 in 2012,<sup>281</sup> and RMB 1,196,966,966 in 2011,<sup>282</sup> all of which were recorded as non-operational profits.

Valin Steel Group also revealed its received government subsidies in 2010 reached RMB 41,922,122<sup>283</sup> and RMB 32,839,528 in 2009.<sup>284</sup> No annual report or audit report for Valin Steel Group in 2008 was located.

According to Valin Iron & Steel's annual reports from 2008 to 2014, the state supports it received were RMB 175,242,897 in 2014,<sup>285</sup> RMB 262,945,051 in 2013,<sup>286</sup> RMB 10,257,650 in 2012<sup>287</sup> and RMB 1,165,476,666 in 2011,<sup>288</sup> which are all recorded as non-operational profits in annual reports.

## Cash Grants and Capital Infusions

In 2014, Valin Steel Group received various government supports in cash grants and capital infusions which are listed as below:

- Related to Valin Steel Group's capital, the government offered energy-saving and environmental protection subsidies worth RMB 8,476,875.
- For technology development purposes, Valin Steel Group received government subsidies of RMB 14,163,140.
- Valin Steel Group received compensation for land requisition worth RMB 725,294.
- Other unspecified government subsidies worth RMB 139,459,099.

In 2013, Valin Steel Group received government subsidies in technology and environmental areas:

- Valin Steel Group received government-issued energy-saving and environmental protection support worth RMB 6,112,969. Also, Valin Iron & Steel received energy-saving and environmental protection subsidies worth RMB 1.1 million.
- Technology development subsidy worth RMB 11,770,308 received by Valin Steel Group; and RMB 4 million received by Valin Iron & Steel.
- Valin Steel Group received compensation for land requisition worth RMB 725,294.
- Valin Group also received other unspecified government subsidies worth RMB 9,254,821. Valin Iron & Steel received other government subsidies worth RMB 197,968.

In 2012, Valin Steel Group reported the following government cash grants and capital infusions:

- The Hunan Province Finance Bureau published an announcement to address the government support that would be offered to the enterprises that devoted themselves to enhancing foreign economic and technical cooperation; Valin Steel Group, one of the recipients, received special funding worth 29,183,000.
- The Hunan Province Finance Bureau published another announcement about its support for developing strategic emerging industries, including RMB 15 million for Valin Steel Group.
- One media resource indicated that the Hunan Provincial Government arranged financial grants of RMB 596 million and RMB 51 million separately for Valin Steel Group to subsidize expenses, including technology

<sup>279</sup> <http://www.chinamoney.com.cn/fe/Info/11442944>

<sup>280</sup> [http://stock.finance.sina.com.cn/bond/view/announcement\\_show.php?id=509009166](http://stock.finance.sina.com.cn/bond/view/announcement_show.php?id=509009166)

<sup>281</sup> [http://stock.finance.sina.com.cn/bond/view/announcement\\_show.php?id=507818363](http://stock.finance.sina.com.cn/bond/view/announcement_show.php?id=507818363)

<sup>282</sup> [http://stock.finance.sina.com.cn/bond/view/announcement\\_show.php?id=506601448](http://stock.finance.sina.com.cn/bond/view/announcement_show.php?id=506601448)

<sup>283</sup> [http://stock.finance.sina.com.cn/bond/view/announcement\\_show.php?id=502307634](http://stock.finance.sina.com.cn/bond/view/announcement_show.php?id=502307634)

<sup>284</sup> *Ibid.*

<sup>285</sup> <http://www.valin.cn/upload/news/201503/20150325083936355464.pdf>

<sup>286</sup> <http://www.valin.cn/Info.aspx?ModelId=1&Id=874>

<sup>287</sup> <http://www.cninfo.com.cn/finalpage/2013-04-08/62327579.PDF>

<sup>288</sup> <http://www.cninfo.com.cn/finalpage/2012-04-05/60774509.PDF?COLLCC=934779592&>

development subsidies worth RMB 246 million and comprehensive environmental protection subsidies worth RMB 860 million.<sup>289</sup>

- Valin Steel Group received other unspecified government subsidies worth RMB 15,351,000.

In 2011, Valin Iron & Steel received various state supports in cash grants and capital infusions as listed below:

- Government-offered technology development subsidies worth RMB 246 million;
- Total environmental protection grants worth RMB 860 million;
- “Newly Industrialization Grants” worth RMB 50 million;
- RMB 50 million in grants in newly industrialization to Lysteel from the Hunan Province Government in December 2011;<sup>290</sup>
- According to an announcement published by Valin Iron & Steel on 7 January 2012, Lysteel received the following grants:
  - RMB 12 million for prevention and control of heavy metal pollution;
  - RMB 20 million for energy-saving and environmental protection research;
  - RMB 30 million in metallurgical automation technology research funding from the Hunan Province Finance Bureau; and
- The group received other unspecified government subsidies worth 9,476,666 in total.

In addition, Xiangtan Iron & Steel received comprehensive environmental protection subsidies worth RMB 160 million and Hengyang Tube received RMB 140 million in comprehensive environmental protection from the Hunan Province Finance Bureau.<sup>291</sup>

In 2010, Iron & Steel government received unspecified subsidies worth RMB 21,089,500.

According to Valin Iron & Steel’s 2008 annual report, Valin Steel Group’s subsidiaries, Xiangtan Iron & Steel and Lysteel received the following subsidies:

- Xiangtan Iron & Steel received RMB 2.5 million in grants for e-commerce enterprise supply chain, RMB 78,333 in support for a sewage treatment project, RMB 100,000 in a grant for an industrial waste water recycling project.
- Lysteel received cash grants worth RMB 1.1 million in “steel flue as automatic monitoring system”.

#### Preferential Loans and Directed Credit

In 2014 and 2013, the government offered loan interest refunds of RMB 5.4 million and 11,030,000, respectively.

#### Tax Benefits

In 2014, government offered the following tax benefits to Valin Steel Group:

- Valin Steel Group received tax refunds in comprehensive resources utilization worth RMB 202,532,029.
- The group reported other tax refunds worth RMB 15,040,000 for the year.
- One media source indicated that Valin Steel Group received VAT refunds in comprehensive resources utilization worth RMB 68,788,100 in the first half of 2014.<sup>292</sup>
- Valin Iron & Steel published an announcement that its subsidiaries Xiangtan Iron & Steel and Lysteel received VAT refunds in comprehensive resources utilization worth RMB 128,478,000 from the Ministry of Finance.<sup>293</sup>

<sup>289</sup> <http://www1.chinaccm.com/53/5302/530201/news/20120405/085339.asp>, <http://www.21so.com/HTML/21cbhnews/2012/1-08-126207.html>

<sup>290</sup> Ibid.

<sup>291</sup> [http://epaper.stcn.com/paper/zqsb/html/2012-01/07/content\\_333121.htm](http://epaper.stcn.com/paper/zqsb/html/2012-01/07/content_333121.htm)

<sup>292</sup> <http://www.ccstock.cn/gscy/gongsi/2014-08-19/A1408386130210.html>

<sup>293</sup> <http://www.cninfo.com.cn/finalpage/2014-03-14/63672506.PDF>

In 2013, Valin Steel Group received tax benefits from government, listed below:

- Valin Steel Group reported VAT refunds for comprehensive resources utilization worth RMB 248,945,252.
- Valin Iron & Steel received tax refunds worth RMB 206,968,510 for comprehensive resources utilization.
- One media resource indicated that two subsidiaries of Valin Iron & Steel, Xiangtan Iron & Steel and Lysteel received VAT refunds worth RMB 162 million for comprehensive resources utilization.<sup>294</sup>
- Valin Steel Group received other tax refunds worth RMB 21,040,000.

In 2012, Valin Steel Group received RMB 59,925,199 in VAT refunds for comprehensive resources utilization.

## 5.12. Jianlong Steel Group

Beijing Jianlong Heavy Industry Group Co Ltd (北京建龙重工集团有限公司) is a private group company with six subsidiaries in the steel industry and multiple subsidiaries in other industries. Based on its official website, these six subsidiaries are:

- Tangshan Jianlong Industrial Co Ltd (唐山建龙实业有限公司),
- Chengde Jianlong Special Steel Co Ltd (承德建龙特殊钢有限公司),
- Heilongjiang Jianlong Steel Co Ltd (黑龙江建龙钢铁有限公司),
- Jilin Jianlong Steel Co Ltd (吉林建龙钢铁有限责任公司),
- Fushun New Steel Co Ltd (抚顺新钢铁有限责任公司), and
- Tangshan New Baotao Steel Co Ltd (唐山市新宝泰钢铁有限公司).

### Types of State Support Received

Investigative research found that neither the group company nor its subsidiaries mentioned above issued any annual reports or particular announcements regarding their governmental subsidies. However, comprehensive media research found that the parent company and its subsidiaries benefited from state support through cash grants for energy saving technology transformation projects and patents.

### Amounts of State Support Received

Comprehensive research identified the following state support received by Jianlong Steel Group and its subsidiaries since 2008, listed in reverse chronological order. Unlike listed companies, limited information regarding governmental subsidies for Jianlong Steel Group and its subsidiaries is available in the public domain.

- According to Heilongjiang Provincial Science and Technology Office, Heilongjiang Jianlong Steel Co Ltd, together with other four companies, was selected for a provincial pilot project on patent advantages by the Provincial Intellectual Property Office in 2013. A total of RMB 900,000 was awarded to Heilongjiang Jianlong Steel Co Ltd and other four pilot enterprises.<sup>295</sup>
- According to Tangshan Municipal Development and Reform Commission, in 2013, the National Development and Reform Commission issued ‘2013 Tangshan Municipal Technology transformation Financial Rewards Implementation Plan’ including nine projects. These nine projects received national award funding amounting to RMB 117 million, which were expected cut the use of 391,100 tons of standard coal. Among these nine projects, one is Tangshan Jianlong Industrial Co Ltd’s “65MW burning blast furnace gas turbines energy-saving technological transformation project”.<sup>296</sup>

<sup>294</sup> [http://www.csteelnews.com/xwzx/xydt/201307/t20130726\\_208312.html](http://www.csteelnews.com/xwzx/xydt/201307/t20130726_208312.html)

<sup>295</sup> [http://old.hljkjt.gov.cn/ztzl/2014qskjgzh/y/jlcl/201402/t20140211\\_280478.htm](http://old.hljkjt.gov.cn/ztzl/2014qskjgzh/y/jlcl/201402/t20140211_280478.htm)

<sup>296</sup> <http://www.tsdr.gov.cn/zyhj/hzc/jnjs/2013-09-12/4409/>

- Tangshan Jianlong Industrial received a “2012 Technology Innovation Excellent Enterprise Award” from the municipal government worth RMB 100,000.<sup>297</sup>
- Based on Jianlong Steel Group’s event history, one subsidiary named Chengde Jianlong Mining Co Ltd reportedly received mineral resource conservation and comprehensive utilization incentive funds worth RMB 5 million in June 2012.<sup>298</sup>
- According to Xiben New Line, Heilongjiang Jianlong Steel Co Ltd, together with some other enterprises and universities including Panzhihua Iron and Steel Company Limited and the University of Science and Technology Beijing, jointly successfully applied for the “863 Project” and received total governmental cash grants worth RMB 24 million in March 2012.<sup>299</sup> The “863 Project” involves research and demonstration of vanadium-titanium magnetite smelting and utilization technology and equipment, which was expected to meet national standards for “efficient utilization of national mineral resources”. The media source did not list the specific amount Heilongjiang Jianlong Steel Co Ltd received for this project.
- Based on Jianlong Steel Group’s event history, Shuangyashan Jianlong Mining Co Ltd received national mineral resource conservation and comprehensive utilization special funds amounting to RMB 8 million in March 2011.<sup>300</sup>
- In 2010, Hebei Provincial Department of Finance and Department of Commerce jointly allocated international market development funds worth RMB 30,000 to Tangshan Jianlong Industrial Co Ltd.<sup>301</sup>
- In 2010, Tangshan Jianlong Industrial Co Ltd received Tangshan municipal governmental cash grants amounting to RMB 200,000 as a “well-known brand” award.<sup>302</sup>
- Since 2010, Tangshan New Baotao Steel Co Ltd has received special awards for a solid waste treatment and emission reduction project worth RMB 10 million from the Provincial Development and Reform Commission.<sup>303</sup>
- According to one bid announcement with reference number 0678-1199ZLZB91066, Heilongjiang Qianlong Steel received governmental subsidies for an energy management systematic equipment procurement and installation project in 2010. The equipment included domestically-made large screen display systems, computer systems and industrial switch equipment. The announcement did not list out the specific subsidies amount.<sup>304</sup>
- Another bid announcement with reference number 0678-1099ZLZB91025 indicates that Heilongjiang Qianlong Steel Co Ltd received governmental subsidies on an energy management center construction engineering project (能源管理中心建设工程项目) in 2010.<sup>305</sup> The budget for project was expected to be RMB 125.05 million. According to Heilongjiang Governmental announcement, this project was approved by Ministry of Industry and Information Technology as a pilot project and received national subsidies in total of RMB 20.5 million.<sup>306</sup>

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[http://www.hiconics.com/news\\_detail/newsId=68.html](http://www.hiconics.com/news_detail/newsId=68.html)

<sup>297</sup> <http://www.yateauto.com/news/ShowInfo.aspx?ID=77>

<sup>298</sup> <http://www.ejianlong.com/d/jl001/memorabilia.jsp>

<sup>299</sup> <http://www.96369.net/news/201203/175280.html>

<sup>300</sup> <http://www.ejianlong.com/d/jl001/memorabilia.jsp>

<sup>301</sup> [http://www.chinasie.org.cn/news\\_info.aspx?lei=20&id=49689](http://www.chinasie.org.cn/news_info.aspx?lei=20&id=49689)

<sup>302</sup> [http://www.chinasie.org.cn/news\\_info.aspx?lei=20&id=49689](http://www.chinasie.org.cn/news_info.aspx?lei=20&id=49689)

<sup>303</sup> <http://jy.lnist.edu.cn/info/1531/1835.htm>

<sup>304</sup> <http://heilongjiang.bidchance.com/heilongjiang/2011/08/03/3812318.html>

<sup>305</sup> <http://zjb622.blog.163.com/blog/static/12604443520101025102012752/>

<sup>306</sup> <http://www.hlj.gov.cn/zwdt/system/2011/05/11/010177427.shtml>

## 5.13. Fangda Steel

Jiangxi Fangda Steel Group Co Ltd (江西方大钢铁集团有限公司) (“Fangda Steel”) has two subsidiaries in the steel industry:

- Jiangxi Pxsteel Industrial Co Ltd (江西萍钢实业有限公司) (“Pxsteel Industrial”) and
- Fangda Special Steel of Science and Technology Co Ltd (方大特钢科技股份有限公司) (“Fangda Special Steel”).

### **Types of State Support Received**

Fangda Steel does not issue annual reports, but it does outline support that its largest listed subsidiary in the steel industry, Fangda Special Steel, has received from 2008 to 2014. Comprehensive research indicates that Fangda Special Steel received a number of cash grants and capital infusions from 2008 to 2014. In addition, it received government support in the form of tax benefits and preferential loans.

### **Amounts of State Support Received**

Comprehensive research identified the following state support received by Fangda Special Steel since 2008, listed in reverse chronological order by subsidy type. Information about subsidies is sourced from the company’s announcements and media reports.

#### Total Amount of Subsidies Received

Fangda Special Steel reported that it has received total government subsidies in the amount of RMB 26,223,036 in 2014,<sup>307</sup> RMB 50,782,657 in 2013,<sup>308</sup> and RMB 12,508,910 in 2012.<sup>309</sup> The company also reported receiving total government subsidies in the amount of RMB 21,252,072 in 2011<sup>310</sup> and RMB 7,962,378 in 2010.<sup>311</sup> In addition, according to 2010 annual report, Fangda Special Steel received government subsidies in 2009 worth RMB 25,916,644 and RMB 9,840,200 in 2008.<sup>312</sup>

#### Cash Grants and Capital Infusions

In 2014, cash grants received by Fangda Special Steel are as follows (only subsidies over RMB 1 million included):

- Rewards for promoting enterprises’ IPO worth RMB 1 million;
- Construction supporting fund worth RMB 7,650,000;
- Qingshan project fund worth RMB 7,325,311; and
- Fangda Special Steel also received grants in “2013 Energy-saving Special Fund” worth RMB 3 million.

The group received the following cash grants in 2013, according to its annual report (only subsidies over RMB 10 million included):

- The Benxi Manchu Autonomous County Gaoguan County Government offered RMB 15 million in selected iron construction funding as well as other construction funding worth RMB 15 million to Fangda Special Steel.

<sup>307</sup> [http://file.finance.sina.com.cn/211.154.219.97:9494/MRGG/CNESH\\_STOCK/2015/2015-3/2015-03-18/1656366.PDF](http://file.finance.sina.com.cn/211.154.219.97:9494/MRGG/CNESH_STOCK/2015/2015-3/2015-03-18/1656366.PDF)

<sup>308</sup> [http://vip.stock.finance.sina.com.cn/corp/view/vCB\\_AllBulletinDetail.php?stockid=600507&id=1344613](http://vip.stock.finance.sina.com.cn/corp/view/vCB_AllBulletinDetail.php?stockid=600507&id=1344613)

<sup>309</sup> [http://vip.stock.finance.sina.com.cn/corp/view/vCB\\_AllBulletinDetail.php?stockid=600507&id=1042825](http://vip.stock.finance.sina.com.cn/corp/view/vCB_AllBulletinDetail.php?stockid=600507&id=1042825)

<sup>310</sup> [http://vip.stock.finance.sina.com.cn/corp/view/vCB\\_AllBulletinDetail.php?stockid=600507&id=837501](http://vip.stock.finance.sina.com.cn/corp/view/vCB_AllBulletinDetail.php?stockid=600507&id=837501)

<sup>311</sup> [http://vip.stock.finance.sina.com.cn/corp/view/vCB\\_AllBulletinDetail.php?stockid=600507&id=659698](http://vip.stock.finance.sina.com.cn/corp/view/vCB_AllBulletinDetail.php?stockid=600507&id=659698)

<sup>312</sup> [http://vip.stock.finance.sina.com.cn/corp/view/vCB\\_AllBulletinDetail.php?stockid=600507&id=412545](http://vip.stock.finance.sina.com.cn/corp/view/vCB_AllBulletinDetail.php?stockid=600507&id=412545)

- The Jiangxi Province Finance Bureau offered RMB 1 million from the “Energy-saving Special Fund”.
- Fangda Special Steel received compensation for obsolete outdated capacity in the amount of RMB 8,250,000 from Jiangxi Province Finance Bureau.

In 2012, the government subsidies Fangda Special Steel received are listed below (only subsidies over RMB 1 million are included):

- The Nanchang Industrial Information Commission offered industrial rewards worth RMB 3,390,000 to Fangda Special Steel.
- The Nanchang Finance Bureau issued RMB 2 million from a sewage charge special fund.
- Fangda Special Steel received a newly industrial special fund worth RMB 1.5 million.

In 2011, Fangda Special Steel received cash grants in various areas, which are listed as follows (only subsidies over RMB 1 million included):

- Deferred profits of government subsidies worth RMB 2,962,700 were accounted into 2011’s balance sheet.
- The Shandong Zhangqiu Mingshui Economic Development District Financial Bureau offered project grants worth RMB 8,084,000 to Fangda Special Steel.
- Fangda Special Steel received manufacturing supporting fund worth RMB 5,250,000.
- Fangda Special Steel received RMB 1 million in “Small-to-medium Enterprises Development Special Funding”.
- Yunnan Province Finance Bureau issued RMB 1.5 million in technology transformation funding.

In 2010, government cash grants for Fangda Special Steel in 2010 are listed below (only subsidies over RMB 500,000 included):

- Hubei Province Finance Bureau offered manufacturing enterprises support funding worth RMB 4,481,502.
- The Jiangxi Finance Bureau rewarded Fangda Special Steel with RMB 500,000.
- Nanchang Finance Bureau gave 600,000 in “Energy-saving Special Funding”.
- Deferred profits of government subsidies worth RMB 800,000 were accounted for into 2010.

In 2009, Fangda Special Steel received the following cash grants (only subsidies over RMB 1 million included):

- The Nanchang Labor and Social Security Bureau offered job subsidies for difficult enterprises, including RMB 20,077,860 to Fangda Special Steel.
- The Nanchang Environmental Protection Bureau issued RMB 1.8 million in “2008 2<sup>nd</sup> Environmental Protection Special Fund” to Fangda Special Steel.
- The Jiangxi Finance Bureau issued RMB 1.8 million in “2009 Environmental Protection Special Funding” to Fangda Special Steel.

In 2008, cash grants received by Fangda Special Steel are listed below (only subsidies over RMB 1 million included):

- The Jiangxi Finance Bureau offered grants for “Management of Air Pollution from Sintering Project” worth RMB 1.5 million.
- Fangda Special Steel received RMB 1,430,000 in “Angle Steel Production Project”
- The Nanchang Government rewarded RMB 1,060,000 for industrial development.

#### Subsidies for Utilities

Nanchang Government gave Fangda Special Steel supplementary grants worth RMB 2 million for gas use in 2008

## Tax Benefits

In 2014, Fangda Special Steel received the following tax benefits:

- Qijing Development District Financial Bureau refunded RMB 157,428 in taxes to Fangda Special Steel.
- Qingshanhu District rewarded Fangda Special Steel RMB 50,000 for its tax contribution.
- Gaoxin District rewarded Fangda Special Steel RMB 200,000 for being a “2011 important tax payment enterprise”.

In 2013, Fangda Special Steel received VAT rebates worth RMB 5,605,237 and tax payment rewards worth RMB 120,000.

In 2012, Fangda Special Steel received multiple tax benefits:

- The Nanchang government awarded Fangda Special Steel RMB 200,000 for 2011 tax payment contributions.
- The Huzhou government awarded Fangda Special Steel with RMB 50,000 for tax payment contributions.
- Fangda Special Steel received VAT refunds of RMB 527,630.

## Preferential Loans and Directed Credit

In 2008, Fangda Special Steel received loan interest subsidies, as follows:

- The Hubei Province Government provided loan interest refunds worth RMB 50,000 to Fangda Special Steel for an air suspension project.
- The Nanchang Government offered loan interest refunds worth RMB 100,000 to Fangda Special Steel.

## 5.14. Rizhao Steel

Rizhao Steel Holding Group Co Ltd (日照钢铁控股集团有限公司) (“Rizhao Steel”) is a privately-owned group company with three subsidiaries in the steel industry and multiple subsidiaries in other industries. Based on the corporate records located in the AIC, the three subsidiaries are:

- Rizhao Iron & Steel Co Ltd (日照钢铁有限公司);
- Rizhao Shape Steel Co Ltd (日照型钢有限公司); and
- Rizhao Iron & Steel Rolling Co Ltd (日照钢铁轧钢有限公司).

### **Types of State Support Received**

Research located several reports of government subsidies received by Rizhao Steel through cash grants.

### **Amounts of State Support Received**

Investigative research found that neither Rizhao Steel nor its subsidiaries issue annual reports, auditing reports or company announcements. We note that the companies are not listed. Comprehensive research identified the following state support received by Rizhao Steel since 2008, listed in reverse chronological order:

- In 2014, Rizhao Steel applied for “environmental protection special funding (环境保护专项资金)” and passed through the expert review. However, the amount of the funding has not been revealed.<sup>313</sup>

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<sup>313</sup> [http://www.rizhaosteel.com/News\\_info.asp?SclassId=23&ID=867](http://www.rizhaosteel.com/News_info.asp?SclassId=23&ID=867)



- In 2009, one media resource indicated that Rizhao People’s Government rewarded Rizhao Steel for its outstanding behavior in paying tax with RMB 4,640,000.<sup>314</sup>

## 5.15. Anyang Steel

### Types of State Support Received

Anyang Iron & Steel Group Co Ltd (安阳钢铁集团有限责任公司) (“Anyang Steel”) reported receiving a number of cash grants, capital infusions and tax subsidies from 2009 to 2014. The company also benefited from preferential loans and directed credit in 2012.

### Amounts of State Support Received

Comprehensive research identified the following state support received by Anyang Steel since 2008, listed in reverse chronological order by subsidy type. Unless otherwise indicated, information about subsidies is located in the company’s annual reports or company announcements.

#### Total Amount of Subsidies Received

Anyang Steel reported in its annual reports that it has received total government subsidies in the amount of RMB 67,268,226 in 2014, RMB 26,084,972 in 2013, RMB 69,206,870 in 2012 and RMB 48,520,153 in 2011 respectively.<sup>315</sup> In addition, the company also had deferred subsidies amounting to RMB 28,530,006 by the end of 2014, and RMB 30,376,666 by the end of 2013.

Media research notes that before 2011, Anyang Steel had not issued any annual reports or particular announcement regarding to governmental subsidies. Limited media source indicates that the company received cash grants worth RMB 8.1 million in 2009.

#### Cash Grants and Capital Infusions

In 2014, Anyang Steel reported receiving the cash grants and capital infusions listed below. We note that due to the volume of cash grants located, only grants valued at more than RMB 1 million are reported for 2014:

- “Development Fund for Small and Medium Enterprises in High-tech Zone” worth RMB 20 million;
- Stable employment subsidies worth RMB 10 million;
- *Technology innovation grants* from Henan Provincial Bureau of Finance worth RMB 5 million;
- Rewards on Anyang municipal environmental control projects from Anyang Finance Bureau worth RMB 4,627,000;
- Environmental cash grants, namely a coking phenol cyanide water reuse subsidy, worth RMB 1,846,660;
- Subsidies with no specific description granted by Xinyang Municipal Labor Service Enterprises Management Office (信阳市劳服企业管理处) worth RMB 1,655,641; and
- Awards on corporate bonds from the Ministry of Finance worth RMB 1 million.

Anyang Steel received the following cash grants in 2013, according to its annual report (only subsidies over RMB 1 million included):

- Environmental protection subsidies worth RMB 1.6 million;

<sup>314</sup> [http://www.rizhao.gov.cn/ContShowZwgk.php?category\\_id=1158&aitle\\_id=2793](http://www.rizhao.gov.cn/ContShowZwgk.php?category_id=1158&aitle_id=2793)

<sup>315</sup> <http://www.chinamoney.com.cn/fe/Info/11304743>

<http://www.chinamoney.com.cn/fe/Info/7319674>

<http://www.chinamoney.com.cn/fe/Info/5617327>



- Incentive payments as subsidies on industrial cleaning production demonstration projects worth RMB 8.4 million from Anyang Municipal Bureau of Finance;
- Imported equipment subsidies from Henan Provincial Bureau of Finance worth RMB 3,389,400;
- Subsidies on vacancy of difficult enterprise worth RMB 1,260,000 from Xinyang Workers Unemployment Insurance Office (信阳职工失业保险处); and
- Award and supplement from the National Ministry of Land and Resources worth RMB 2 million.

Anyang Steel received the following cash grants in 2012, according to its annual report (only subsidies over RMB 1 million included):

- Stable employment job subsidies from Anyang Unemployment Insurance Management Center (安阳市失业保险管理中心) worth RMB 10 million;
- Xinsteel (a subsidiary of Anyang Steel) education surcharge rebates worth RMB 7,476,019;
- Environmental protection subsidies worth RMB 5.5 million;
- Industrial economic restructuring project funding worth RMB 34,800,000; and
- Compensation for Clean Development Mechanisms worth RMB 2,809,268.

Anyang Steel received the following cash grants in 2011, according to its annual report (only subsidies over RMB 1 million included):

- Cold-rolled silicon steel project subsidies worth RMB 7 million;
- Innovation project funds worth RMB 6 million;
- Financial cash grants worth RMB 1,261,136;
- Three dimensional Logistics Development capital subsidy worth RMB 1,284,100;
- Industrial economic restructuring project funding worth RMB 4 million;
- Clean development mechanism compensation worth RMB 12,282,306; and
- Subsidies on coking phenol cyanide water reuse worth RMB 1.3 million.

According to Department of Industry and Information Technology of Henan Province, Anyang Steel received cash grants worth RMB 8.1 million from the Henan Province Bureau of Finance and Department of Industry and Information Technology in 2009 for an enterprise energy management demonstration construction project.<sup>316</sup>

#### Tax Benefits to the Steel Industry

Anyang Steel received the following tax benefits in 2014, according to its annual report:

- Farmland occupation tax return and VAT payment return worth RMB 13,054,500;
- VAT payment exemption totaling RMB 4,608,977;
- Refund of VAT worth RMB 4,082,725 on rewards received due to employment of disabled people; and
- Tax refund worth RMB 808,055 for the comprehensive utilization of resources.

Anyang Steel received the following tax benefits in 2013, according to its annual report:

- Comprehensive utilization of resources tax refund worth RMB 1,141,352;
- VAT refund worth RMB 593,456; and
- Farmland occupation tax return and VAT payment return worth RMB 2,624,827.

Anyang Steel received the following tax benefits in 2012, according to its annual report:

- VAT refund worth RMB 3,966,671 for social security and benefits payments; and
- Comprehensive utilization of resources tax refund worth RMB 2,169,843.

<sup>316</sup> <http://222.143.26.80:8080/newsshow.asp?id=4008&typeNumber=0016>

Anyang Steel received the following tax benefits in 2011, according to its annual report:

- Property tax exemption worth RMB 1,129,442;
- Land use tax exemption worth RMB 6,515,793;<sup>317</sup>
- Welfare Corporation VAT refund worth RMB 2,874,242; and
- Comprehensive utilization of resources tax rebates worth RMB 2,649,696;

#### Preferential Loans and Directed Credit

In 2012: Loan interest discounts on export products of International Trade companies amounting to RMB 1,000,000.

#### Other

The Department of Industry and Information Technology of Henan Province and the Henan Provincial Bureau of Finance jointly announced further financial support to promote stable economic development in 2012, according to glinfo.com (钢联资讯), a steel industry information service. Regarding the steel industry, customers who purchased over 10,000 tons of steel from ‘key steel enterprises,’ including Anyang Steel in Henan Province, would be eligible for a rebate from the Henan Province Department of Industry and Information Technology and the Henan Provincial Bureau of Finance. More specifically, the surplus amount (over 10,000 tons) will get 2% rebate of the sales price per ton.<sup>318</sup> Experts in the steel industry said this type of subsidy from governmental authorities is not common.

## 5.16. TISCO

### **Types of State Support Received**

Taiyuan Iron & Steel (Group) Co Ltd (太原钢铁 (集团) 有限公司) (“TISCO”) has received a number of cash grants and capital infusions from 2008 to 2014. It has also benefited from preferential loans and tax benefits.

### **Amounts of State Support Received**

Comprehensive research identified the following state support received by TISCO since 2008, listed in reverse chronological order by subsidy type. Unless otherwise indicated, information about subsidies was located in the company’s annual reports, audit reports or company announcements.

#### Total Amount of Subsidies Received

TISCO reported that it received total government subsidies amounting to RMB 239,353,807 in 2014,<sup>319</sup> RMB 127,406,760 in 2013<sup>320</sup> and RMB 118,271,317 in 2012.<sup>321</sup> The company also reported receiving total government subsidies amounting to RMB 114,561,658 in 2011,<sup>322</sup> and RMB 100,651,729 in 2010.<sup>323</sup> According to the 2009 and 2008 audit reports, the company had received government subsidies of RMB 104,131,829 in 2009<sup>324</sup> and RMB 82,905,942 in 2008.<sup>325</sup>

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<sup>317</sup> Note that the property tax exemptions and land-use tax exemptions could both be considered a land-use subsidy as well.

<sup>318</sup> <http://www.zgjsteel.com/page/newsview.aspx?lmdm=mrfx&newid=61890>

<sup>319</sup> <http://www.chinamoney.com.cn/fe/Info/11477119>

<sup>320</sup> <http://www.chinamoney.com.cn/fe/Info/7561862>

<sup>321</sup> <http://www.chinamoney.com.cn/fe/Info/5661478>

<sup>322</sup> <http://www.chinamoney.com.cn/fe/Info/4168636>

<sup>323</sup> <http://www.chinamoney.com.cn/fe/Info/3184209>

<sup>324</sup> <http://www.chinamoney.com.cn/fe/Info/2970224>

<sup>325</sup> <http://www.chinamoney.com.cn/fe/Info/2970162>

## Cash Grants and Capital Infusions

In 2014, TISCO received various cash grants in various categories, listed below:

- Research development subsidies worth RMB 155,717,864;
- Environmental protection and energy-saving subsidies worth RMB 11,696,117;
- Compensation for demolition RMB 17,613,166; and
- Grants for difficult enterprises worth RMB 10,928,814.

In 2013, cash grants TISCO received are listed as following:

- Grants for research development worth RMB 70,244,433;
- Environmental protection and energy-saving grants worth RMB 14,295,196; and
- Compensation for demolishing worth RMB 27,500 issued by government.

In 2012, government subsidies received by TISCO are listed below:

- TISCO received research development grants of RMB 51,947,357; and
- TISCO received environmental protection and energy-saving subsidies worth RMB 30,387,936.

In 2011, TISCO received grants in research and environment areas, as follows:

- Research development subsidies worth RMB 40,818,099; and
- Environmental protection and energy-saving grants worth RMB 38,620,000.

In 2010, government subsidies received by TISCO are listed as below (only subsidies over RMB 5 million are included):

- TISCO received “2009 mineral resources protection grants” worth RMB 5.1 million from the Jiangxi Province Finance Bureau;
- Shanxi Province Finance Bureau offered RMB 15,966,000 TISCO’s subsidiary Shanxi Taigang Stainless Steel Co Ltd (山西太钢不锈钢股份有限公司) (“Taigang Stainless Steel”) to remove obsolete, outdated coke ovens; and
- Shanxi Province Ministry of Finance also offered other grants worth RMB 14,233,820 to Taigang Stainless Steel.

In 2009, multiple cash grants were received by TISCO’s subsidiaries (only subsidies over RMB 5 million are included):

- Taigang Stainless Steel Co Ltd received cash grants of RMB 30,846,717;
- Taigang Stainless Steel received RMB 15,966,000 from Shanxi Economic and Trade Commission for removing obsolete, outdated coke ovens;
- National Development and Reform Commission issued rewards for Taigang Stainless Steel for removing obsolete, outdated capacity worth RMB 8,634,000; and
- Taigang Stainless Steel received other unspecified cash grants worth RMB 12,227,851.

In 2008, government subsidies received by TISCO (only grants over RMB 5 million are included):

- Shanxi Economic and Trade Commission gave RMB 6,750,000 to Shanxi Taigang Stainless Steel Co Ltd (山西太钢不锈钢股份有限公司) for removing 20 outdated electric stoves;
- Taigang Stainless Steel received RMB 9 million as compensation removing outdated capacity;
- Shanxi Economic and Trade Commission issued a RMB 18,932,200 grant to Taigang Stainless Steel to demolish an obsolete 4.3M coke oven;
- TISCO received other unspecified government subsidies worth RMB 12,282,549.

## Subsidies for Taxes

TISCO received the following tax refunds:

- 2014: RMB 36,221,823;
- 2013: RMB 38,873,030;
- 2012: RMB 34,626,023; and
- 2011 RMB 30,727,258;

In 2010, TISCO's subsidiaries received various tax benefits from the government, as follows:

- TISCO's subsidiary Shanxi Zhengong Iron & Steel Resources Co Ltd (山西正通钢铁资源有限公司) received RMB 1,321,604 in VAT refunds for recycling resources;
- Another subsidiary of TISCO named TISCO Ash Comprehensive Usage Co Ltd (太原钢铁(集团)粉煤灰综合利用有限公司) ("TISCO Ash") received RMB 3,252,349 in VAT refunds from the Shanxi Internal Revenue Service for comprehensive resources utilization;
- TISCO's "Welfare Factory (福利厂)" also received VAT refunds worth RMB 16,938,865 from State Administration of Taxation.

In 2009, tax benefits received by TISCO are shown below:

- TISCO's "Welfare Factory" received VAT refunds worth RMB 14,356,412 from the State Administration of Taxation;
- TISCO Ash received RMB 3,252,349 in VAT refunds from the Shanxi Internal Revenue Service for comprehensive resources utilization.

In 2008, Welfare Factory received VAT refunds worth RMB 10,010,292 from the National Administration of Taxation.

#### Preferential Loans and Directed Credit

The company received the following loan interest refunds:

- 2014: RMB 7,175,786;
- 2013: RMB 3,966,600;
- 2012: RMB 1,310,000;
- 2011: RMB 4,396,300; and
- 2010: RMB 50,000.

Also in 2010, TISCO's subsidiary Taigang Group International Trade Co Ltd (太原钢铁(集团)国际经济贸易有限公司) received loan interest refunds worth RMB 180,000.

In 2009, TISCO received interest payment refunds of RMB 420,800 from the Jiangxi government.

In 2008, TISCO's subsidiary Taigang Stainless Steel received interest payment refunds in the amount of RMB 5 million from the Shanxi Economic and Trade Commission for a silicon steel project as well as interest payment refunds worth RMB 9,930,900 from the Shanxi Province Finance Bureau.

## 5.17. Baogang Group

### Types of State Support Received

Baotou Iron & Steel (Group) Co Ltd (包头钢铁(集团) 有限责任公司) (“Baogang Group”) has received a number of cash grants and capital infusions from 2008 to 2014. It has also benefited from land-use rights, preferential loans and tax benefits. We note that no specific government subsidies were located in the annual reports from 2008 to 2010.

### Amounts of State Support Received

Comprehensive research identified the following state support received by Baogang Group since 2008, listed in reverse chronological order by subsidy type. Unless otherwise indicated, information about subsidies is sourced from the company’s annual reports, auditing reports or company announcements.

### Total Amount of Subsidies Received

Baogang Group reported that it has received total government subsidies in the amount of RMB 771,897,819 in 2014,<sup>326</sup> RMB 1,643,433,638 in 2013,<sup>327</sup> and RMB 610,696,928 in 2012.<sup>328</sup> The company also reported receiving total government subsidies in the amount of RMB 242,283,324 in 2011<sup>329</sup> and RMB 69,672,412 in 2010.<sup>330</sup> In addition, according to Baogang Group’s 2009 and 2008 auditing reports, the company had received government subsidies of RMB 107,137,438 in 2009<sup>331</sup> and RMB 83,075,977 in 2008.<sup>332</sup>

No specific government subsidies from 2008 to 2010 were located in Baogang Group’s annual reports, auditing reports, and company announcements or through comprehensive media research.

### Cash Grants and Capital Infusions

In 2014, Baogang Group received various cash grants from government which are listed as below (only subsidies over RMB 10 million included):

- Financial supportive fund worth RMB 635,093,601;
- Capital related financial grants worth RMB 19,063,925;
- A total of RMB 13,966,837 for multiple categories of grants;
- RMB 38,797,077 in grants for research projects; and
- The Inner-Mongolia government supported Baogang Group in mineral resources comprehensive utilization with RMB 23,773,551.

In 2013, government subsidies over RMB 10 million received by Baogang Group are listed as follows:

- Deferred benefits worth RMB 15.4 million were accounted into 2013’s non-operational profits;
- Financial grants of RMB 52,073,881;
- Received supportive fund in research projects with RMB 111,069,653;
- Demonstrative base funds with RMB 14,234,590;
- Financial supportive funds worth RMB 1,396,000; and

<sup>326</sup> <http://www.chinamoney.com.cn/fe/Info/12125531>

<sup>327</sup> <http://www.chinamoney.com.cn/fe/Info/7599285>

<sup>328</sup> <http://www.chinamoney.com.cn/fe/Info/5758337>

<sup>329</sup> <http://www.chinamoney.com.cn/fe/Info/4226796>

<sup>330</sup> <http://www.chinamoney.com.cn/fe/Info/3184054>

<sup>331</sup> <http://www.chinamoney.com.cn/fe/Info/2657291>

<sup>332</sup> <http://www.chinamoney.com.cn/fe/Info/1560230>

- One media source indicated that Baogang Group successfully applied for cash grants in energy-saving and emission reduction (节能减排) worth RMB 15.6 million. However, the government later decided the group's application violated some of the rules for applying for national financial budgets.<sup>333</sup>

In 2012, Baogang Group received the cash grants listed below (only subsidies over RMB 10 million included):

- Environmental protection supportive funding worth RMB 131,826,700 from the Inner Mongolia Bureau of Finance;
- RMB 28 million for environmental protection from the Baotao Bureau of Finance and Baotou Environment Protection Agency;
- Deferred benefits worth RMB 15.24 million were accounted for in the company's 2012 non-operational profits;
- RMB 30 million from Baiyun Ebo Mineral District People's Government (白云鄂博矿区人民政府);
- "Demonstration base funding (示范基地款)" of RMB 13,347,563 from the Inner Mongolia Bureau of Finance and Inner Mongolia People's Government;
- RMB 38,893,385 in "financial support" grants; and
- "Research projects (课题项目)" grants worth RMB 36,978,402.

In 2011, cash grants received by Baogang Group are listed as below (only subsidies over RMB 10 million included):

- Deferred benefits worth RMB 15,240,000;
- "Environmental protection and pollution discharge compensation (环保排污费补偿金)" worth RMB 26,468,700; and
- Other financial grants worth RMB 56,044,372.

#### Subsidies for Land-use Rights

In 2014, Baogang Group was allowed to amortize the gains of land-transfer fees (土地出让金) for "West Land(西区)," a benefit worth RMB 2,566,637.

#### Preferential Loans and Directed Credit

Baogang Group has received the following loan benefits:

- 2014: RMB 1,456,300 in discounts loan interests;
- 2013: RMB 1,381,200 in discounted interests on loans;
- 2012: "180 seamless financial discounted interests (180 无缝财政贴息资金)" worth RMB 24 million, "the second steelmaking financial discounted interests (二炼钢财政贴息资金)" worth RMB 60 million and "PVC financial discounted interests (管加工财政贴息资金)" worth RMB 33 million.

#### Tax Benefits

Baogang group has received the following tax benefits:

- 2014: Taxes refunds of RMB 150,000, VAT refunds of RMB 3,091,670 and discounts in income taxes of RMB 12,268,978;
- 2013: Baogang Group received tax refunds with RMB 23,430,610;
- 2012: tax refunds of RMB 277,317,137 from Baotou People's Government for outstanding performance in tax payment as well as RMB 1,434,316 in other tax refunds;
- 2011: VAT refund of RMB 5,059,133 and other tax refunds of RMB 121,721,890.

<sup>333</sup> <http://news.sohu.com/20130518/n376320962.shtml>

## 5.18. Hebei Jingye Group

Hebei Jingye Group Co Ltd (河北敬业集团有限责任公司) is a privately-owned group company with five subsidiaries in the steel industry and multiple subsidiaries in other industries. Based on the corporate records located in AIC, the five steel subsidiaries are:

- Pingshan Jingye Smelting Co Ltd (平山县敬业冶炼有限公司)
- Hebei Jingye Iron & Steel Co Ltd (河北敬业钢铁有限公司)
- Hebei Jingye Plates Co Ltd (河北敬业中厚板有限公司)
- Hebei Jingye Steel Rolling Co Ltd (河北敬业轧钢有限公司)
- Ulanhot Iron & Steel Co Ltd (乌兰浩特钢铁有限责任公司)

### **Types of State Support Received**

Research did not locate any media sources regarding governmental subsidies that the group or its subsidiaries received.

### **Amounts of State Support Received**

Investigative research found that neither the group company nor its subsidiaries are publically listed. None of them release any annual reports, auditing reports or specific announcements regarding the government subsidies they received.

Media sources indicate that Hebei Jingye Group was listed as one of the five target companies which were requested by Shijiazhuang government to reduce productivity in 2013.<sup>334</sup>

## 5.19. Jiuquan Steel

Jiuquan Iron & Steel (Group) Co Ltd (酒泉钢铁(集团)有限责任公司) (“Jiuquan Steel”) is a publically-listed group company with one listed steel subsidiary namely Gansu Jiugang Group Hongxing Iron & Steel Co Ltd (甘肃酒钢集团宏兴钢铁股份有限公司) (“Hongxing Iron & Steel”) as well as other subsidiaries in various industries.

### **Types of State Support Received**

Jiuquan Steel reported receiving a number of cash grants and capital infusions since 2008. It also benefited from loan interest discounts and land-use subsidies in 2008. Its subsidiary, Hongxing Iron & Steel, has also received a number of cash grants and land-use benefits, including through special funding for rental housing.

### **Amounts of State Support Received**

Comprehensive research identified the following state support received by Jiuquan Steel and its subsidiaries since 2008, listed in reverse chronological order by subsidy type. Unless otherwise indicated, information about subsidies is sourced from the company’s annual reports or company announcements.

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<sup>334</sup> <http://www.sjz.gov.cn/col/1357365574918/2013/12/06/1386296602878.html>

## Total Amount of Subsidies Received

Jiuquan Steel reported in annual reports that it has received total government subsidies in the amount of RMB 323,738,968 in 2014, RMB 130,257,491 in 2013, RMB 82,968,128 in 2012 and RMB 111,183,384 in 2011 respectively.<sup>335</sup> According to Jiuquan Steel's annual reports, it received a total amount of RMB 44,879,491 in 2010, RMB 43,108,266 in 2009 and RMB 653,234,659 in 2008.<sup>336</sup> Except the 2008 annual report, all other reports do not list out the breakdown of total amounts of governmental subsidies.

Hongxing Iron & Steel reported that it has received government subsidies amounting to RMB 25,267,708 in 2014, RMB 8,947,466 in 2013 and RMB 8,104,866 in 2012, all of which are recorded as non-operational profit.<sup>337</sup> The annual reports do not list out the breakdown of these total amounts. In addition, the company also had deferred subsidies amounting to RMB 18,822,466 that it did not record as profit in 2014.

According to annual reports, Hongxing Iron & Steel received government subsidies in total of RMB 24,122,971 in 2011, RMB 4,183,000 in 2010 and RMB 7,386,666 in 2009.<sup>338</sup>

## Cash Grants and Capital Infusions

An announcement from Guanghai Energy Co Ltd (广汇能源股份有限公司) indicates that the JV with Jiuquan Steel called Gansu Honghui Energy Chemical Co Ltd (甘肃宏汇能源化工有限公司) received governmental subsidies worth RMB 15 million for "sub-quality coal and coal tar hydrogenation refining utilization project" in May 2015.<sup>339</sup>

According to a Government Gazette, Jiuquan Steel was rewarded as a powerful strategic industrial provincial enterprise with cash grants worth RMB 800,000 from Gansu Provincial People's Government Office in 2011.<sup>340</sup>

Gansu Jiugang Group Hongxing Iron & Steel Co Ltd reported receiving the following cash grants and capital infusions in 2011 (only subsidies over RMB 1 million included):

- Social security subsidies from Labor Bureau worth RMB 12,028,047;
- Environmental protection special funding worth RMB 1,700,000;
- Difficult enterprise support grants in total of RMB 3,778,125; and
- Provincial pollution abatement subsidies worth RMB 2,800,000.

Gansu Jiugang Group Hongxing Iron & Steel Co Ltd reported receiving the following cash grants and capital infusions in 2010 (only subsidies over RMB 1 million included):

- "Coke dry quenching project special funding" worth RMB 1 million; and
- "Environmental protection special funding" worth RMB 1.7 million.

The company reported receiving the following cash grants and capital infusions in 2009:

- "Environmental protection special funding" worth RMB 1.5 million;
- "Coke dry quenching project special funding" worth RMB 886,666; and

<sup>335</sup> <http://www.chinamoney.com.cn/fe/Info/13053034>

<http://www.chinamoney.com.cn/fe/Info/7560849>

<http://www.chinamoney.com.cn/fe/Info/5639981>

<http://www.chinamoney.com.cn/fe/Info/4139756>

<sup>336</sup> <http://www.chinamoney.com.cn/fe/Info/3183306>

<http://www.chinamoney.com.cn/fe/Info/667014>

<sup>337</sup> [http://vip.stock.finance.sina.com.cn/corp/view/vCB\\_AllBulletinDetail.php?stockid=600307&id=1682399](http://vip.stock.finance.sina.com.cn/corp/view/vCB_AllBulletinDetail.php?stockid=600307&id=1682399)

[http://vip.stock.finance.sina.com.cn/corp/view/vCB\\_AllBulletinDetail.php?stockid=600307&id=1343505](http://vip.stock.finance.sina.com.cn/corp/view/vCB_AllBulletinDetail.php?stockid=600307&id=1343505)

[http://vip.stock.finance.sina.com.cn/corp/view/vCB\\_AllBulletinDetail.php?stockid=600307&id=1080612](http://vip.stock.finance.sina.com.cn/corp/view/vCB_AllBulletinDetail.php?stockid=600307&id=1080612)

<sup>338</sup> [http://vip.stock.finance.sina.com.cn/corp/view/vCB\\_AllBulletinDetail.php?stockid=600307&id=863765](http://vip.stock.finance.sina.com.cn/corp/view/vCB_AllBulletinDetail.php?stockid=600307&id=863765)

[http://vip.stock.finance.sina.com.cn/corp/view/vCB\\_AllBulletinDetail.php?stockid=600307&id=653688](http://vip.stock.finance.sina.com.cn/corp/view/vCB_AllBulletinDetail.php?stockid=600307&id=653688)

<sup>339</sup> <http://q.stock.sohu.com/gg/20151005218901.pdf>

<sup>340</sup> [http://www.gansu.gov.cn/art/2013/5/30/art\\_480\\_189537.html](http://www.gansu.gov.cn/art/2013/5/30/art_480_189537.html)



- RMB 5,000,000 million funding for 45,000 tons of chromium residue left over from historical detoxification disposal projects.

Jiuquan Steel received the following cash grants in 2008, according to its annual report (only subsidies over RMB 1 million included):

- Incentive funds worth RMB 14,947,200;
- Environmental protection grants worth RMB 11 million;
- Project construction funding worth RMB 41.7 million;
- Sewage charges refund worth RMB 8,850,000;
- Scientific and technological progress award worth RMB 1,230,000; and
- Geology and mineral exploration funding worth RMB 155,306,000.

Hongxing Iron & Steel has received total government subsidies in the amount of RMB 1,500,000 in 2008, all of which was cash grants for environmental protection.<sup>341</sup>

#### Preferential Loans and Directed Credit

In 2008, Hongxing Iron & Steel received national loan interest subsidies worth RMB 13,212,800

#### Subsidies for Land-use Rights

In 2008, Hongxing Iron & Steel received ‘*Land transfer fee refund*’ (土地出让金返还) worth RMB 402,899,206

Based on Hongxing Iron & Steel’s 2014 annual report, its subsidiary Yu Steel (榆钢) received special funding for public rental housing worth RMB 23.71 million by the end of 2013 from the provincial Finance Bureau. The report also indicates that Yu Steel will received special funding for public rental housing in total of RMB 3.33 million in 2016.<sup>342</sup>

#### Deferred subsidies

Hongxing Iron & Steel had the following deferred subsidies in 2014 (only subsidies over RMB 1 million included):

- Waste Water Treatment Project funding worth RMB 1,000,000;
- Environmental protection special funding worth RMB 1,700,000; and
- Subsidies on 100,000 tons of spiral welded pipe project of Yu Steel (a branch company) worth RMB 10,575,000.

## 5.20. Zongheng Steel

Zongheng Iron & Steel Group Co Ltd (河北纵横钢铁集团有限公司) (“Zongheng Steel”) is a large-scale steel joint venture with two subsidiaries in the steel industry and one subsidiary engaged in “steel consulting”. According to AIC records, the two subsidiaries in the steel industry are:

- Handan Zongheng Metallurgical Technology Development Co Ltd (邯郸纵横冶金科技开发有限公司) (“Handan Zongheng”); and
- Cangzhou Sino Steel Equipment Manufacturing Material Co Ltd (沧州中铁装备制造材料有限公司) (“Cangzhou Sino Steel”).

<sup>341</sup> [http://vip.stock.finance.sina.com.cn/corp/view/vCB\\_AllBulletinDetail.php?stockid=600307&id=423488](http://vip.stock.finance.sina.com.cn/corp/view/vCB_AllBulletinDetail.php?stockid=600307&id=423488)

<sup>342</sup> [http://pdf.dfcfw.com/pdf/H2\\_AN201503300008996905\\_1.pdf](http://pdf.dfcfw.com/pdf/H2_AN201503300008996905_1.pdf)

## Types of State Support Received

Media sources located several news sources related to government subsidies in the form of cash grants of Zongheng Steel and its subsidiaries.

## Amounts of State Support Received

Investigative research found that neither the group company nor its subsidiaries revealed annual reports, auditing reports or company announcements regarding the government subsidies they received. However, limited media sources located several news sources related to government subsidies listed in reverse chronological order below.

- In 2014, Cangzhou Sino Steel's "high-frequency power supply alteration and motor frequency conversion power saving project (高频电源改造及电机变频节电项目) and five other companies' projects received total energy-saving technology transformation rewards of RMB 5.05 million together from Hebei Bureau of Finance and Hebei Development and Reform Commission (发改委).<sup>343</sup>
- In 2013, Cangzhou Bureau of Finance issued RMB 254 million in central financial funding. This supported Cangzhou Sino Steel's 2 million tons cold rolled plate, Cangzhou Bohai New Area Gangcheng District free tax warehouse and export supervision warehouse.<sup>344</sup>
- In 2013, Cangzhou Sino Steel's motor system energy-saving project (电机系统节能项目) and another company's project received total national energy-saving technology transformation financial rewards of RMB 14.16 million together.<sup>345</sup>

## 5.21. Dongbei Group

### Types of State Support Received

Dongbei Group (东北特殊钢集团有限责任公司) has received a number of cash grants and capital infusions from 2008 to 2015. It has also benefited from subsidies on tax payments and loan interest discounts.

### Amounts of State Support Received

Comprehensive research identified the following state support received by Dongbei Group since 2008, listed in reverse chronological order by subsidy type. Unless otherwise indicated, information about subsidies is from the company's annual reports and company announcements.

#### Total Amount of Subsidies Received

Dongbei Group reported that it received total government subsidies amounting to RMB 24,250,149 in 2014, RMB 14,966,784 in 2013, and RMB 14,533,822 in 2012, which are recorded as non-operational profit.<sup>346</sup> In addition, the company also accounted for deferred subsidies amounting to RMB 238,431,633 by the end of 2014, RMB 194,740,000 by the end of 2013, and RMB 56,080,000 by the end of 2012.

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<sup>343</sup> <http://www.cangzhou.gov.cn/zwbz/zwdt/bmdt/fgw/301969.shtml>

<sup>344</sup> <http://www.hbczcz.gov.cn/common/newshow.asp?id=921>

<sup>345</sup> [http://hebei.hebnews.cn/2013-11/19/content\\_3613550.htm](http://hebei.hebnews.cn/2013-11/19/content_3613550.htm)

<sup>346</sup> <http://www.chinamoney.com.cn/fe/Info/11936565>

<http://www.chinamoney.com.cn/fe/Info/7534021>

<http://www.chinamoney.com.cn/fe/Info/5693156>

According to Dongbei Group's 2011 annual report, it received total governmental subsidies of RMB 28,507,137 that it registered as non-operational profit. The company also had deferred subsidies amounting to RMB 456,950,000 by the end of 2011.<sup>347</sup>

Dongbei Group reported receiving total government subsidies of RMB 26,026,019 in 2010. The report does not disclose the detailed breakdown of governmental subsidies. The annual report claims deferred subsidies worth RMB 59,657,078 by the end of 2010.<sup>348</sup>

In 2009, Dongbei Group received a total of RMB 22,296,250 in government subsidies that were recorded as non-operational profit. The report does not disclose the detailed breakdown of governmental subsidies. The annual report claims deferred subsidies worth RMB 38,400,000 by then end of 2009.<sup>349</sup> And in 2008, Dongbei Group reported receiving total government subsidies of RMB 22,430,310.<sup>350</sup> The report does not disclose the detailed breakdown of governmental subsidies.

### Cash Grants and Capital Infusions

One main subsidiary of Dongbei Group, Fushun Special Steel Group Co Ltd (抚顺特殊钢集团有限责任公司) reported receiving financial subsidies on steel related technology research and development projects worth RMB 100 million from Fushun Municipal Ministry of Finance in 2015.<sup>351</sup>

Dongbei Group reported receiving the following cash grants and capital infusions in 2014 (only subsidies over RMB 1 million included):

- Unspecified cash grants worth RMB 17,209,166;
- Incentive funds for increasing productivity and expanding sales worth RMB 1,725,800;
- Infrastructure subsidies worth RMB 1 million;
- "Well-known Trademarks" award worth RMB 1 million; and
- Provincial special energy-saving subsidy worth RMB 1 million.

Dongbei Group reported receiving the following cash grants and capital infusions in 2013 (only subsidies over RMB 1 million included):

- Infrastructure subsidies worth RMB 1.5 million;
- "Well-known Trademarks" award worth RMB 1 million;
- Special steel bar wire rod project subsidies worth RMB 1,982,500;
- "863 Research and Development Projects" subsidies worth RMB 2,613,200; and
- Enterprise development fund worth RMB 4,093,899.

Dongbei Group reported receiving the following cash grants and capital infusions in 2012 (only subsidies over RMB 1 million included):

- Export incentives worth RMB 2,482,000;
- Incentive funds for increasing productivity and expanding sales worth RMB 4,293,000 from Municipal Bureau of Finance;
- *863 Research and Development Projects* subsidies worth RMB 1,450,000; and
- Unspecified Nehe Municipal governmental subsidies worth RMB 2,339,889.

<sup>347</sup> <http://www.chinamoney.com.cn/fe/Info/4109238>

<sup>348</sup> <http://www.chinamoney.com.cn/fe/Info/5457732>

<sup>349</sup> <http://www.chinamoney.com.cn/fe/Info/1539369>

<sup>350</sup> <http://www.chinamoney.com.cn/fe/Info/631799>

<sup>351</sup> <http://data.p5w.net/t1201220697.html>  
<http://quote.cfi.cn/zdsj/1197/600399.html>

Dongbei Group reported receiving the following cash grants and capital infusions in 2011 (only subsidies over RMB 1 million included):

- Financial subsidies on technology transformation worth RMB 10 million;
- Energy construction demonstration projects worth RMB 7.2 million;
- Technical skills reform subsidies worth RMB 1,890,000; and
- Export incentives worth RMB 1,184,000.

According to Dongbei Group's 2010 financing bonds prospectus, by the end of September 2009, the company's Dalian-based environmental relocation project was granted financial support worth RMB 253 million from the National Ministry of Finance and Liaoning Provincial Ministry of Finance. Of this amount, the company received RMB 63 million by the end of 2009.<sup>352</sup>

#### Tax Benefits

- 2013: Tax refunds worth RMB 56,245;
- 2012: Tax refunds worth RMB 733,932; and
- 2011: VAT refunds for purchased scrap worth RMB 3,861,137.

#### Preferential Loans and Directed Credit

In 2011, Dongbei Group received interest discounts for import and export products worth RMB 1,484,000. According to Dongbei Group's 2010 financing bonds prospectus, by the end of September 2009, the company had been granted loan interest discounts worth RMB 190 million for this project. Of this amount, the company received RMB 160 million by the end of 2009.<sup>353</sup>

## 5.22. Tsingshan Group

Tsingshan Holding Group (青山控股集团有限公司) is a private company with four subsidiaries in the steel industry and multiple subsidiaries in other industries. Based on its official website, Tsingshan Group's first-tier steel subsidiaries include:

- Zhejiang Tsingshan Iron & Steel Co Ltd (浙江青山钢铁有限公司);
- Zhejiang Tsingshan Special Steel Co Ltd (浙江青山特钢有限公司); and
- Songyang Tsingshan Stainless Steel Co Ltd (松阳青山不锈钢有限公司).

Further research with the AIC found that that besides their three subsidiaries, Tsingshan Group is the sole shareholder of another steel company called Wenzhou Tsingshan Stainless Steel Co Ltd (温州青山不锈钢有限公司). All these subsidiaries are private companies.

#### **Types of State Support Received**

Information in the public domain indicates that Tsingshan Group received some cash grants and discounts on interest payments for imported products.

<sup>352</sup> [http://pg.jrj.com.cn/acc/CN\\_DISC/BOND\\_NT/2010/03/23/103010255\\_ls\\_00000000000020nen.pdf](http://pg.jrj.com.cn/acc/CN_DISC/BOND_NT/2010/03/23/103010255_ls_00000000000020nen.pdf)

<sup>353</sup> [http://pg.jrj.com.cn/acc/CN\\_DISC/BOND\\_NT/2010/03/23/103010255\\_ls\\_00000000000020nen.pdf](http://pg.jrj.com.cn/acc/CN_DISC/BOND_NT/2010/03/23/103010255_ls_00000000000020nen.pdf)

## Amounts of State Support Received

Investigative research indicated that neither Tsingshan Group nor its subsidiaries have issued any annual reports or particular announcements regarding to governmental subsidies. Comprehensive research identified the following state support received by Tsingshan Group and its subsidiaries since 2008, listed in reverse chronological order by subsidy type.

### Cash Grants and Capital Infusions

- According to news on the group company's official website, a subsidiary Ruipu Technology (瑞浦科技) received cash grants amounting to RMB 3.4 million as a one-time financial subsidy for technological innovation and industrial transformation and upgrading from the Zhejiang Finance Bureau and Economic and Information Commission in August 2013.<sup>354</sup>
- Wenzhou Municipal Bureau of Commerce reported that it granted Tsingshan Group capital funding in total of RMB 300,000 for imported resource products in 2011.<sup>355</sup>
- According to Qingtian Law Net, Zhejiang Tsingshan Iron & Steel Co Ltd, together with another local company named Zhejiang Lianqiao Synthetic Leather Co Ltd (浙江联侨合成革有限公司), received special financial subsidies of RMB 780,000 for energy-saving and "industrial circular economy" (节能及工业循环经济财政专项补助资金) in 2009.<sup>356</sup> According to this source, this amount is the largest special funding for an energy-savings project in Qingtian County.

### Preferential Loans and Directed Credit

Based on announcement from Wenzhou Municipal Longwan District Finance Bureau, Tsingshan Group received "Interest Discounts for Imported Products" (进口产品贴息) in the amount of RMB 461,877 from the National Ministry of Finance.<sup>357</sup>

## 5.23. Yongxing Special Steel

### Types of State Support Received

Yongxing Special Stainless Steel Co Ltd (永兴特种不锈钢股份有限公司) ("Yongxing Special Steel") has received a number of cash grants and capital infusions from 2011 to 2013, according to its IPO prospectus for its 2015 listing. It has also benefited from preferential loans and tax benefits.

### Amounts of State Support Received

As Yongxing Special Steel was listed on the Shenzhen Stock Exchange in 2015, it has only published financial data for 2011 to 2013. Comprehensive research identified the following state support received by Yongxing Special Steel, listed in reverse chronological order by subsidy type. Unless otherwise indicated, information about subsidies is sourced from the company's prospectus.

<sup>354</sup> [http://www.tssgroup.com.cn/new\\_v.aspx?id=688](http://www.tssgroup.com.cn/new_v.aspx?id=688)

<sup>355</sup> [http://ftcc.wenzhou.gov.cn/art/2012/11/29/art\\_9970\\_97648.html](http://ftcc.wenzhou.gov.cn/art/2012/11/29/art_9970_97648.html)

<sup>356</sup> <http://www.qtpf.net/text.asp?id=21228>

<sup>357</sup> [http://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=43&ved=0CCwQFjAC0ChqFQoTCO22jtbIjMcCFeEsgods9gBOA&url=http%3A%2F%2Fwww.lwkjhszx.com%2Fupload%2Ffile%2F20150601%2F14331429427865049.doc&ei=CTC\\_Va200eHZmAWzsYeADQ&usg=AFQjCNHbhARzZVVTwSMHpzQOSEMXgN5rIA](http://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=43&ved=0CCwQFjAC0ChqFQoTCO22jtbIjMcCFeEsgods9gBOA&url=http%3A%2F%2Fwww.lwkjhszx.com%2Fupload%2Ffile%2F20150601%2F14331429427865049.doc&ei=CTC_Va200eHZmAWzsYeADQ&usg=AFQjCNHbhARzZVVTwSMHpzQOSEMXgN5rIA)

## Total Amount of Subsidies Received

Yongxing Special Steel reported that it has received total government subsidies in the amount of RMB 9.76 million in 2013,<sup>358</sup> RMB 7.67 million in 2012,<sup>359</sup> and RMB 7.93 million in 2011.<sup>360</sup> All of these government subsidies were accounted for under non-operational profits, and each year's government subsidies comprised 99.98%, 91% and 89.98% of non-operational profits.

## Cash Grants and Capital Infusions

In 2013, Yongxing Special Steel received cash grants (only those over RMB 500,000 were included):

- Deferred benefits worth RMB 756,500 were accounted for under non-operational profits;
- RMB 4.69 million in “water conservancy construction special funding (水利建设专项资金)” from Huzhou Local Tax Bureau (湖州市地方税务局直属分局); and
- RMB 500,000 from the Huzhou Bureau of Finance and Huzhou Economic and Information Commission for being a “star enterprise of the city (市明星企业)”.

State support Yongxing Special Steel received in 2012 was (only subsidies over RMB 500,000 included):

- RMB 1.38 million in “recycling of renewable resources (再生资源回收)” from the Huzhou Bureau of Finance; and
- Deferred benefits worth RMB 688,100 accounted for in 2012.

In 2011, government subsidies over RMB 500,000 that Yongxing Special Steel received are listed below:

- RMB 2.26 million in “recycling of renewable resources (再生资源回收) financial grants” from the Huzhou Bureau of Finance; and
- RMB 1 million in “research center of high-tech enterprises (高新技术企业研究开发中心)” from Zhejiang Province Bureau of Finance and Zhejiang Province Science and Technology Agency (浙江省科学技术厅).

## Tax Benefits

In 2013, multiple kinds of tax benefits received by Yongxing Special Steel (only subsidies over 500,000 included):

- Property tax return of RMB 1.01 million and land-use tax of RMB 572,500 from of Huzhou Local Tax Bureau (湖州市地方税务局直属分局); and
- RMB 500,000 for being “a top ten enterprises of tax payment per acre (十家企业亩均税收) from the Huzhou City CPC (中共湖州市委) and Huzhou People's Government Office.

In 2012, Huzhou People's Government Office rewarded Yongxing Special Steel RMB 3 million for being a “key industrial tax source (工业重点税源)”.

In 2011, Ministry of Finance and State Administration of Taxation VAT refunds worth RMB 2.17 million to Yongxing Special Steel.

## Preferential Loans and Directed Credit

In 2013, Zhejiang Province Bureau of Finance offered RMB 550,600 in discounted interests on imports to Yongxing Special Steel. Huzhou Department of Foreign Economic Cooperation and Huzhou Bureau of Finance also offered discounted interests in import with RMB 228,200.

<sup>358</sup> <http://www.csrc.gov.cn/pub/zjhpublic/G00306202/201406/P020140630481055624376.pdf>

<sup>359</sup> Ibid.

<sup>360</sup> Ibid.

## 5.24. TPCO

### **Types of State Support Received**

Tianjin Pipe (Group) Corporation (天津钢管集团股份有限公司) (“TPCO”) has received cash grants and capital infusions for various purposes such as market expansion, technology research and transformation. It has also benefitted from preferential loans and tax subsidies from 2008 to 2014.

### **Amounts of State Support Received**

Comprehensive research identified the following state support received by TPCO since 2008, listed in reverse chronological order by subsidy type. Unless otherwise indicated, information about subsidies is sourced from the company’s annual reports or company announcements.

#### Total Amount of Subsidies Received

TPCO reported that it has received total government subsidies amounting to RMB 5,443,099 in 2014, RMB 7,261,629 in 2013 and RMB 11,127,000 in 2012, which are recorded as non-operational profit.<sup>361</sup> In addition, the company also had deferred subsidies amounting to RMB 3,350,000 by the end of 2014, RMB 2,000,000 by the end of 2013, RMB 30,907,510 by the end of 2012.

According to TPCO’s 2011 annual report, it received a total amount of RMB 22,129,141.55 in governmental subsidies, which was registered as non-operational profit. TPCO also had deferred subsidies amounting to RMB 26,507,510 by the end of 2011.<sup>362</sup> TPCO reported receiving total government subsidies of RMB 12,882,871 in 2010. The annual report claims deferred subsidies of RMB 25,707,510 by then end of 2010.<sup>363</sup> In 2009, TPCO received a total of RMB 24,718,843 in government subsidies that was recorded as non-operational profit.<sup>364</sup> In 2008, TPCO reported receiving total government subsidies of RMB 17,819,760.<sup>365</sup>

#### Cash Grants and Capital Infusions

TPCO reported receiving the following cash grants and capital infusions in 2014 (only subsidies over RMB 500,000 included):

- Special funds for overseas investment cooperation granted by Finance Bureau amounting to RMB 1,429,600; and
- Special project funds for mandrel and forgings worth RMB 1,333,333.

TPCO reported receiving the following cash grants and capital infusions in 2013 (only subsidies over 100,000 included):

- Key technology research funding of RMB 250,000 for hot-rolled seamless steel bimetal production;
- RMB 170,000 from the “Technological Innovation Special Fund”;
- Subsidies for patents in the amount of RMB 1,418,093;
- Cash grants worth RMB 189,713 from the Finance Bureau for the “enhancement international competitiveness”;

<sup>361</sup> <http://www.chinamoney.com.cn/fe/Info/11374232>  
<http://www.chinamoney.com.cn/fe/Info/7491447>  
<http://www.chinamoney.com.cn/fe/Info/5641008>

<sup>362</sup> <http://www.chinamoney.com.cn/fe/Info/4874883>

<sup>363</sup> <http://www.chinamoney.com.cn/fe/Info/3140941>

<sup>364</sup> <http://www.chinamoney.com.cn/fe/Info/631831>

<sup>365</sup> <http://www.chinamoney.com.cn/fe/Info/631799>

- Technical Committee project subsidy worth RMB 450,000; and
- Subsidies for coal liquefaction research worth RMB 700,000.

TPCO reported receiving the following cash grants and capital infusions in 2012 (only subsidies over RMB 500,000 included):

- Enterprise development funding from the Ministry of Finance worth RMB 4,049,000;
- Production enterprise market expansion funding worth RMB 3,260,000 granted by the Tianjin Economic and Information Commission and the Ministry of Finance;
- Energy saving utilization fund from the Finance Bureau worth RMB 1,860,000; and
- Technology and industrialization subsidies worth RMB 600,000.

TPCO received the following cash grants in 2011, according to its annual report (only subsidies over RMB 500,000 included):

- Waterfront new district construction project grant funds worth RMB 8,581,147;
- High-tension oil casing development and industrialization funding worth RMB 5 million; and
- Commercial insurance subsidies from Ministry of Finance amounting to RMB 1,912,635.

The company received the following cash grants in 2010, according to its annual report (only subsidies over RMB 500,000 included):

- Blast furnace energy-saving funding worth RMB 2,670,000;
- High-tension oil casing development and industrialization funding worth RMB 2 million;
- Subsidies on new 125 MVAR dynamic reactive power compensation devices worth RMB 800,000; and
- Development fund for enterprises in bonded zone worth RMB 2,566,743 granted by the Finance Bureau.

The company received the following cash grants in 2009, according to its annual report (only subsidies over RMB 500,000 included):

- Financial subsidies on energy-saving technological transformation worth RMB 2,122,000;
- Waterfront new district construction project grant funds worth RMB 2,655,000;
- Technological achievements transformation and diffusion funds worth RMB 5 million;
- “Systematic Electricity-Saving Project” funding worth RMB 500,000; and
- Market expansion funding for metallurgy and building materials production enterprises worth RMB 2 million.

The company received the following cash grants in 2008, according to its annual report (only subsidies over RMB 500,000 included):

- Energy-saving technology transformation project rewards granted by the Municipal Finance Bureau amounting to RMB 2,690,000;
- Subsidies on energy-saving transformers worth RMB 900,000;
- “Blast-Furnace Integrated Power Project” subsidies amounting to RMB 1,800,000; and
- Governmental grants for “high-performance OCTG research and development projects” worth RMB 3,050,000.

#### Preferential Loans and Directed Credit

- 2013: Loan interests subsidies on technology transformation projects worth RMB 3,000,000;
- 2011: Loan interests subsidies on Mandrel and high quality alloy steel dagger technological transformation project worth RMB 1,222,222;
- 2010: Loan interests subsidies worth RMB 731,000 granted by the Municipal Finance Bureau;



- 2009: Loan interests subsidies worth RMB 6,867,117 granted by the Municipal Finance Bureau; and
- 2008: Loan interests subsidies worth RMB 2,800,000 granted by the Municipal Finance Bureau.

#### Tax Benefits for the Steel Industry

- 2014: Subsidies on tax payment worth RMB 900,000;
- 2013: Land tax return amounting to RMB 547,900;
- 2010: Refund of tax payments amounting to RMB 3,505,128;
- 2009: Refund on tax payments amounting to RMB 5,233,126; and
- 2008: Refund on tax payments amounting to RMB 5,769,360.

#### Utilities subsidies

In 2014, the company received RMB 400,000 in electric power compensation from Tianjin Economic and Information Commission and the Ministry of Finance.

## 6. COMMONLY USED TYPES OF STATE SUPPORT

Comprehensive research was conducted to obtain details of commonly used / favored support at different levels of the Chinese government as detailed below. This includes various references from the recently published *Assessment of the normative and policy framework governing the Chinese economy and its impact on international competition* by Prof. Markus Taube and Peter Thomas in der Heiden (“MES China Study”),<sup>366</sup> which is referenced throughout this section of the report.

### 6.1. National Level Support

#### Central Government Structure and Agenda

The Chinese central government is comprised of the main administrative authority, the State Council, and its subordinate organizations, which include ministries (e.g. the Ministry of Land and Resources, Ministry of Finance, etc.), commissions (the National Development and Report Commission, and the State-owned Assets Supervision and Administration Commission, etc.), other key organizations (the National Bureau of Statistics, the State Administration of Taxation, etc.), and offices and institutes (e.g. People’s Bank of China, the National Bureau of Statistics, Chinese Academy of Engineering, etc.).<sup>367</sup> This PRC state apparatus is closely linked with the Chinese Communist Party (“CCP”), which guides the policy-making process.

The central government sets out general goals to manage the national economy, and to achieve these goals it designs guidelines and plans. The local governments are generally required to advance the policies established by the central government. According to *The Local People’s Congress and Local People’s Government Organization Law of The People’s Republic of China*, local governments are required by law to “implement national economy and society development plans and budget; as well as administer the economy, education, science, culture, health, sports, environment and resources protection, city and village construction and financial, civil, public security, ethnic affairs, judicial administration, supervision and population planning within the jurisdiction.” Each level of the government reports to the level directly above it to “achieve the national goal.”<sup>368</sup>

#### Five-Year Programs

Through its Five-year Programs (“FYP”),<sup>369</sup> the central government sets the general direction of policy. The government requires the local governments to then make their own five-year action plans that align with the state’s policy agenda, although they are allowed some leeway to adjust the policy to the local situation. Industry specific FYPs are also made by relevant government bodies.

The entire process for developing an FYP is long and complicated, usually taking two-and-a-half years.<sup>370</sup> According to a source from the NDRC who participated in drafting the 12<sup>th</sup> FYP, the central CCP guides special teams to draft the plan, which is then submitted to China’s main legislative body, the National People’s Congress, for review and approval, after which it is sent out to ministries and commissions. The local governments (provincial, municipal and other lower levels) are then required to make their own programs.

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<sup>366</sup> Taube, Markus. *Assessment of the Normative and Policy Framework Governing the Chinese Economy and Its Impact on International Competition*. Munich: THINKIDESK China Research & Consulting, 25 June 2015 (“MES China Study”)

<sup>367</sup> [http://www.gov.cn/guowuyuan/gwy\\_zzjg.htm](http://www.gov.cn/guowuyuan/gwy_zzjg.htm)

<sup>368</sup> [http://baike.baidu.com/link?url=62tuN8\\_MLwwUwcmcpPxpMYdNRo2st0o0WJLGkVo1f0Ty2etv7J97r8XChfgojgZAt5JwW5\\_Hqvk1bEtg4B0gT\\_](http://baike.baidu.com/link?url=62tuN8_MLwwUwcmcpPxpMYdNRo2st0o0WJLGkVo1f0Ty2etv7J97r8XChfgojgZAt5JwW5_Hqvk1bEtg4B0gT_)

<sup>369</sup> Note that the Five-year Plans have been called Five-year “Program” (计划) instead of plan (计划) since the 11th Five-year Program.

<sup>370</sup> [http://www.js.xinhuanet.com/2015-08/03/c\\_1116122933.htm](http://www.js.xinhuanet.com/2015-08/03/c_1116122933.htm)

Over the past decade, two five-year plans have been released – the 11<sup>th</sup> FYP (2006-2010) and the 12<sup>th</sup> FYP (2011-2015). Drafting of the 13<sup>th</sup> FYP, which will roll out in 2016, is currently underway.<sup>371</sup>

### National Programs for the Steel Industry

According to the MES China Study, “a sizable number of subsidy disbursements are tied to concrete programs.”<sup>372</sup>

The current high-level program for the steel industry is the *12<sup>th</sup> Five-year Program for the Steel Industry*, which was issued by the Ministry of Industry and Information Technology (“MIIT”) and addressed to the MIIT branch administrations in the provinces, autonomous regions and municipalities, as well as relevant industry associations and relevant central government owned SOEs on 24 October 2011. This document was made in accordance to the national *12<sup>th</sup> Five-year Program and Industry Transformation Upgrading Program (2011-2015)*.<sup>373</sup> The MIIT’s published explanation of this document mentioned that this program adopted the suggestions from relevant departments, localities, industry associations and experts. The MIIT further stated that it would amend steel industry policies and regulate production and operation in the market to strengthen guidance of the industry. It urged the local governments to follow and implement these policies.<sup>374</sup>

As the problem of overcapacity in the industry persists, additional plans have been issued or are in the process of being drafted to achieve the transformation and upgrade of the steel industry, as deemed necessary by the State Council. These include the *Steel Industry Transformation and Development Action Plan (2015-2017)*, *Steel Industry Development Plan (2016-2020)* and *Non-ferrous Metal Industry 13<sup>th</sup> Five-year Program*.<sup>375</sup>

Following issuance of these high-level programs for the steel industry, more specific programs will be designed by various government bodies under the State Council. A comprehensive review and analysis of these organizations found that government bodies most frequently involved in steel industry support include the following: Ministry of Finance (“MoF”), MIIT, China Banking Regulatory Commission (“CBRC”), Ministry of Science and Technology (“MST”), Ministry of Environmental Protection (“MEP”), Ministry of Land and Resources (“MLR”), Ministry of Commerce (“MofCom”), State Administration of Taxation (“SAT”), General Administration of Customs (“GAC”), and the National Development and Reform Commission (“NDRC”). There are also “non-governmental” organizations, such as China Iron and Steel Association (“CISA”), which has a quasi-governmental role in helping to implement policies, collect data, and provide feedback to the government.<sup>376</sup>

*Suggestions by the General Office of the State Council about Accelerating Steel Industry Structuring Adjustment and Strengthen Energy Conservation Waste Emission* issued on 4 June 2010 listed the roles each government body plays in the industry, as outlined in the table below.<sup>377</sup>

<sup>371</sup> [http://www.js.xinhuanet.com/2015-08/03/c\\_1116122933.htm](http://www.js.xinhuanet.com/2015-08/03/c_1116122933.htm)

<sup>372</sup> Page 48, *MES China Study*

<sup>373</sup> [http://www.gov.cn/zwqk/2011-11/07/content\\_1987459.htm](http://www.gov.cn/zwqk/2011-11/07/content_1987459.htm)

<sup>374</sup> <http://www.miit.gov.cn/n11293472/n11293862/n11376336/n11638290/14389461.html>

<sup>375</sup> <http://mt.sohu.com/20150722/n417274016.shtml>

<sup>376</sup> <http://www.chinaisa.org.cn/gxportal/DispatchAction.do?efFormEname=ECTM40&key=AGMNMghjAGEGZw84B2BQMqVhVTUAZA3X2sBNic9Aj5QqWlGCBN WZldGAOQDFAxu>

<sup>377</sup> [http://www.gov.cn/zwqk/2010-06/17/content\\_1629386.htm](http://www.gov.cn/zwqk/2010-06/17/content_1629386.htm)

Task	Lead Government Body(s)	Other Involved Government Bodies
Enforce strict standards for steel construction projects	NDRC, MIIT	N/A
Organize and cancel steel construction projects	NDRC	Ministry of Supervision, MIIT, MLR, MEP
Investigate and stop illegal land-use	MLR	N/A
Investigate and correct environmental protection violations	MEP	N/A
Strict loan review and approval for the steel industry	CBRC, PBOC	N/A
Strengthen the quality supervision of the steel industry	General Administration of Quality Supervision	N/A
Strict tax collection and management	MoF, SAT	N/A
Improve differentiated electricity prices	NDRC	N/A
Set annual goals for eliminating outdated capacity and identify companies required to eliminate outdated capacity	MIIT	N/A
Define production operation standards for steel industry, announce qualified companies	MIIT	MEP, MofCom
Implement awards for outdated capacity elimination	MoF, MIIT	N/A
Encourage electricity generation using residual heat and sources connected to the grid	NDRC	N/A
Strengthen the control of energy-saving and emission reduction work	General Administration of Quality supervision	N/A
Policy of Adjustment of Steel Product Import & Export Tax Collection	MoF	NDRC, MIIT, MofCom, General Administration of Customs, SAT, CISA
Driving steel companies merging and restructuring	MIIT	NDRC, MOF, MLR, SASAC, SAT, CBRC, CSRC
Promote steel enterprises technology transformation	NDRC, MIIT	N/A
Regulate the Circulation Order of Iron Ore	CISA, China Chamber of Commerce of Metals, Minerals & Chemicals Importers & Exporters	MofCom, Ministry of Foreign Affairs, NDRC, MIIT
Expanding the domestic exploration on iron ore resources	MLR	MOF
Encourage domestic enterprises to explore mines and to build steel mills abroad.	NDRC, MofCom	MIIT, PBOC, SASAC

Deal with international trade friction	MofCom	NDRC, MIIT, General Administration of Quality supervision, CISA
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### Most Frequent Types of State Support

Comprehensive research of media sources and companies' corporate filings revealed that the most frequent types of government subsidies issued by the state are in the form of cash grants, preferential loans and tax benefits. The MES China Study also mentions the most frequent types of subsidies: "*Subsidies come with various labels. Most are designated as subsidies (补助 or 补贴) while others take the form of awards (奖). Many grants are disbursements from special funds (专项奖金) or offered as loan interest subsidies (贴息). Tax refunds (税返还) and compensations for enterprise expenses (经费/补偿) are common and in some cases particularly large.*"<sup>378</sup>

Review of the corporate filings of China's 24 largest companies revealed that most of these received a significant number of subsidies, though in recent years the support seems to be directed towards a select group of companies charged with leading the industry through the government mandated restructuring and consolidation. However, as the MES report also points out, "*While available information may indicate that such financial contributions were inspired by the intention to help improve innovative capabilities or support environmental protection, it is not immediately clear which government initiative has provided the regulatory basis for the payment.*"<sup>379</sup>

As noted above, cash grants, preferential loans and tax benefits are the most frequently seen forms of support in important national-level programs directed toward the steel industry. Cash grants are usually given in the form of awards and project expenses. Also, loan interest subsidies are granted to enterprises from special funds established by various government bodies. Government bodies and their subordinate administrations often allocate cash grants via "special funds," which are required to keep separate accounting and should not be used for anything other than their original purposes.<sup>380</sup> Government bodies and their subordinate administrations would usually publish a regulation regarding how each special fund should be managed and the forms of subsidy disbursement.

This emphasis on cash grants, preferential loans and tax benefits is apparent in the government policies and programs briefly introduced below:

- On 27 October 1997, MOF issued the *Temporary Regulation of Technology Transformation Special Project Loan Interest Subsidy Management*. The document stated that the loan interest subsidy in this regulation referred to subsidies the MOF granted to projects directly arranged by the central government. This regulation mentioned that subsidies for local companies would be granted by local finance administrations, while subsidies for companies directly under the central government would be granted by the central finance administration.<sup>381</sup>
- In the 2005 *Steel Industry Development Policy* issued by the NDRC on 8 July 2005, article 16 mentioned that the central government would provide support through favored policies to give **tax support, loan interest subsidies and R&D expense support** for steel projects using new domestically-developed equipment.<sup>382</sup>

<sup>378</sup> Page 49, *MES China Study*

<sup>379</sup> Page 48, *MES China Study*

<sup>380</sup> <http://baike.sogou.com/v34624.htm?ch=ch.bk.innerlink>  
<http://wiki.mbalib.com/wiki/%E4%B8%93%E9%A1%B9%E8%B5%84%E9%87%91>

[http://baike.baidu.com/link?url=PZEvfxBatmENJC2cz26BATzqWIXaSryXf1FDZRSJWCzkesbUE6ApqGAd478DGCZRz\\_U3tKujL77iXs86BPHI1Cq](http://baike.baidu.com/link?url=PZEvfxBatmENJC2cz26BATzqWIXaSryXf1FDZRSJWCzkesbUE6ApqGAd478DGCZRz_U3tKujL77iXs86BPHI1Cq)

<sup>381</sup> [http://www.law-lib.com/law/law\\_view.asp?id=13538](http://www.law-lib.com/law/law_view.asp?id=13538)

<sup>382</sup> [http://www.gov.cn/gongbao/content/2006/content\\_320630.htm](http://www.gov.cn/gongbao/content/2006/content_320630.htm)

- In 2005, the MOF and MofCom set up the *Foreign Economic and Technical Cooperation Special Fund*,<sup>383</sup> which was provided in the form of **cash grants** and **loan interest subsidies** at the time.<sup>384</sup> The MOF and MofCom's issued a notice in 2012 that it would continue to issue the fund in the form of cash grants and loan interest subsidies.<sup>385</sup> Interestingly, on 23 January 2015 Guiyang Municipal Bureau of Commerce issued *the Notice of the Application for the 2014 Foreign Economic and Technical Cooperation Special Fund*, in which it listed "subsidy awards" in addition to the cash grants and loan interest subsidies.<sup>386</sup> No recent national regulation related to the fund was found, making it unclear whether "subsidy awards" is a new type of funding or is specific to Guiyang Municipal Bureau of Commerce. Baoshan Iron & Steel and Shandong Steel Group received RMB 257 million in 2014<sup>387</sup> and RMB 6 million in 2013 from this fund respectively, according to their annual reports.<sup>388</sup>
- The *Steel Industry Adjustment and Revitalization Program for 2009 to 2011* by the State Council issued on 20 March 2009 mentioned that the central government would arrange special funds to provide **loan interest subsidies** to support steel companies' technology transformation.<sup>389</sup> This document also mentioned that **favoured tax policies** would be implemented to strengthen steel companies' merging and restructuring.<sup>390</sup> This document added that financial backing was encouraged for important and large steel companies.<sup>391</sup>
- The *Energy-saving Technology Transformation Financial Awards Capital Management Regulation*, issued by the MoF and NDRC in 2011, is the actionable energy-saving and emission reduction subsidization standard, according to a report on 15 February 2014 by *China Business News*. In 2012, the MoF budgeted RMB 97.9 billion for the "*Energy-saving and Emission Reduction and Renewable Energy Special Fund*." The fund would be provided in the form of **awards and project expense subsidies**.<sup>392</sup>
- The MIIT set up an *Intergradation of Information Technology and Industrialization Special Fund* on 24 June 2013. The fund would be provided in the form of **cash grants** for specific projects with a sum not exceeding 30 percent of the total investment in the project or RMB 5 million.<sup>393</sup> This special fund is not limited to the steel industry. However, Hebei Steel group disclosed in its 2014 annual report that it received RMB 600,000 from this fund in 2014.
- *Guidance and Suggestions on Solving the Overcapacity Problem* released by the State Council on 6 October 2013 called for the MoF to increase funding awards to steel companies for removing outdated capacity. The guidance said that local finance bureaus should also arrange special funds according to the specific situation of each locality.<sup>394</sup> This document encouraged **credit and loans** for companies planning or undergoing mergers and restructuring, technology transformation, and overseas expansion. It also called for the period of loans for mergers to be extended to seven years.<sup>395</sup> The document further indicated that companies with overcapacity that transfer some capacity abroad would enjoy **tax rebates** on the exported equipment and products.<sup>396</sup>
- More recently, starting 1 May 2015, an export tariff for iron and steel powder, rare earths, tungsten and molybdenum was cancelled, while the tax rate for aluminum materials was reduced to zero, according to *Notice of the Customs Tariff Commission of the State Council on the Adjustment of Export Tariffs on Certain Products*.<sup>397</sup>

<sup>383</sup> <http://www.afinance.cn/new/gncj/200902/180867.html>

<http://www.chinalawedu.com/new/201309/xuhuijian2013091316395668985433.shtm> I

<sup>384</sup> <http://www.chinaacc.com/new/63/64/80/2006/5/zh8426219932560025736-0.htm>

<sup>385</sup> [http://www.gov.cn/zwgg/2012-07/19/content\\_2186858.htm](http://www.gov.cn/zwgg/2012-07/19/content_2186858.htm)

<sup>386</sup> [http://swj.gygov.gov.cn/art/2015/1/23/art\\_1186\\_696054.html](http://swj.gygov.gov.cn/art/2015/1/23/art_1186_696054.html)

<sup>387</sup> [http://tv.baosteel.com/ir/pdf/report/600019\\_2014.pdf](http://tv.baosteel.com/ir/pdf/report/600019_2014.pdf)

<sup>388</sup> <http://www.chinamoney.com.cn/fe/Info/7595789>

<sup>389</sup> [http://www.gov.cn/zwgg/2009-03/20/content\\_1264318.htm](http://www.gov.cn/zwgg/2009-03/20/content_1264318.htm)

<sup>390</sup> [http://www.gov.cn/zwgg/2009-03/20/content\\_1264318.htm](http://www.gov.cn/zwgg/2009-03/20/content_1264318.htm)

<sup>391</sup> [http://www.gov.cn/zwgg/2009-03/20/content\\_1264318.htm](http://www.gov.cn/zwgg/2009-03/20/content_1264318.htm)

<sup>392</sup> [http://www.csteelnews.com/xwzx/xydt/201402/t20140215\\_231642.html](http://www.csteelnews.com/xwzx/xydt/201402/t20140215_231642.html)

<sup>393</sup> <http://www.miit.gov.cn/n11293472/n11293832/n12843926/n13917012/15474732.html>

<sup>394</sup> <http://politics.people.com.cn/n/2013/1015/c1001-23210728.html>

<sup>395</sup> <http://politics.people.com.cn/n/2013/1015/c1001-23210728.html>

<sup>396</sup> <http://politics.people.com.cn/n/2013/1015/c1001-23210728.html>

<sup>397</sup> [http://www.gov.cn/xinwen/2015-04/23/content\\_2852170.htm](http://www.gov.cn/xinwen/2015-04/23/content_2852170.htm)

On the national level, subsidization has recently focused on environmental protection, energy-savings and technology upgrading. Our review of the *2014 Tax Rebates and Transfer Payments in General Public Budget from the Central Government to Local Governments* found the following national funds related to technology upgrades and environmental protection – “Industry Technology Research Expense (产业技术研究经费),” “Central Finance Guiding Local Technology Development Fund (中央财政引导地方科技发展资金),” “Technology Enriching People and Strong Counties Action Fund (科技富民强县行动计划资金),” “Energy-saving Special Fund (节能专项资金),” “Circular Economic Development Fund (循环经济发展补助资金),” “Strategic New Emerging Industry Development Funds (战略新兴产业发展资金)” and Industry Transformation Upgrading Fund (工业转型升级资金).<sup>398</sup> While these funds are not exclusively for the steel industry, this sector is especially important, as it is supposed to play an important role in energy-saving, transformation and upgrades.

## Comparable Levels of Support by Geographic Location

### Geographic Focus of National Policy

The 12th FYP for the steel industry issued by the MIIT outlines the national-level plan for the development and regional distribution of the steel industry. The chart below illustrates the different tasks and their regional focus set out at national level for the relevant administrations. These tasks are largely aimed at capacity reduction though ending expansion projects, removing obsolete production, relocation, mergers, restructuring, and technology upgrades.<sup>399</sup>

To summarize, the 12<sup>th</sup> FYP for the Steel Industry includes the following regional specific guidelines:

- Northern and central coastal area are not to build any new steel plants;
- Liaoning Province in northeastern China, Jiangsu Province and Shandong Province of eastern China and the northern provinces of Hebei and Shanxi are to focus on redistribution of the steel industry through M & A and removing obsolete production;
- Central China (Henan, Hubei and Hunan provinces) and the eastern provinces of Anhui and Jiangxi are to focus on restructuring and upgrading without increasing capacity;
- Western China shall develop the steel industry at “a healthy pace”, through using advantageous resources and accommodating relocated production; and
- Border regions (Xinjiang, Yunnan and Heilongjiang) shall explore and utilize mining resources, energy and markets beyond the borders.<sup>400</sup>

12th Five-year Program for the Steel Industry	
Region	Task
Bohai Costal Region	No further new steel plant construction.
Yangtze River Delta	No further new steel plant construction.
Taiyuan Steel, CITIC Pacific Special Steel Group, Dongbei Group, Baosteel Special Steel Technology	Upgrading, green and energy-saving; and special steel for equipment manufacturing and aerospace.

<sup>398</sup> [http://yss.mof.gov.cn/2014czys/201507/t20150709\\_1269837.html](http://yss.mof.gov.cn/2014czys/201507/t20150709_1269837.html)

<sup>399</sup> [http://www.gov.cn/zwgk/2011-11/07/content\\_1987459.htm](http://www.gov.cn/zwgk/2011-11/07/content_1987459.htm)

<sup>400</sup> [http://www.gov.cn/zwgk/2011-11/07/content\\_1987459.htm](http://www.gov.cn/zwgk/2011-11/07/content_1987459.htm)



12th Five-year Program for the Steel Industry	
Region	Task
Hebei, Shandong, Jiangsu, Liaoning and Shanxi	Reduce capacity through mergers, restructuring and removing obsolete capacity.
Hunan, Hubei, Henan, Anhui and Jiangxi	Promote restructuring and industry upgrading without increasing production capacity.
Western China	Develop the steel industry in a reasonable manner; actively explore nearby mines, energy resources and markets, particularly in provinces with international borders including Xinjiang, Yunnan (also Heilongjiang, though this is in the North); and maximize Panxi Vanadium and Titanium resources and Baotou Rare Earth resources.
Southeast coastal area	Accelerating the steel-base construction in Zhanjiang city (湛江), Fangchenggang city (防城港), Guangdong; and promote the construction of a steel base in Ningde city (宁德), Fujian province
Guangzhou city, Qingdao city, Kunming city, Hefei city, Tangshan city, Hangzhou city and Wufu city	Steel mills relocation; and promote technology transformation.
Xining city, Fushun city, Shijiazhuang city, Guiyang city	Conduct “scientific reasoning” assessment in city steel mills development.
Liaoning, Hubei, Shanghai, Beijing Municipality	Support for various trans-regional mergers: Ansteel Group merger with Pangang (攀钢), Bengang (本钢) and Sangang (三钢); Baosteel Group merger with steel companies in Guangdong; WISCO merger with steel companies in Yunnan, Guangxi; and Shougang Group merger with steel companies in Jilin, Guizhou and Shanxi.
Hebei province, Jiangsu province, Shandong province, Shanxi province, Henan province, Yunnan province	Strengthen the merger of Hebei Steel Group and Shandong Steel Group; promote the merger between Tangshan Bohai Steel and Taiyuan Steel; and direct mergers in Hebei, Jiangsu, Shandong, Shanxi, Henan, and Yunnan provinces.

We note that while other places in China generally are required to reduce capacity, Zhanjiang and Fangchenggang were encouraged to build new production bases in the 12 FYP. Further research shows that the project in Zhanjiang is connected to Baosteel and the Fangchenggang project is connected to WISCO, with the NDRC agreeing to preliminary work for both of the projects in 2008. According to the chairman of Baosteel, Xu Lejiang (徐乐江), the company wants to build over 20 million tons of steel production capacity, which is hard to realize through mergers and acquisitions, its only option is to build new plants.<sup>401</sup> In addition, the general manager of Baosteel Zhanjiang Steel

<sup>401</sup> <http://info.glinfo.com/12/0502/15/DE0C94EDB0E99E4C.html>



Company (宝钢湛江钢铁公司), Zhao Zhouli (赵周礼), commented that Zhanjiang harbor’s position is very good for transportation of imported iron ore.<sup>402</sup>

In WISCO’s case, its plants are situated in an inland region, so imported iron ore would have to be transported to the coastal region and then be transported to WISCO via the Yangtze River. Therefore, WISCO has higher transportation costs than Baosteel. Deng Qilin (邓崎琳), the general manager of WISCO, has expressed many times that Fangchenggang project is WISCO’s “future lifeline.”<sup>403</sup> As mentioned in the 12<sup>th</sup> FYP, the Chinese government wants to build Baosteel, WISCO, Ansteel and Shougang Group into international influential conglomerates. Approval of the projects in Zhanjiang and Fangchenggang shows great support for Baosteel and WISCO.<sup>404</sup>

Issued on 20 March 2009, the 12<sup>th</sup> FYP for the steel industry is a follow-up to the State Council’s *Steel Industry Adjustment and Revitalization Program for 2009 to 2011*.<sup>405</sup> The 2009-2011 program had already pointed to overcapacity, outdated technology and improper geographic layout as major problems for the steel industry, issues that would be solved through capacity controls, removing outdated capacity, restructuring and technology transformation. Several merging plans had already been laid out in this document, as shown in the table below.<sup>406</sup>

Mergers in 2009 to 2011 Steel Industry Adjustment and Revitalization Program	
Subject	Targets
Ansteel Group	Pan Steel, Dongbei Group
Baosteel Group	Baotou Steel, Ningbo Steel
Tianjin Steel Tubes	Tianjin Iron, Tianjin Steel and Tianjin Metallurgy
Taiyuan Steel	Steel companies in Shanxi Province

### Geographic Focus of Special Funds

Most special funds established at the national-level are open to application by any domestic enterprise, though there is often a limitation that “each locality can only to apply for one project.” Some special funds have a clear preference for SOEs,<sup>407</sup> while others have a clear geographic focus – for instance, special funds devoted to the management of pollution and environmental protection.

Since 2013, the MEP and MOF have granted a series of special funds to areas with the most severe air pollution.<sup>408</sup> *People’s Daily* reported in 2013 that a RMB 5 billion subsidy for air pollution control would be disbursed in the form of awards administered after the project is complete,<sup>409</sup> which is better than giving subsidies when a project is first approved, according to a *China Times* report dated 15 February 2014.<sup>410</sup> Experts commented that although the RMB 5 billion was the largest air pollution control fund as of 2013, the amount allocated to specific localities would be limited; experts said that the fund was more of an incentive to drive the local governments to invest more to control air pollution.<sup>411</sup>

<sup>402</sup> <http://finance.ifeng.com/news/corporate/20120601/6547940.shtml>

<sup>403</sup> <http://info.gjinfo.com/12/0502/15/DE0C94EDB0E99E4C.html>

<sup>404</sup> [http://www.gov.cn/zwgk/2011-11/07/content\\_1987459.htm](http://www.gov.cn/zwgk/2011-11/07/content_1987459.htm)

<sup>405</sup> [http://www.gov.cn/zwgk/2009-03/20/content\\_1264318.htm](http://www.gov.cn/zwgk/2009-03/20/content_1264318.htm)

<sup>406</sup> [http://www.gov.cn/zwgk/2009-03/20/content\\_1264318.htm](http://www.gov.cn/zwgk/2009-03/20/content_1264318.htm)

<sup>407</sup> <http://www.miit.gov.cn/n11293472/n11293832/n12843926/n13917012/15474732.html>

<sup>408</sup> <http://www.dzgg.com/Article/12442.html>

<sup>409</sup> [http://paper.people.com.cn/rmrb/html/2013-10/15/nw.D110000renmrb\\_20131015\\_4-01.htm](http://paper.people.com.cn/rmrb/html/2013-10/15/nw.D110000renmrb_20131015_4-01.htm)

<sup>410</sup> [http://finance.sina.com.cn/roll/20140215/000718219034.shtml?from=ln\\_xgbd](http://finance.sina.com.cn/roll/20140215/000718219034.shtml?from=ln_xgbd)

<sup>411</sup> <http://news.waunews.com/xgnzw/465.html>

MEP and MoF Special Fund for Air Pollution Control		
Year	Amount	Area
2013	RMB 5 billion	Beijing, Tianjin, Hebei province, Shandong province, Inner Mongolia and Shanxi province
2014	RMB 9.8 billion	The six provinces listed above plus Jiangsu province, Zhejiang province, Anhui province and Shanghai
2015	RMB 11.5 billion	The ten listed above plus Henan province

In 2015, the MoF established a *Heavy Metal Pollution Special Fund* (RMB 2,793,150,000) that would be administered over a three-year period to help 30 cities and districts prevent and control heavy metal pollution in the soil. Previously in 2010, the MOF had already allocated money for this purpose, though it was not effective for various reasons.<sup>412</sup>

Heavy Metal Pollution Special Fund	
Provincial Level Region	City/Municipal Level County
Hunan Province	Changde city (常德市), Xiangtan City (湘潭市), Loudi City (娄底市), Shaoyang City (邵阳市), Yueyang City (岳阳市), Yiyang City (益阳市), Hengyang City (衡阳市) Zhangjiajie City (张家界市) Xiangxi Zhou (湘西州) Changsha City (长沙市) Chenzhou City (郴州市)
Gansu Province	Baiyin City (白银市)
Zhejiang Province	Huzhou City (湖州市)
Sichuan Province	Liangshan Zhou (凉山州)
Guangxi Autonomous Region	Hechi City (河池市)
Hubei Province	Jingmen City (荆门市), Xiaogan city (孝感市)
Shaanxi Province	Weinan City (渭南市)
Yunnan Province	Kunming City (昆明市), Qujing City (曲靖市)

<sup>412</sup> <http://www.yicai.com/news/2015/07/4640086.html>

Heavy Metal Pollution Special Fund	
Provincial Level Region	City/Municipal Level County
Jiangxi Province	Ganzhou City (赣州市)
Qinghai Province	Xining City (西宁市), Haixi Zhou (海西州)
Guizhou Province	Bijie City (毕节市), Liupanshui City (六盘水市), Tongren City (铜仁市)
Guangdong Province	Dongguan City (东莞市), Shaoguan City (韶关市)
Shandong Province	Yantai City (烟台市)
Chongqing Municipality	Dazu County (大足县)

### Hebei province

Hebei is a very important province when it comes to overcapacity in the steel industry and environmental pollution. It shoulders more responsibility for capacity reduction and has received more subsidies for environmental protection from the national government than any other province.

- According to a report dated 11 March 2014 by *China Industry Research Net*, the State Council decided in 2013 to reduce 80 million tons of steel capacity within five years; the Hebei provincial government was made responsible for 60 million tons, or 75%, of this goal.<sup>413</sup>
- In October 2013, when the central government allocated the RMB 5 billion fund to six municipalities, provinces and autonomous regions, Hebei was said to be prioritized.<sup>414</sup> A later report in 2014 mentioned that Zhu Jianping (朱建平), the deputy chief officer of Environment Monitoring Department of MEP, revealed that RMB 2.5 billion of the air pollution treatment fund in 2013 was allocated to Hebei Province, while the rest was equally allocated to the other five provinces/municipalities/autonomous region.<sup>415</sup>
- In March 2015 when Premier Li Keqiang joined the Hebei Representative Group to review the *Government Work Report* during China's parliamentary sessions, he told Zhang Qingwei (张庆伟), the governor of Hebei province, that the central government should help Hebei province on its capacity reduction and should give Hebei province preferential financing. Zhang stated that in 2014, Hebei's capacity reduction caused its GDP to drop 1.7% and affected the employment of over 400,000 people.<sup>416</sup>

## 6.2. Local Government Support

This section is devoted to preferential policies and subsidies from local governments (at the provincial or municipal level downward) as opposed to the central government.

### Local Government Structure and Agenda

<sup>413</sup> <http://www.chinairn.com/news/20140311/093709361.html>

<sup>414</sup> [http://paper.people.com.cn/rmrb/html/2013-10/15/nw.D110000renmrb\\_20131015\\_4-01.htm](http://paper.people.com.cn/rmrb/html/2013-10/15/nw.D110000renmrb_20131015_4-01.htm)

<sup>415</sup> [http://finance.sina.com.cn/roll/20140215/000718219034.shtml?from=ln\\_xgbd](http://finance.sina.com.cn/roll/20140215/000718219034.shtml?from=ln_xgbd)

<sup>416</sup> [http://www.gov.cn/xinwen/2015-03/08/content\\_2830012.htm](http://www.gov.cn/xinwen/2015-03/08/content_2830012.htm)

The governments for China's 22 provinces, five autonomous regions, four municipalities and two special administrative regions are all essentially the same level administratively. We include the municipalities — Beijing city, Tianjin city, Shanghai city and Chongqing city — in the same category as provinces, as they are municipalities whose governments have the same administrative responsibilities and degree of autonomy as a province. The governments on this level are directly under central government control.

Administratively, the next levels are prefectures, counties, townships and villages, with each administrative level having their own legislative organs (People's Congresses), and each having less administrative autonomy (over issues such as budgets) than the tier above. Most provinces are divided into prefecture-level cities, which include the urban area of the city as well as the surrounding areas, which are divided up into districts. There are also some county-level cities that have somewhat less autonomy than prefecture-level cities. Some districts, particularly large ones in municipalities like Shanghai, are considered just below prefecture level, but higher than county level. In this report, we treat administrative regions with the word "city" as well as some near prefecture-level districts as municipal-level governments (we clarify if there is any ambiguity).<sup>417</sup>

### Implementation of Central Policy

Review of a number of regulations and laws found that in order to implement the national plans, the central government would arrange some subsidies itself and require local governments to arrange local subsidies as support. Although local governments are allowed to modify national plans slightly to fit their own situations, it is required that local governments strictly implement the overall policies set by the central government. *Steel Industry Adjustment and Revitalization Program for 2009 to 2011* issued by the State Council on 20 March 2009 mentioned that in order to remove outdated capacity, local governments were required to monitor closely outdated capacity to prevent steel companies from expanding outdated capacity or relocating outdated equipment. If the local governments allow this, financial institutions are instructed to cut off credit and lending in any form, and the local Land and Resources Administrations would not be allowed to issue any land-use licenses.<sup>418</sup>

However, local governments do not always follow central government policy. As the interests of the local vs. central government often diverge, implementation at the local level sometimes departs from central government's policy directive. Steel companies are often major contributors to local government tax incomes and employment rates, which are factors used to evaluate local governments' achievements and determine a local official's career advancement. As such, local governments often have conflicting motivations – there is sometimes limited incentive to do as central steel policies dictate while there may be rewards for doing the exact opposite. Moreover, by putting emphasis on local governments to keep up GDP growth and employment rates, the central government is providing disincentives to follow the national policy directives aimed at reform.

Even if the State Council issues policies aimed at controlling overcapacity in the steel industry, local governments may have more interest in supporting their local industries. As a May 2013 article on *China Economic Net* points out, local governments have no incentives at the local level to limit the development of steel companies. The motivation has to come from the central government.<sup>419</sup> Xu Zhongbo (许中波), a professor from University of Science and Technology Beijing, commented in December 2013 that overcapacity and pollution in the steel industry, is a headache for the central government, but not an issue for local governments. For them, steel production remains a pillar industry. In order to develop local economies, capacity reduction activities at the local government end are often just acts to appease the central government.<sup>420</sup>

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<sup>417</sup> [http://www.gov.cn/gjig/2005-08/01/content\\_18608.htm](http://www.gov.cn/gjig/2005-08/01/content_18608.htm)  
<http://www.cecc.gov/chinas-state-organizational-structure>  
[http://news.bbc.co.uk/2/shared/spl/hi/in\\_depth/china\\_politics/government/html/11.stm](http://news.bbc.co.uk/2/shared/spl/hi/in_depth/china_politics/government/html/11.stm)

<sup>418</sup> [http://www.gov.cn/zwgk/2009-03/20/content\\_1264318.htm](http://www.gov.cn/zwgk/2009-03/20/content_1264318.htm)

<sup>419</sup> <http://www.gb87.com/News/Show64428.html>

<sup>420</sup> <http://info.glinfo.com/13/1202/08/B7E667F6E8F89146.html>

According to an official from the Shaanxi Development and Reform Commission in 2014, although overcapacity had become an undeniable fact, steel enterprises usually are responsible for much of the social stability in their respective localities, such as by providing employment. The official said that the pressures from unemployment are huge, especially in western China, where fewer companies are situated. Local governments' subsidization of loss-making or substandard steel companies is a common way to sustain the local employment rate.<sup>421</sup>

Baosteel's company website on 18 August 2010 forwarded a short report by *China Steel News* that claimed that of the total 718 million tons steel capacity in China, about 300 million tons of so-called "illegal capacity" or "black capacity" (黑产能) had not been approved by the central government. Luo Bingsheng (罗冰生), the then deputy managing chairman of China Iron & Steel Association, disclosed that this "black capacity" was largely approved by local governments. The report pointed out that although much of this "black capacity" met the standard of environmental protection, it lacked legal administrative licenses. Therefore, they could not simply be torn down, as that would be a waste of resources. The report further called for greater attention to the local governments' illegal administrative responsibilities.<sup>422</sup>

### **Most Frequent Types of State Support by Local Governments**

According to an estimate in 2013 based on data collected from 35 steel companies listed in Shanghai Stock Exchange and Shenzhen Stock Exchange, the companies received subsidies amounting to RMB 1.3 billion in 2010, RMB 3 billion in 2011 and RMB 6.1 billion in 2012, and most of these subsidies came from local governments. The main forms of the subsidies were loan repayment support and cash grants for projects related to R&D, energy-efficiency and environmental protection.<sup>423</sup> However, this study did not mention how it came to the conclusion that the subsidies for the 35 companies are mostly from local governments.

In a report dated on 15 February 2014 by *China Steel News.com*, an official from the Shaanxi Province Development and Reform Commission said, "although the forms of the subsidies differ depending on the economic structure of each province [e.g. the portion steel industry takes in the local economy, fiscal income, etc.], the most usual forms are cash grants from the local finance bureaus and subsidies from national special funds and discounted loans the local governments help to secure."<sup>424</sup>

Our relatively limited research of subsidization all over China found that the subsidies from local governments can be divided into two categories: 1) those tied to special funds budgeted from local governments to meet the directive from central government and 2) other subsidies local governments granted.

Local governments often create local special funds that replicate the purpose of those set out by the central government. For example, in line with the "national air pollution management special fund," Beijing government allocated RMB 10.7 billion from its 2014 budget to energy-saving and environmental protection programs, while the Shanghai government aimed to allocate 3% of its 2014 GDP, around RMB 64.8 billion, to environmental protection projects.<sup>425</sup> Shandong province set up RMB 1,185,000,000 in funds for environmental protection and air pollution, RMB 390 million in funds for technology development and key industry development, and another RMB 100 million fund for removing outdated capacity. These special funds would be largely disbursed in the form of awards.<sup>426</sup>

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<sup>421</sup> [http://www.csteelnews.com/xwzx/xydt/201402/t20140215\\_231642.html](http://www.csteelnews.com/xwzx/xydt/201402/t20140215_231642.html)

<sup>422</sup> <http://www.baosteel.com/group/01news/ShowArticle.asp?ArticleID=3154>

<sup>423</sup> <http://money.163.com/special/view377/>

<sup>424</sup> [http://www.csteelnews.com/xwzx/xydt/201402/t20140215\\_231642.html](http://www.csteelnews.com/xwzx/xydt/201402/t20140215_231642.html)

<sup>425</sup> [http://finance.sina.com.cn/roll/20140215/000718219034.shtml?from=ln\\_xgbd](http://finance.sina.com.cn/roll/20140215/000718219034.shtml?from=ln_xgbd)

<sup>426</sup> [http://finance.sina.com.cn/roll/20140215/000718219034.shtml?from=ln\\_xgbd](http://finance.sina.com.cn/roll/20140215/000718219034.shtml?from=ln_xgbd)

Other than these local-level special funds, the most frequent types of subsidy are cash grants in various forms, as well as loan interest subsidies and tax benefits. Some new types of cash grants are designed for specific reasons to meet local government targets, such as supporting local employment as the steel industry restructures. For example, a report dated on 16 August 2015 mentioned that Hebei province granted a type of subsidy called the “*supporting enterprise & securing employment*” subsidy. The report mentioned that enterprises going through mergers and acquisitions, reducing capacity, removing obsolete capacity, or treating air pollution are qualified to apply for this type of subsidy.<sup>427</sup> This form of cash grant is clearly directed toward alleviating the employment challenges Hebei province faces as it trims down its steel industry. As previously mentioned, Hebei’s steel industry faces some of the greatest pressure to reduce production capacity, and thus is facing a severe drop in the employment rate.

### Regional Variation of Subsidies Received

The MES report illustrated regional differences in subsidization using 2014 data of companies traded on the Shanghai Stock Exchange and Shenzhen Stock Exchange, shown in the following table.<sup>428</sup>

Regional Subsidization in 2014			
Admin. region	Share of total	No. of recipients	Average subsidy (million RMB)
Beijing	30%	232	161,420,598
Shanghai	13%	199	83,849,068
Guangdong	10%	384	34,415,040
Zhejiang	6%	283	24,479,172
Jiangsu	5%	266	21,555,596
Anhui	4%	84	52,773,095
Shandong	4%	145	32,221,508
Hebei	3%	50	63,345,752
Hubei	3%	79	44,094,976
Sichuan	2%	95	20,209,498
Tianjin	2%	40	74,890,340
Xinjiang	2%	41	46,884,950
Jiangxi	2%	34	55,749,018
Henan	2%	68	34,646,245
Hunan	2%	78	35,962,901

<sup>427</sup> [http://news.eastday.com/eastday/13news/auto/news/china/u7ai4471352\\_K4.html](http://news.eastday.com/eastday/13news/auto/news/china/u7ai4471352_K4.html)

Regional Subsidization in 2014			
Admin. region	Share of total	No. of recipients	Average subsidy (million RMB)
Fujian	2%	93	33,408,544
Liaoning	2%	67	35,216,500
Chongqing	2%	41	50,914,010
Jilin	1%	35	21,589,893
Inner Mongolia	1%	22	43,661,282
Yunnan	1%	27	24,894,598
Guangxi	1%	34	25,992,319
Hainan	1%	20	52,794,609
Guizhou	1%	20	45,398,745
Shaanxi	1%	42	20,051,720
Heilongjiang	1%	30	22,178,647
Ningxia	0.4%	10	45,137,117

The MES report noted that “data is only available on the location of enterprise headquarters. Depending on different business sectors, actual production is likely taking place in other locations across the country. As such, it does not surprise that Beijing and Shanghai host the largest number of firms”;<sup>429</sup> and that “31 companies have not been included in the table as their location could not be ascertained.”<sup>430</sup>

We note that this chart does not distinguish which level of government provided what portion of the subsidies, nor is it limited to subsidization to the steel industry. We include this chart from the MES study to show the regional variation in how much support in the form of subsidies different provinces receive.

### Comparable Levels of Support by Province

Media research found provincial and administrative regional governments provided subsidies and support to the steel industry as described below.

#### Hebei Province

- In 2010, Hebei Technology Provincial Office and Hebei Steel Group set up the “*Hebei Province Steel Industry Technology Upgrade Special Fund.*” The fund grants RMB 60 million each year, or a total amount

<sup>429</sup> Page 71, MES China Study

<sup>430</sup> Page 72, MES China Study



of RMB 300 million, from 2011 to 2015. The purpose of the fund was to support key companies, schools and research institutions conduct research for new products and technologies.<sup>431</sup>

- On 14 October 2013 Hebei Provincial Environmental Protection Department and Finance Department issued a notice to inform their branches (bureaus) in the cities to arrange the application of “*2013 and 2014 provincial-level environmental protection awards as subsidy special fund program*.”<sup>432</sup>
- A media report dated 6 July 2015 reported that Hebei Provincial Finance Office, Provincial Industrial and Information Office issued “*2015 Provincial Level Medium and Small Enterprise Development Special Capital notice*”, which stated that Hebei Iron and Steel Exchange Center had obtained a RMB 270,000 special fund. The purpose of the fund was to boost the construction of public service platforms for medium and small enterprises.<sup>433</sup>

## Shanghai

Since the most important steel company in Shanghai is Baosteel, a review of its subsidies aids understanding the Shanghai government subsidies and preferential policies directed toward the steel industry. The 2013 and 2014 corporate filings of Baosteel’s biggest subsidiary, Baoshan Iron & Steel, show that it received compensation for demolition and relocation, cash grants related to technology transformation, and funding for infrastructure construction.

According to Shanghai government’s *12th Five-year Program for the Steel Industry for 2011-2015*, the Shanghai government had already shut down the Baosteel’s No. 2 steel production base and relocated the production to Nantong city in Jiangsu Province during the previous five-year program from 2006 to 2010. The government also pushed Baosteel to move to Baoshan district from its original base in Pudong district by 2010. From 2011 to 2015, the Shanghai government planned to take on six main tasks, of which two were related to technology development and transformation, one was related to environmental protection, two were related to steel companies’ integration of services and information, and one was related to shutting-down unused and outdated capacity.<sup>434</sup>

Baosteel benefits from other preferential treatment as well. For example, according to the Shanghai Economic and Information Commission’s 4 March 2014 notice informing companies registered in Shanghai to apply for 2014 “*Key Technology Transformation Special Fund*,” Baoshan Iron & Steel could apply to Shanghai Economic and Information Commission directly, while most other qualified companies needed to apply for this fund through the district or county where they were registered.<sup>435</sup>

The earlier application guidance of the 2011 “*Key Technology Transformation Special Fund*” by the general office of Shanghai Government mentioned that the fund would be granted to companies in the forms of loan interest subsidies and project subsidies.<sup>436</sup> According to the *Shanghai Industry Transformation Upgrade Development Special Fund Management Regulation* published on 11 March 2015,<sup>437</sup> this fund was disbursed from the Shanghai government’s budget and is operated by Shanghai Economic and Information Commission. Shanghai Bureau of Finance is responsible for the allocation and supervision of the usage. The special fund can be paid in the forms of awards, free aid, loan interest subsidies, equity infusion, premium subsidy, service purchase, etc.<sup>438</sup>

<sup>431</sup> [http://www.gov.cn/gzdt/2013-05/05/content\\_2396015.htm](http://www.gov.cn/gzdt/2013-05/05/content_2396015.htm)

<sup>432</sup> [http://www.hb12369.net/zwhd/zywj/stfw/201310/t20131014\\_39183.html](http://www.hb12369.net/zwhd/zywj/stfw/201310/t20131014_39183.html)

<sup>433</sup> <http://factory.mysteel.com/15/0706/11/CF23CEE58E140AAA.html>

<sup>434</sup> <http://www.shanghai.gov.cn/shanghai/node2314/node25307/node25455/node25459/u21ai636214.html>

<sup>435</sup> <http://zxzj.sheitc.gov.cn/pub/news/showNews.do?filterPk=ca02a38c3d36406e8daa4ff67c8216d3>

<sup>436</sup> <http://www.fxinvest.cn/qiyexiangmu/shizhengfuzhengce/2012112195.html>

<sup>437</sup> <http://zxzj.sheitc.gov.cn/2014welcome.do>

<sup>438</sup> <http://zxzj.sheitc.gov.cn/pub/news/showNews.do?filterPk=eafc86291fdd417d87e57cd8a747c2a3>



Other administrative regions

Subsidies And Preferential Policies	
Admin. Region	Description of Policy/ Support
Xinjiang Province	Reviewing Baosteel Group Xinjiang Bayi's corporate filings found that a large amount of subsidies received by the company are in the form of cash grants, tax refunds and loan interest subsidies.
Sichuan Province	On 6 January 2013, Chengdu Municipal Commission of Economy and Information issued the <i>Chengdu Metallurgical Industry 12th Five Year Development Plan</i> . According to the plan, Chengdu City would encourage metallurgical enterprises to merge and restructure, led by Chengdu Metallurgical Experiment Plant's merger with seven companies with capacities of less than 1 million tons into Sichuan Province Metallurgical Holdings Group Co Ltd (四川省冶金控股集团有限公司). The Sichuan Provincial Commission of Economy and information expanded this plan to the provincial level, including 23 steel companies province wide.
Yunnan province	In 2015, the Yunnan government provincial government would start to issue an environmental protection fund, according to a 2014 notice. Funding for a given project would not exceed 40% of the total project investment. Projects this fund supports include construction of emission reduction projects; emission reduction technology R&D; and other actions set out by provincial government, provincial financial bureau, and provincial environment protection bureau. <sup>439</sup>
Gansu province	In 2014, the provincial government allocated RMB 130 million for an environment protection special fund, part of which would be dedicated to engineering projects that reduce the steel industry's sulfur emissions. <sup>440</sup>
Chongqing municipality	The Chongqing government's extensive subsidization of Chongqing Steel has come under some criticism. <sup>441</sup> In December 2014, an SOE owned by Chongqing SASAC gave Chongqing Steel RMB 800 million for completing its relocation. <sup>442</sup> Data showed that Chongqing Steel had already received RMB 2 billion in subsidies in 2012. <sup>443</sup>
Guangdong province	A report dated 11 May 2010 mentioned that the Guangdong provincial government had shut down 10.4 million tons of steel production capacity and had given out RMB 97 million in compensation to steel companies. <sup>444</sup>
Fujian province	Fujian provincial government approved Ningde City Zhangwan Iron & Steel's Shugang Road Construction Agricultural used land transformation and land project.
Jiangsu province	Jiangsu Provincial Department of Finance was going to subsidize projects to treat pollution, for entities that upgrade to its environmental project standard; Jiangsu Provincial Department of Finance would provide 15% to 20% of the standard investment, in the form of awards. <sup>445</sup>

<sup>439</sup> <http://www.ynepb.gov.cn/xxgk/read.aspx?newsid=48509>

<sup>440</sup> <http://gc.mysteel.com/14/0421/08/96AD3761ED4853CE.html>

<sup>441</sup> <http://finance.sina.com.cn/review/jcgc/20140922/131220378109.shtml>

<sup>442</sup> <http://news.315.com.cn/20141230/100271043.html>

<sup>443</sup> <http://www.cu-market.com.cn/hgjj/2013-8-29/18275529.html>

<sup>444</sup> [http://hzs.ndrc.gov.cn/newjn/201005/t20100514\\_346746.html](http://hzs.ndrc.gov.cn/newjn/201005/t20100514_346746.html)

<sup>445</sup> [http://www.zhb.gov.cn/zhxx/hjyw/201412/t20141225\\_293450.htm](http://www.zhb.gov.cn/zhxx/hjyw/201412/t20141225_293450.htm)

Subsidies And Preferential Policies	
Admin. Region	Description of Policy/ Support
Shaanxi province	The Shaanxi Province Industry and Information Technology Department and Shaanxi Provincial Department of Finance issued the <i>Notice of the 2013 Provincial Level Enterprise Technology Transformation Special Fund Project (关于征集 2013 年省级企业技术改造专项资金项目的通知)</i> on 28 September 2012. This notice clearly stated that this fund would be allocated mainly in the form of loan interest subsidies. <sup>446</sup>
Hubei province	Hubei Economy and Information Technology Commission issued the 2013 Hubei Province Technology Transformation Loan Interest Subsidy Special Project Application Guidance on 9 May 2013. <sup>447</sup>
Zhejiang province	Zhejiang Provincial Finance Department and Zhengjiang Development and Reform Commission issued a Zhejiang province circular focused on economic development special fund management on 20 August 2014. This fund was arranged by Zhejiang Provincial Finance Department's budget. <sup>448</sup>

### Comparable Levels of Support by Municipal-level Governments

Research found that municipal-level governments have provided a range of subsidies and support to the steel industry as outlined below.

#### Chaoyang City, Liaoning Province

On 27 June 2013, the Chaoyang Municipal Finance Bureau granted Lingyuan Iron & Steel Group Co Ltd (凌源钢铁集团有限责任公司) (“Lingyuan Steel”) a total of RMB 350 million, divided into RMB 150 million for technology development subsidies and a RMB 200 million loan interest subsidy.<sup>449</sup> Lingyuan Steel Group, which is ultimately owned by Chaoyang Municipal SASAC, controls Lingyuan Steel,<sup>450</sup> and the Chaoyang Municipal Finance Bureau disclosed that Chaoyang Municipal Government had the authority to grant Lingyuan Steel subsidies. The main reason Lingyuan Steel was awarded these subsidies was reportedly that it had expanded its capacity through a very expensive technology transformation project.<sup>451</sup>

Subsidies granted to Lingyuan Steel by Chaoyang Government	
2012	RMB 505 million
2011	RMB 23.59 million
2010	RMB 17.75 million
As of the end of June 2013	RMB 380 million

<sup>446</sup> <http://www.sxgt.gov.cn/0/1/2/28/11882.htm>

<sup>447</sup> <http://cs.hbeitc.gov.cn/ghc/wjgg/44319.htm>

<sup>448</sup> <http://www.96871.com.cn/page/province/zcfg/zcfg/2014-08-25/8065331996635395.html>

<sup>449</sup> <http://money.163.com/special/view377/>

<sup>450</sup> <http://info.gliinfo.com/13/0411/07/9834669889B5EEF7.html>

<sup>451</sup> <http://money.163.com/special/view377/>

### Anshan City, Liaoning Province

According to a report dated on 22 July 2015, Anshan Municipal Government granted a RMB 100 million from a special fund to support diversification in iron and steel processing, technology innovation, energy-savings projects and development of equipment manufacturing.<sup>452</sup>

### Benxi City, Liaoning Province

As previously mentioned, one way for the local government to support enterprises is to help them obtain special funds or other kinds of financial support from banks or other levels of governments.<sup>453</sup> Benxi Economy and Information Commission stated on its website on 11 March 2015 that it had helped Benxi Steel to obtain RMB 158 million in special funding, as well as RMB 7 million for other steel companies. In addition, the commission helped Benxi Steel's Cold-rolled High-strength Steel Transformation Project to be included in the Liaoning Provincial 2014 Enterprise Technology Transformation Loan Interest Subsidy Plan. The commission also helped six unspecified steel companies to obtain RMB 130 million in bank lending.<sup>454</sup>

### Hefei City, Anhui Province

Hefei Municipal Finance Bureau disclosed on 27 February 2012 that the Municipal Bureau had arranged RMB 28,740,000 environment protection special fund in 2011. RMB 2 million from this fund was subsidized to Magang (Hefei) Steel Co Ltd (马钢 (合肥) 钢铁有限责任公司).<sup>455</sup>

### Baoshan District, Shanghai City

As Shanghai City is a municipality (the administrative equivalent to a province), Baoshan District is treated in this report as a municipal-level government. The local government of Baoshan District issued a regulation called "*Baoshan District Industry Technology Transformation Investment Project Loan Interest Subsidy Management*", which says that any enterprise registered in Baoshan District conducting technology transformation could apply for loan interest subsidies.<sup>456</sup> The size and scope of support was not disclosed.

### Changshou District, Chongqing City

Since Chongqing City is a municipality, Changshou District is treated in this report as a municipal-level government. In December 2014, Changshou Economic Technology Developing Zone (长寿经济技术开发区) granted Chongqing Steel RMB 90 million in cash awards and subsidies for new product development and RMB 190 million in cash awards and subsidies for environmental protection and energy-saving and emission reduction. In addition, Changshou District Bureau of Finance granted Chongqing Steel a RMB 133 million loan interest subsidy.<sup>457</sup>

### Shijiazhuang, Hebei Province

In its 2015 Government Work Report, Hebei provincial government summarized that it had completed the central government's restructuring plan which involved the relocation of Shijiazhuang Iron & Steel Co Ltd ("Shijiazhuang Steel"), the restructuring and relocation of Tangshan Bohai Steel, relocating Wu'an Steel from the city to an industrial park, and commencing an upgrade and reconstruction project.<sup>458</sup>

<sup>452</sup> <http://www.hcqlgs.com/khal/296.html>

<sup>453</sup> [http://www.csteelnews.com/xwzx/xydt/201402/t20140215\\_231642.html](http://www.csteelnews.com/xwzx/xydt/201402/t20140215_231642.html)

<sup>454</sup> <http://www.bxjxw.gov.cn/bxjxw/jgjs/content/297eaff44bec9a71014c090516ce0487.html>

<sup>455</sup> <http://www.hefei.gov.cn/n1105/n32739/n281295/n20187595/23132255.html>

<sup>456</sup> <http://www.1128.org/node12/node55/200504/con32942.shtml>

<sup>457</sup> [http://www.cs.com.cn/ssgs/gsxw/201412/t20141225\\_4601341.html](http://www.cs.com.cn/ssgs/gsxw/201412/t20141225_4601341.html)

<sup>458</sup> <http://leaders.people.com.cn/n/2015/0115/c58278-26389346.html>

A report dated 25 October 2014 mentioned that Shijiazhuang Steel had relocated to Jingjing (井陘) Mining Zone in Shijiazhuang City. This relocation was reported to be one of the most important projects to restructure Hebei province's steel industry. The deputy governor of Hebei Province said that this relocation showed Hebei province's resolution to restructure the steel industry and manage air pollution.<sup>459</sup>

A report on Shijiazhuang Steel's relocation by *Securities Daily* in November 2014 said that no official data on the cost of the relocation was released, though the deputy chief of Hebei Provincial Department of Environmental Protection Yin Guangping (殷广平) commented that the relocation involved about RMB 30 billion. This report disclosed that the local government used its share of land transfer income from the deal to support Shijiazhuang Steel's relocation (after the central government's share of the land transfer income had been deducted). The report said that Shijiazhuang Steel also signed a loan agreement with China Construction Bank Hebei Branch.<sup>460</sup> However, the report did not indicate the value of each type of support.

Shijiazhuang Municipal Government decided to establish a special fund according to its "*Opinions on the Implementation of Central City Industrial Enterprise Relocation Transformation and Upgrade*" issued on 26 May 2014. This fund was granted in the forms of compensation, awards for relocation, loan interest subsidies, etc.<sup>461</sup> Shijiazhuang Steel was one of the companies asked by the government to be relocated.<sup>462</sup>

According to a report dated on 10 February 2015 by *China Metallurgy News*, Shijiazhuang Municipal Government granted Hebei Steel Group Shijiazhuang Steel a RMB 500,000 special to support its benchmarking management system. The report further stated that from 2011 to 2014, Shijiazhuang Steel received over RMB 1 million from a special fund for the development of a benchmarking management system.<sup>463</sup>

Hebei Steel Group disclosed on 3 April 2015 that Shijiazhuang Steel received RMB 100,000 in awards from a special fund for exporting self-produced products. The fund was established by Shijiazhuang City Bureau of Commerce and Bureau of Finance in 2014.<sup>464</sup>

#### Ningbo City, Zhejiang Province

China Ningbo Net reported on 9 October 2013 that Ningbo city issued "*Regulation of the Management of Ningbo Energy Saving Special Fund*", through which Ningbo Steel would be able to obtain almost RMB 1 million in cash subsidies.<sup>465</sup>

#### E'zhou City, Hubei Province

In 2014, E'zhou municipal government granted E'cheng Steel Co Ltd (鄂城钢铁有限公司) a RMB 278 million fiscal subsidy for energy-savings, emissions reduction and environmental management projects, WISCO disclosed on 30 December 2014.<sup>466</sup> In April 2013, the E'zhou government granted RMB 280 million in cash to support E'cheng Steel in energy-savings and environmental treatment.<sup>467</sup> According to the 2014 budget implementation report by E'zhou City, the city's revenue was about RMB 6 billion in 2014<sup>468</sup> and about RMB 5.4 billion in 2013.<sup>469</sup> As a result E'zhou

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<sup>459</sup> [http://district.ce.cn/newarea/roll/201410/25/t20141025\\_3775550.shtml](http://district.ce.cn/newarea/roll/201410/25/t20141025_3775550.shtml)

<sup>460</sup> <http://finance.chinanews.com/ny/2014/11-04/6751301.shtml>

<sup>461</sup> <http://www.sjz.gov.cn/col/1388741884757/2014/05/30/1401433618545.html>

<sup>462</sup> <http://www.jyzc.net/news/article/155>

<sup>463</sup> <http://www.csjgs.com/xsjtnr.asp?ID=3469>

<sup>464</sup> <http://www.csjgs.com/xsjtnr.asp?ID=3509>

<sup>465</sup> <http://zjnews.zjol.com.cn/system/2013/10/09/019632432.shtml>

<sup>466</sup> <http://stock.sohu.com/20141230/n407399789.shtml>

<sup>467</sup> [http://www.hzsteel.com/web/news\\_detail.asp?FirstKind=MT\\_00002\\_100017466&KindID=MT\\_00002\\_100017472&ID=MT\\_B0001\\_100026304](http://www.hzsteel.com/web/news_detail.asp?FirstKind=MT_00002_100017466&KindID=MT_00002_100017472&ID=MT_B0001_100026304)

<sup>468</sup> <http://www.ezhou.gov.cn/dgiShow.aspx?iid=5022>

<sup>469</sup> <http://www.ezhou.gov.cn/dgiShow.aspx?iid=2958>

government's subsidization for E'cheng Steel amounted to about 5% of E'zhou government's revenue in both years. According to an E'zhou government report dated 17 July 2014, Li Bing (李兵), the Party Chief of E'zhou City, said that *“supporting E'cheng Steel was a political responsibility of E'zhou government,”* and that *“E'cheng Steel is very important in the local economy; its development matters to the stability of E'zhou's development.”*

## 7. ANNEX

### 7.1. One Belt, One Road

#### Policy overview

“One belt, one road” (“一带一路”) refers to the development strategy of building two new trade and development routes to link China to the Europe. The Silk Road Economic Belt is to extend through Central and Western Asia to Europe and the 21<sup>st</sup> Century Maritime Silk Road is to go the reverse direction through Southeast Asia to India, Africa, and Europe. Xi Jinping first announced these initiatives in visits to Kazakhstan and Indonesia, respectively, in 2013. Estimates for how much the program will cost range from US\$140 billion<sup>470</sup> to US\$8 trillion.<sup>471</sup>



The primary objective behind this initiative is to seek new drivers of growth in China. China would be able use its vast foreign exchange reserves to help fund infrastructure projects, which would contract Chinese firms, and once complete, would help give China greater access to markets to sell Chinese goods and products overseas.

In March 2015, The National Development and Reform Commission (“NDRC”) and the Ministries of Foreign Affairs and Commerce released an action plan for the initiative.<sup>472</sup> The plan seems to be more than just a program for infrastructure investment; it also seeks to expand the use of the RMB and promote financial integration in the countries on the route and to link information and communication technologies along the routes. China has also created an investment bank, the Asian Infrastructure Investment Bank (known as a rival to the World Bank) to help fund the projects. In addition, China Development Bank is expected to invest more than US\$ 890 billion in 900 projects in countries (not all related to One Belt One Road).

It is also likely that the 13<sup>th</sup> Five-year Plan (effective from 2016 to 2020) will promote the initiative. The details of this FYP will not be released until China’s parliament (China’s People’s Congress) convenes in March.

#### Potential impact/benefits on Chinese steel producers

It is reported that the strategy could potentially have the following types of impact on steel makers:<sup>473</sup>

<sup>470</sup> <http://www.voachinese.com/content/china-silk-road-20150415/2720453.html>

<sup>471</sup> <http://www.bloomberg.com/professional/blog/steel-demand-may-improve-on-one-belt-one-road/>

<sup>472</sup> <http://csis.org/publication/building-chinas-one-belt-one-road>

<sup>473</sup> <http://www.bloomberg.com/professional/blog/steel-demand-may-improve-on-one-belt-one-road/>

- The construction of the trade routes could potentially generate demand for 272 million tons of steel, based on media calculations;
- The Chinese government is encouraging steel makers to find iron-ore mines overseas and move some production capacity to Southeast Asia, Western Asia and Africa;
- The government is encouraging its largest steel producers to upgrade their production facilities to produce better-quality products, as well as to relocate from coastal areas, where they are currently concentrated, to inland areas. In addition to the subsidies steel companies will receive to achieve these initiatives, companies that can produce higher quality steel (e.g. Baosteel and Magang) may be able to provide steel to build the railroads and pipelines necessary to carry out these initiatives; and
- The new trade routes may give Chinese steel firms an opportunity to export some of its low-end production capacity overseas, so that they can focus on building capacity for higher-quality products domestically

However, these benefits to the steel industry have yet to be seen. There remains too much uncertainty surrounding the projects and budget, while private investors are hesitant to invest in infrastructure projects, which usually only see low returns.

## 7.2. Made in China 2025

After the Ministry of Information and Industry Technology (“MIIT”) had been developing the ‘Made in China 2025’ plan for two and a half years, the State Council released a document to summarize the plan on 19 May 2015.<sup>474</sup> Reportedly inspired by Germany’s “Industry 4.0” plan to incorporate IT into production to integrate global production and increase efficiency,<sup>475</sup> the plan seeks to “*transform China from a manufacturing giant into a world manufacturing power.*”<sup>476</sup>

The general goal of the ‘Made in China 2025’ plan is to help China to regain its competitive edge in manufacturing that it lost due to rising labor costs, increased competition, slowing global demand and a decelerating domestic economy.<sup>477</sup> The plan focuses on innovative manufacturing, integrated IT, promoting Chinese brands, green manufacturing, restructuring the sector, promoting service-related industries, and making Chinese manufacturing more competitive on an international scale.

The plan will focus on the following sectors: information technology, robotics, aerospace equipment, ocean engineering equipment, railway equipment, new energy technology, medicine, power technology, new materials, and agricultural machinery.<sup>478</sup>

### Potential impact/benefits on Chinese steel producers

The parts of the plan most likely to impact the steel industry are the emphases on restructuring of the manufacturing sector, green production, and the overall focus on creating better quality products more efficiently. In addition, the aim to shift to higher-end manufacturing will create demand for better quality steel.

<sup>474</sup> <http://qys.miit.gov.cn/n11293472/n11293877/n16553775/index.html>

<sup>475</sup> <http://csis.org/publication/made-china-2025>

<sup>476</sup> [http://news.xinhuanet.com/english/2015-05/19/c\\_134252230.htm](http://news.xinhuanet.com/english/2015-05/19/c_134252230.htm)

<sup>477</sup> <http://www.wsj.com/articles/china-unveils-blueprint-to-upgrade-manufacturing-sector-1432009189>

<http://knowledge.ckgsb.edu.cn/2015/09/02/technology/made-in-china-2025-a-new-era-for-chinese-manufacturing/>

<sup>478</sup> <http://thediplomat.com/2015/05/chinas-master-plan-to-become-a-world-manufacturing-power/>



# **Report on Market Research into the Peoples Republic of China Steel Industry Part 2**



**Final Report  
30 June 2016**

**Prepared by the Steel Industry Coalition:  
American Iron & Steel Institute (AISI)  
Steel Manufacturers Association (SMA)  
Specialty Steel Industry of North America (SSINA)  
The Committee on Pipe and Tube Imports (CPTI)  
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# 1. GLOSSARY

Abbreviation/Term	Full Name
<b>Main Subjects (in order of selection and reporting)</b>	
Hebei Steel Group	Hebei Iron & Steel Group Co Ltd (河北钢铁集团有限公司)
Baosteel Group	Baosteel Group Co Ltd (宝钢集团有限公司)
Shagang Group	Jiangsu Shagang Group Co Ltd (江苏沙钢集团有限公司)
Ansteel Group	Ansteel Group Corporation (鞍钢集团公司)
WISCO	Wuhan Iron and Steel (Group) Corporation (武汉钢铁 (集团) 公司)
Shougang Group	Shougang Corporation (首钢总公司)
Shandong Steel Group	Shandong Iron & Steel Group Co Ltd (山东钢铁集团有限公司)
Magang Group	Magang (Group) Holding Co Ltd (马钢 (集团) 控股有限公司)
Tianjin Bohai Steel	Bohai Steel Group Co Ltd (渤海钢铁集团有限公司)
Benxi Steel	Benxi Steel Group Corporation (本钢集团有限公司)
Valin Steel Group	Valin Iron & Steel Group Co Ltd (湖南华菱钢铁集团有限责任公司)
Jianlong Steel Group	Beijing Jianlong Heavy Industry Group Co (北京建龙重工集团有限公司)
Fangda Steel	Fangda Special Steel Technology Co Ltd (江西方大钢铁集团有限公司)
Rizhao Steel	Rizhao Steel Holding Group Co Ltd (日照钢铁控股集团有限公司)
Anyang Steel	Anyang Iron & Steel Group Co Ltd (安阳钢铁集团有限责任公司)
Taiyuan Steel	Taiyuan Iron & Steel (Group) Co Ltd (太原钢铁 (集团) 有限公司)
Baotou Steel	Baotou Iron & Steel (Group) Co Ltd (包头钢铁 (集团) 有限责任公司)
Hebei Jingye Group	Hebei Jingye Group (河北敬业集团有限责任公司)
Jiuquan Steel	Jiuquan Iron & Steel (Group) Co Ltd (酒泉钢铁 (集团) 有限责任公司)
Zongheng Steel	Zongheng Iron & Steel Group Co Ltd (河北纵横钢铁集团有限公司)
Dongbei Group	Dongbei Special Steel Group Co Ltd (东北特殊钢集团有限责任公司)
Tsingshan Group	Tsingshan Holding Group (青山控股集团有限公司)
Yongxing Special Steel	Yongxing Special Stainless Steel Co Ltd (永兴特种不锈钢股份有限公司)
TPCO	Tianjin Pipe (Group) Corporation (天津钢管集团股份有限公司)

<b>Organizations and Authorities Referenced in the Report (listed alphabetically, by abbreviation)</b>	
Inner Mongolia Government	People's Government of Inner Mongolia Autonomous Region (内蒙古自治区人民政府)
MOFCOM	Ministry of Commerce of the People's Republic of China (中华人民共和国商务部), formerly known as Ministry of Foreign Trade and Economic Cooperation or MOFTEC (中华人民共和国对外贸易经济合作部)
PRC	People's Republic of China (中华人民共和国)
SAIC	State Administration for Industry & Commerce (国家工商行政管理总局)
SASAC	State-Owned Assets Supervision & Administration Commission of the State Council (国务院国有资产监督管理委员会/国务院国资委)
SASAC of Anhui Province	State-Owned Assets Supervision & Administration Commission of Anhui Provincial People's Government (安徽省国有资产管理委员会)
SASAC of Gansu Province	State-Owned Assets Supervision & Administration Commission of the People's Government of Gansu Province (甘肃省人民政府国有资产监督管理委员会/甘肃省国资委)
SASAC of Hebei Province	State-Owned Assets Supervision & Administration Commission of the People's Government of Hebei Province (河北省政府国有资产管理委员会/河北省人民政府国有资产管理委员会/河北省国资委)
SASAC of Heilongjiang Province	State-Owned Assets Supervision & Administration Commission of the People's Government of Heilongjiang Province (黑龙江省人民政府国有资产监督管理委员会/黑龙江省国资委)
SASAC of Hunan Province	State-Owned Assets Supervision & Administration Commission of Hunan Provincial People's Government (湖南省人民政府国有资产监督管理委员会)
SASAC of Liaoning Province	State-Owned Assets Supervision & Administration Commission of Liaoning Provincial Government (辽宁省国有资产监督管理委员会/辽宁省人民政府国有资产监督管理委员会/辽宁省国资委)
SASAC of Shandong Province	State-Owned Assets Supervision & Administration Commission of Shandong Provincial Government (山东省国有资产监督管理委员会)
SASAC of Tianjin Municipality	State-owned Assets Supervision and Administration Commission of Tianjin Municipal People's Government (天津市国资委/天津市人民政府国有资产监督管理委员会)
Shanxi Provincial Government	People's Government of Shanxi Province (山西省人民政府)
<b>Other Entities Referenced in the Report (listed alphabetically, by abbreviation)</b>	
China Cinda	China Cinda Asset Management Co (中国信达资产管理公司/中国信达资产管理股份有限公司)
China Huarong	China Huarong Asset Management Co/China Huarong Asset Management Co Ltd (中国华融资产管理公司/中国华融资产管理股份有限公司)

China Orient	China Orient Asset Management Corporation (中国东方资产管理公司)
<b>Commonly Used Terms</b>	
RMB	Chinese yuan renminbi
USD	United States dollar

## 2. EXECUTIVE SUMMARY

Comprehensive research was conducted to obtain available information and intelligence regarding the Chinese steel industry, in this part specifically focused on state ownership. This is a summary of key findings.

### Comparable State Ownership of the Steel Producers

Below is a table showing the majority shareholder of each Steel Producer and the percentage of government control, based on information collated from research and public record retrieval in this report:

Rank#	Company	Tonnage in 2014 (Mt)	Ownership / Majority Shareholder	% Government Ownership
1	Hebei Steel Group	47.094	SASAC of Hebei Province	100%
2	Baosteel Group	43.347	SASAC	100%
3	Shagang Group	35.332	Shen Wenrong	0%
4	Ansteel Group	34.348	SASAC	100%
5	WISCO	33.053	SASAC	100%
6	Shougang Group	30.777	Beijing State-owned Capital Management Center <sup>1</sup>	100%
7	Shandong Steel Group	23.336	SASAC of Shandong Province	100%
8	Magang Group	18.903	SASAC of Anhui Province	100%
9	Tianjin Bohai Steel	18.488	SASAC of Tianjin Municipality	100%
10	Benxi Steel	16.261	SASAC of Liaoning Province	100%
11	Valin Steel Group	15.383	Valin Holdings Group Co Ltd	100%
12	Jianlong Steel Group	15.256	Beijing Jianlong Investment Co Ltd	0%
13	Fangda Steel	13.643	Liaoning Fangda Group Industry Co Ltd	0%
14	Rizhao Steel	11.400	Jinhua Rigang Holdings Group Co Ltd	0%
15	Anyang Steel	10.885	The People's Government of Henan Province	100%
16	Taiyuan Steel	10.723	Shanxi Provincial Government	100%
17	Baotou Steel	10.720	Inner Mongolia Government	≥93.91% <sup>2</sup>
18	Hebei Jingye Group	10.540	Li Ganpo	0% <sup>3</sup>
19	Jiuquan Steel	10.343	SASAC of Gansu Province	100%

<sup>1</sup> Beijing State-owned Capital Management Center is 100% owned by the Beijing Municipality SASAC.

<sup>2</sup> The minimum percentage of government ownership was calculated based on available public records. We note that due to a portion of this company's shares being held by large Chinese asset management firms, we cannot rule out that further undisclosed investors (through these large asset management firms) could also have government ties, be government entities, or be holding companies for government entities.

<sup>3</sup> Focused research into Li Ganpo has found that he is a member of the Communist Party of China.

20	Zongheng Steel	10.318	Xinhua United Metallurgy Holding Group Co Ltd	0%
21	Dongbei Group	2.6396 <sup>4</sup>	SASAC of Liaoning Province	100%
<b>Rank#</b>	<b>Company</b>	<b>Tonnage in 2014 (Mt)</b>	<b>Ownership / Majority Shareholder</b>	<b>% Government Ownership</b>
22	Tsingshan Group	4.530 <sup>5</sup>	Xiang Guangda	0%
23	Yongxing Special Steel	0.207 <sup>6</sup>	Gao Xingjiang	0%
24	TPCO	2.018 <sup>7</sup>	TEDA Investment Holding Co Ltd <sup>8</sup>	≥93.46% <sup>9</sup>

<sup>4</sup> [http://www.csteelnews.com/sjzx/tjsj/gnsctj/201502/t20150203\\_272810.html](http://www.csteelnews.com/sjzx/tjsj/gnsctj/201502/t20150203_272810.html)

<sup>5</sup> [http://www.tssgroup.com.cn/about\\_v.aspx?id=1](http://www.tssgroup.com.cn/about_v.aspx?id=1)

<sup>6</sup> <http://www.cninfo.com.cn/finalpage/2015-05-04/1200958277.PDF>

<sup>7</sup> [http://www.csteelnews.com/sjzx/tjsj/gnsctj/201502/t20150203\\_272810.html](http://www.csteelnews.com/sjzx/tjsj/gnsctj/201502/t20150203_272810.html)

<sup>8</sup> TEDA Investment Holding Co Ltd is 100% owned by the Tianjin Municipality SASAC.

<sup>9</sup> The minimum percentage of government ownership was calculated based on available public records and notes that, due to a portion of this company's shares being held by large Chinese asset management firms, we cannot rule out that further undisclosed investors (through these large asset management firms) could also have government ties, be government entities, or be holding companies for government entities.



## 3. HEBEI STEEL GROUP

Comprehensive research was conducted to obtain details of the state ownership of this Steel Producer, as detailed below. This information is largely obtained from the SAIC records retrieved for Hebei Steel Group, except where supplementary research and public records are indicated.

### 3.1. Overview of Corporate Development

Relevant public records were retrieved that identify ownership of Hebei Steel Group over the past 10 years. Below is a chronological overview of the changing ownership of the Steel Producer.

- 27 Jun 2008: Equity held by SASAC of Hebei Province increased from RMB 50 million to RMB 20 billion.

#### **Tangshan Iron & Steel Group Co Ltd**

Relevant public records were also retrieved identifying historical ownership changes for a predecessor company of this Steel Producer, namely Tangshan Iron & Steel Group Co Ltd (唐山钢铁集团有限责任公司), which was restructured as part of Hebei Steel Group's incorporation. Below is a chronological overview of the changing ownership of this predecessor company.

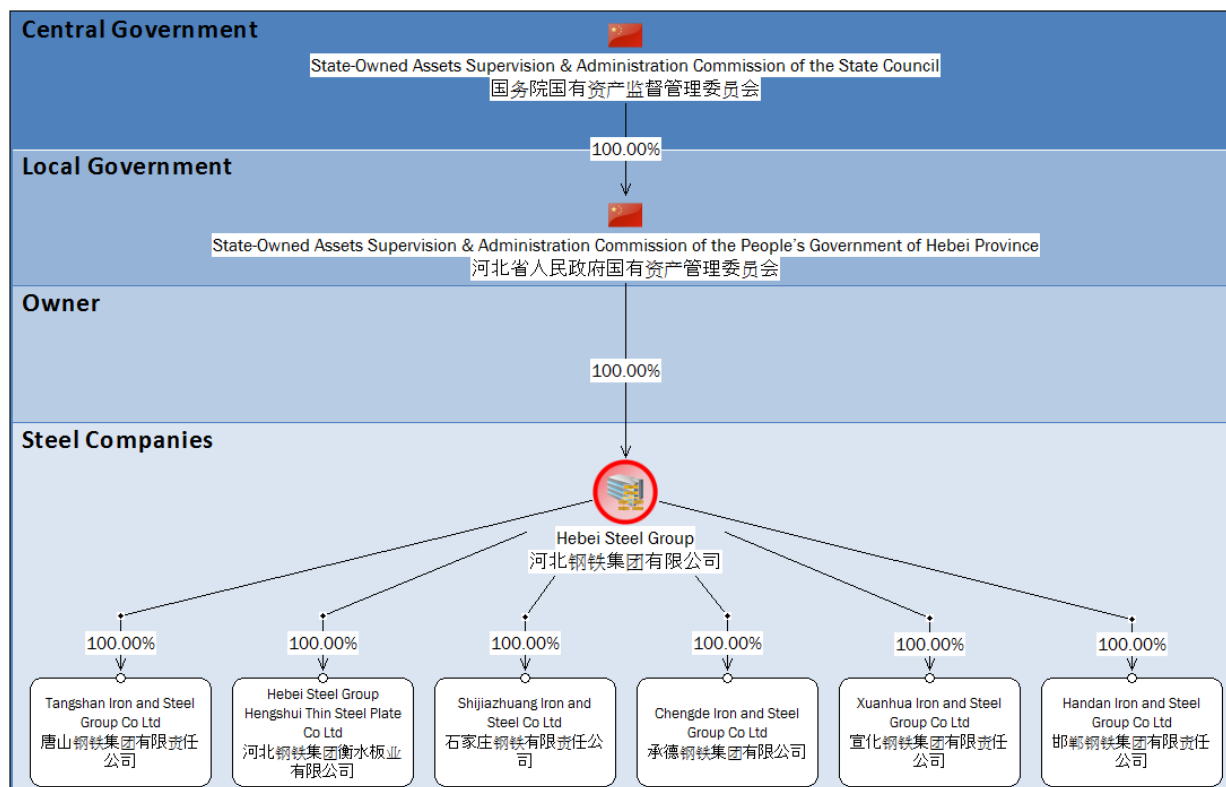
- 26 Jun 2008: Transfer of ownership from SASAC of Hebei Province (100%) to Hebei Steel Co Ltd (河北钢铁有限公司) (100%).
- 29 Mar 2010: China Construction Bank Co Ltd Trust became a shareholder and made an additional capital investment of RMB 143.0325 million. Meanwhile, Hebei Steel Co Ltd maintained its own shareholding of RMB 5 billion.
- 04 May 2012: All shares were transferred to Hebei Steel Group, who became the sole shareholder of the company with a registered capital of RMB 5.1430325 billion.

#### **Handan Iron & Steel Group Co Ltd**

In addition, relevant public records were also retrieved identifying historical ownership changes for a predecessor company of this Steel Producer, namely Handan Iron & Steel Group Co Ltd (邯郸钢铁集团有限责任公司), which was restructured as part of Hebei Steel Group's incorporation. However, we did not locate any records in relation to historical changes of ownership over the past 10 years.

### 3.2. Organization / Ownership Chart

Further to review and analysis of available public records, a chart was prepared depicting both the ownership and organization of Hebei Steel Group, highlighting proportion of state control.



In addition to the six steel production subsidiaries captured in the chart above, a focused review of the 2014 annual return for Hebei Steel Group identified approximately 10 further direct subsidiaries involved in other industry areas such as trading, hotel, property, investment, logistics, and finance.<sup>10</sup>

### 3.3. State Ownership of Facilities or Assets

Focused high level research was conducted into Hebei Steel Group and its major subsidiaries, mainly through their corporate websites, to identify major facilities / assets. These are listed below, along with the percentage of state ownership, as it relates to the specific company:

Company Name	Asset / Facility	Percentage Owned by the State
Tangshan Iron and Steel Group Co Ltd	Tangshan Iron and Steel Group Co Ltd Iron Mill (唐山钢铁集团有限责任公司炼铁厂) <sup>11</sup>	100%
Xuanhua Iron and Steel Group Co Ltd	<ul style="list-style-type: none"> <li>Xuanhua Iron and Steel Group Co Ltd Steel Mill (宣化钢铁集团有限责任公司炼钢厂) (130705300002260)<sup>12</sup></li> <li>Xuanhua Iron and Steel Group Co Ltd Iron Mill (宣化钢铁集团有限责任公司炼铁厂)<sup>13</sup></li> </ul>	100%
Chengde Iron and Steel Group Co Ltd	<ul style="list-style-type: none"> <li>Chengde Iron and Steel Group Co Ltd Steel Mill (承德钢铁集团有限公司炼钢厂)<sup>14</sup></li> </ul>	100%

<sup>10</sup> [http://www.chinamoney.com.cn/fe/CMS5\\_G20306002Resource?info=11435001;res=1430299951588716320841;download=](http://www.chinamoney.com.cn/fe/CMS5_G20306002Resource?info=11435001;res=1430299951588716320841;download=)

<sup>11</sup> <http://www.tsdc.gov.cn/xzsp/spc/dt/2013-01-23/2037/>

<sup>12</sup> <http://121.28.49.167/html/cxrc/ngqj/35.html>

<sup>13</sup> [http://www.court.gov.cn/zcgpcsw/heb/hbszjksjrmfy/zjksxhqrmy/xs/201412/t20141207\\_4590794.htm](http://www.court.gov.cn/zcgpcsw/heb/hbszjksjrmfy/zjksxhqrmy/xs/201412/t20141207_4590794.htm)

<sup>14</sup> <http://www.hbsjxh.org/html/xwpd/tzgg/2471.html>

	<ul style="list-style-type: none"> <li>• Chengde Iron and Steel Group Co Ltd Iron Mill (承德钢铁集团有限公司炼铁厂)<sup>15</sup></li> </ul>	
Shijiazhuang Iron and Steel Co Ltd	<ul style="list-style-type: none"> <li>• Shijiazhuang Iron and Steel Co Ltd Steel Mill (石家庄钢铁有限责任公司炼钢厂)<sup>16</sup></li> <li>• Shijiazhuang Iron and Steel Co Ltd Iron Mill (石家庄钢铁有限责任公司炼铁厂)<sup>17</sup></li> </ul>	100%
Handan Iron and Steel Group Co Ltd	<ul style="list-style-type: none"> <li>• Handan Iron and Steel Group Co Ltd No. 3 Steel Mill (邯郸钢铁集团有限责任公司第三炼钢厂)<sup>18</sup></li> <li>• Handan Iron and Steel Group Co Ltd No. 1 Steel Mill (邯郸钢铁集团有限责任公司第一炼钢厂)<sup>19</sup></li> <li>• Handan Iron and Steel Group Co Ltd Handan Steel New District Steel Mill (河北钢铁集团邯钢新区炼钢厂)<sup>20</sup></li> <li>• Handan Iron and Steel Group Co Ltd Handan Steel New District Iron Mill (河北钢铁集团邯钢新区炼铁厂)<sup>21</sup></li> </ul>	100%
Handan Steel Group Hanbao Iron and Steel Co Ltd (邯钢集团邯宝钢铁有限公司)	<ul style="list-style-type: none"> <li>• Handan Steel Group Hanbao Iron and Steel Co Ltd Steel Mill (邯钢集团邯宝钢铁有限公司炼钢厂)<sup>22</sup></li> <li>• Handan Steel Group Hanbao Iron and Steel Co Ltd Iron Mill (邯钢集团邯宝钢铁有限公司炼铁厂)<sup>23</sup></li> </ul>	58.10% via Hebei Steel Co Ltd (河北钢铁股份有限公司), which is owned by Handan Iron and Steel Group Co Ltd (36.58%), Tangshan Iron and Steel Group Co Ltd (17.45%), and Chengde Iron and Steel Group Co Ltd (4.07%)
Wuyang Steel Group Co Ltd (舞阳钢铁有限责任公司)	<ul style="list-style-type: none"> <li>• Wuyang Steel Group Co Ltd No. 1 Steel Mill (舞阳钢铁有限责任公司第二炼钢厂)<sup>24</sup></li> <li>• Wuyang Steel Group Co Ltd Iron Mill (舞阳钢铁有限责任公司炼铁厂)<sup>25</sup></li> </ul>	57.80% via Handan Iron and Steel Group Co Ltd (100%) and Hebei Steel Co Ltd (8.05%)

<sup>15</sup> [http://www.csteelnews.com/qypd/scyx/201407/t20140723\\_250329.html](http://www.csteelnews.com/qypd/scyx/201407/t20140723_250329.html)

<sup>16</sup> <http://121.28.49.167/html/cxrc/ngqj/31.html>

<sup>17</sup> <http://www.hebeichengye.com/gongchengzhanshi2.asp?page=4&leibie=%D2%B1%BD%F0%CO%E0>

<sup>18</sup> <http://www.hebgjt.com/showNews.jsp?id=12946>

<sup>19</sup> <http://www.hebgjt.com/showNews.jsp?id=4476>

<sup>20</sup> [http://news.prcsteel.com/news/20150115/16mngangban\\_826061740.html](http://news.prcsteel.com/news/20150115/16mngangban_826061740.html)

<sup>21</sup> <http://www.hgjt.com.cn/templates/content/index.aspx?nodeid=74&page=ContentPage&contentid=19835>

<sup>22</sup> <http://www.hebgjt.com/showNews.jsp?id=49634>

<sup>23</sup> <http://www.steelsidc.org/newslist.asp?unid=6309>

<sup>24</sup> [http://www.pds.gov.cn/sofpro/cms/previewjspfile/zwgk/cms\\_000000000000000017\\_tpl.jsp?CategoryID=13&requestCode=90526](http://www.pds.gov.cn/sofpro/cms/previewjspfile/zwgk/cms_000000000000000017_tpl.jsp?CategoryID=13&requestCode=90526)

<sup>25</sup> <http://www.huanqiu803.com/sell/show-htm-itemid-9136.html>

## 4. BAOSTEEL GROUP

Comprehensive research was conducted to obtain details of the state ownership of this Steel Producer, as detailed below. This information is largely obtained from the SAIC records retrieved for Baosteel Group, except where supplementary research and public records are indicated.

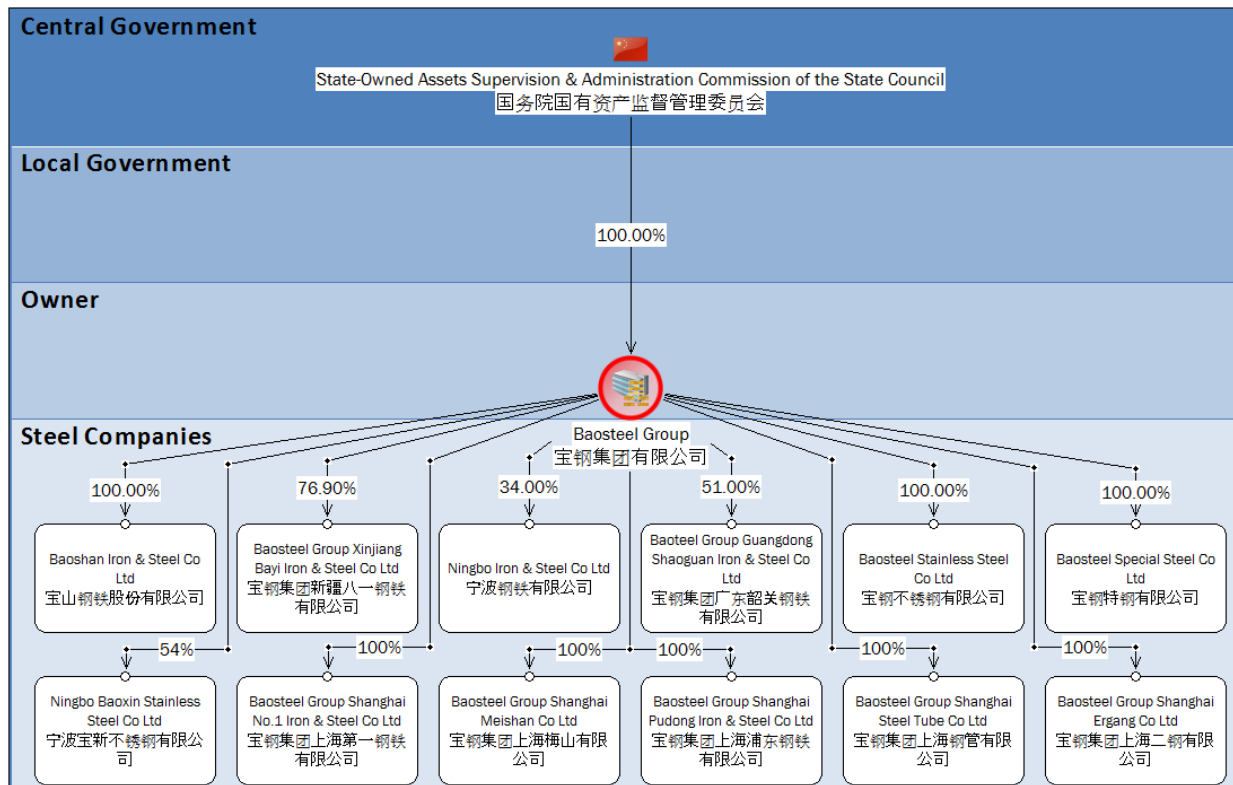
### 4.1. Overview of Corporate Development

Relevant public records were retrieved that identify ownership of Baosteel Group over the past 10 years. Below is a chronological overview of the changing ownership of the Steel Producer.

- 07 Dec 2006: Transfer of ownership from MOFCOM (100%) to SASAC (100%).
- 30 Dec 2006: Equity held by SASAC increased from RMB 45.8 billion to RMB 49.478571 billion.
- 23 Jun 2009: Equity held by SASAC increased from RMB 49.478571 billion to RMB 51.082621 billion.
- 13 Jan 2014: Equity held by SASAC increased from RMB 51.082621 billion to RMB 52.791101 billion.

### 4.2. Organization / Ownership Chart

Further to review and analysis of available public records, a chart was prepared depicting both the ownership and organization of Baosteel Group, highlighting proportion of state control.



In addition to the 12 steel production subsidiaries captured in the chart above, a focused review of the official website of Baosteel Group identified approximately 9 further group subsidiaries involved in other industry areas such as resources development and logistics, engineering technology, coal, financial investment, and production management.<sup>26</sup>

<sup>26</sup> <http://www.baosteel.com/group/channels/1754.html>

### 4.3. State Ownership of Facilities or Assets

Focused high level research was conducted into Baosteel Group and its major subsidiaries, mainly through their corporate websites, to identify major facilities / assets. These are listed below, along with the percentage of state ownership, as it relates to the specific company:

Company Name	Asset / Facility	Percentage Owned by the State
Baoshan Iron & Steel Co Ltd	<ul style="list-style-type: none"> <li>• Shanghai Baoshan Iron &amp; Steel General Mill (上海宝山钢铁总厂)<sup>27</sup></li> <li>• Baogang Co Hot Rolling Plant (宝钢股份热轧厂)<sup>28</sup></li> <li>• Baogang Co Cold Rolling Plant (宝钢股份冷轧厂)<sup>29</sup></li> <li>• Baogang Co Steel Melting Plant (宝钢股份炼钢厂)<sup>30</sup></li> <li>• Baogang Co Iron Smelting Plant (宝钢股份炼铁厂)<sup>31</sup></li> <li>• Steel Smelting Plant of Baogang Co Meigang Company Steel (宝钢股份梅钢公司炼钢厂)<sup>32</sup></li> </ul>	100%
Baosteel Group Xinjiang Bayi Iron & Steel Co Ltd	<ul style="list-style-type: none"> <li>• Steel Rolling Plant (轧钢厂)<sup>33</sup></li> <li>• Steel Smelting Plant (炼钢厂)<sup>34</sup></li> <li>• Mengku Iron Mine (蒙库铁矿)<sup>35</sup></li> <li>• Yamansu Iron Mine (雅满苏铁矿)<sup>36</sup></li> <li>• South Xinjiang Iron &amp; Steel Base of Xinjiang Bayi Iron &amp; Steel Co Ltd (新疆八钢南疆钢铁基地)<sup>37</sup></li> </ul>	76.90%
Ningbo Iron & Steel Co Ltd	<ul style="list-style-type: none"> <li>• Iron Smelting Plant (炼铁厂)<sup>38</sup></li> <li>• Steel Smelting Plant (炼钢厂)<sup>39</sup></li> <li>• Hot Rolling Plant (热轧厂)<sup>40</sup></li> </ul>	34%

<sup>27</sup> <http://bg.baosteel.com/contents/3297/43503.html>

<sup>28</sup> <http://bg.baosteel.com/contents/3298/43504.html>

<sup>29</sup> Ibid

<sup>30</sup> Ibid

<sup>31</sup> Ibid

<sup>32</sup> <http://www.baosteel.com/group/contents/1875/30504.html>

<sup>33</sup> [http://www.81steel.com.cn/list\\_zzjg.asp](http://www.81steel.com.cn/list_zzjg.asp)

<sup>34</sup> Ibid

<sup>35</sup> <http://www.baosteel.com/group/05steel/ShowArticle.asp?ArticleID=4499>

<sup>36</sup> Ibid

<sup>37</sup> [http://www.81steel.com.cn/show\\_news.asp?id=3511&title=%B0%DD%B3%C725#焦煤从南疆钢铁基地运往八钢本部招标信息](http://www.81steel.com.cn/show_news.asp?id=3511&title=%B0%DD%B3%C725#焦煤从南疆钢铁基地运往八钢本部招标信息)

<sup>38</sup> <http://www.ningbosteel.com/zjg.asp>

<sup>39</sup> <http://www.ningbosteel.com/zjg.asp>

<sup>40</sup> Ibid

Baosteel Group Guangdong Shaoguan Iron & Steel Co Ltd	<ul style="list-style-type: none"> <li>• Smelting and Rolling Plant (炼轧厂)<sup>41</sup></li> <li>• The Second Rolling Plant (二轧厂)<sup>42</sup></li> </ul>	51%
Baosteel Stainless Steel Co Ltd	<ul style="list-style-type: none"> <li>• Iron Smelting Plant of Baosteel Stainless Steel (宝钢不锈炼铁厂)<sup>43</sup></li> <li>• Steel Smelting Plant of Baosteel Stainless Steel (宝钢不锈炼钢厂)<sup>44</sup></li> <li>• Hot Rolling Plant of Baosteel Stainless Steel (宝钢不锈热轧厂)<sup>45</sup></li> <li>• Cold Rolling Plant of Baosteel Stainless Steel (宝钢不锈冷轧厂)<sup>46</sup></li> </ul>	100%
Baosteel Special Steel Co Ltd	<ul style="list-style-type: none"> <li>• Steel Smelting Plant of Baosteel Special Steel (宝钢特钢炼钢厂)<sup>47</sup></li> <li>• Hot Rolling Plant of Baosteel Special Steel (宝钢特钢热轧厂)<sup>48</sup></li> <li>• Cold Rolling Plant of Baosteel Special Steel (宝钢特钢冷轧厂)<sup>49</sup></li> </ul>	100%
Baosteel Group Shanghai No.1 Iron & Steel Co Ltd	<ul style="list-style-type: none"> <li>• Steel Smelting Plant (炼钢厂)<sup>50</sup></li> <li>• Iron Smelting Plant (炼铁厂)<sup>51</sup></li> <li>• Steel Shaping Plant (型钢厂)<sup>52</sup></li> </ul>	100%
Baosteel Group Shanghai Meishan Co Ltd	<ul style="list-style-type: none"> <li>• Meishan Mining (梅山矿业)<sup>53</sup></li> <li>• Iron Smelting Plant (炼铁厂)<sup>54</sup></li> </ul>	100%
Baosteel Group Shanghai Pudong Iron & Steel Co Ltd	<ul style="list-style-type: none"> <li>• Iron Smelting Plant (炼铁厂)<sup>55</sup></li> <li>• Steel Smelting Plant (炼钢厂)<sup>56</sup></li> </ul>	100%

<sup>41</sup> <http://www.sgss.com.cn/word.jsp?urltype=tree.TreeTempUrl&wbtreeid=11095>

<sup>42</sup> Ibid

<sup>43</sup> <http://www.baosteel.com/baosteelpc/topnews/ShowArticle.asp?ArticleID=100896>

<sup>44</sup> Ibid

<sup>45</sup> Ibid

<sup>46</sup> <http://exbxg.com/html/xingyedongtai/buxiugang/20110512/35663.html>

<sup>47</sup> Ibid

<sup>48</sup> Ibid

<sup>49</sup> Ibid

<sup>50</sup> <http://www.shzgh.org/renda/node5902/node6688/node6755/node6761/userobject1ai1270085.html>

<sup>51</sup> Ibid

<sup>52</sup> <http://pid.uemap.com/sh2info/hfogy/>

<sup>53</sup> <http://www.polycomnst.com/a/chenggonganli/zhizao/2014/0702/64.html>

<sup>54</sup> <http://pid.uemap.com/njinfo/cbpie/>

<sup>55</sup> <http://218.242.123.73/gcjs/show.action;jsessionid=15hTVRj8QPgQn5D3DnGnt34nN618TZVmYcp5CyyT1G2ZIkThVs31519041852?pageNo=99&id=4028829A157D7F140115A7519A6002F1>

<sup>56</sup> Ibid

## 5. SHAGANG GROUP

Comprehensive research was conducted to obtain details of the state ownership of this Steel Producer, as detailed below. This information is largely obtained from the SAIC records retrieved for Shagang Group, except where supplementary research and public records are indicated.

### 5.1. Overview of Corporate Development

Relevant public records were retrieved that identify ownership of Shagang Group over the past 10 years. Below is a chronological overview of the changing ownership of the Steel Producer.

- 11 Sep 2007: Transfer of ownership from Ni Genlai (倪根来) (0.34%) and Jiangsu Shagang Group Co Ltd (35.66%) to Zhangjiagang Free Trade Zone Xinghengde Trading Co Ltd (17.37%) and The Labor Union of Jiangsu Shagang Group Co Ltd (18.63%).
- 15 Dec 2008: Transfer of ownership from Zhangjiagang Free Trade Zone Xinghengde Trading Co Ltd (17.37%) to Zhangjiagang Free Trade Zone Runyuan Stainless Steel Trading Co Ltd (17.37%).
- 23 Aug 2011:
  - Equity held by Zhangjiagang Free Trade Zone Xinghengde Trading Co Ltd increased from RMB 0 to RMB 384,417,001.25 (29.1005%);
  - Equity held by Gong Sheng (龚盛) increased from RMB 51,289,100 (3.8826%) to RMB 51,289,140 (3.8826%);
  - Equity held by Chen Gang (陈刚) decreased from RMB 4,551,000 (0.3445%) to RMB 2,275,574.5;
  - Equity held by Lu Jinxiang (陆锦祥) decreased from RMB 35,938,400 (2.7205%) to RMB 2,830,791.66 (2.1429%);
  - Equity held by Bao Zhongruo (包仲若) decreased from RMB 20,636,100 (1.5622%) to RMB 12,197,573.10 (0.9234%);
  - Equity held by Shen Wenrong (沈文荣) decreased from RMB 393,702,500 (29.8034%) to RMB 387,365,447.65 (29.3237%);
  - Equity held by Sha Xingxiang (沙星祥) decreased from RMB 4,616,600 (0.3496%) to RMB 2,308,824.5 (0.1748%);
  - Equity held by Li Xinren (李新仁) decreased from RMB 4,616,000 (0.3494%) to RMB 2,538,826.95 (0.1922%);
  - Equity held by Yin Rongquan (殷荣泉) decreased from RMB 4,613,500 (0.3492%) to RMB 2,537,451.95 (0.1921%);
  - Equity held by He Yunqian (何云千) decreased from RMB 4,628,300 (0.3504%) to RMB 2,000,000 (0.1514%);
  - Equity held by Zhu Xin'an (朱新安) decreased from RMB 4,615,100 (0.3501%) to RMB 2,081,315.07 (0.1576%);
  - Equity held by Shen Wenming (沈文明) decreased from RMB 20,608,900 (1.5601%) to RMB 18,938,903.9 (1.4337%);
  - Equity held by Wu Zhizhong (吴治中) decreased from RMB 20,616,500 (1.5607%) to RMB 8,246,614.4 (0.6243%);
  - Equity held by Chen Ying (陈瑛) decreased from RMB 20,615,800 (1.5605%) to RMB 13,531,238.5 (1.0243%);
  - Equity held by Hou Min (侯敏) decreased from RMB 4,510,400 (0.3414%) to RMB 0 (0%);

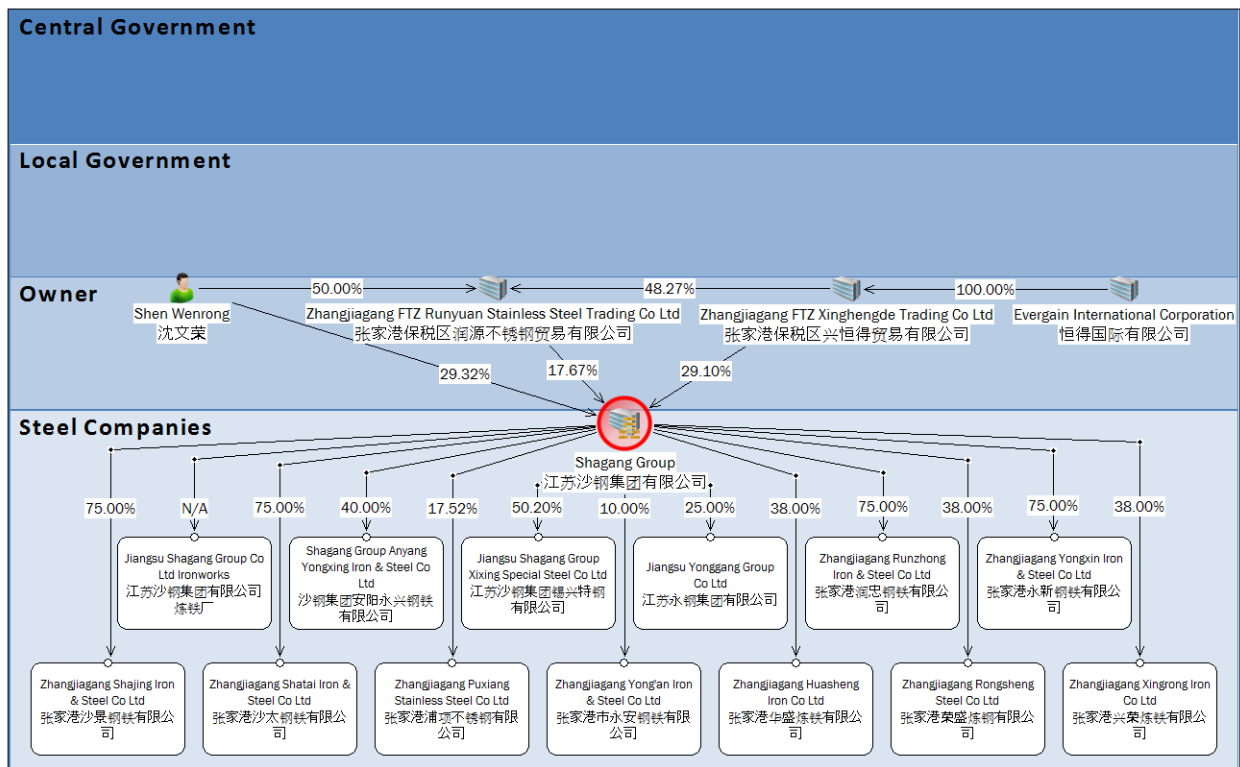
- Equity held by Wei Guo (尉国) decreased from RMB 4,534,000 (0.3432%) to RMB 2,267,024.5 (0.1716%);
- Equity held by Zhou Shanliang (周善良) decreased from RMB 4,542,900 (0.3439%) to RMB 3,180,064.3 (0.2407%);
- Equity held by Ma Yi (马毅) decreased from RMB 6,093,000 (0.4612%) to RMB 4,798,330.2 (0.3632%);
- Equity held by Huang Yonglin (黄永林) decreased from RMB 4,551,100 (0.3445%) to RMB 3,185,804.3 (0.2412%);
- Equity held by Wang Weidong (王卫东) decreased from RMB 4,561,900 (0.3453%) to RMB 2,280,974.5 (0.1727%);
- Equity held by Wu Xuezhong (吴雪中) decreased from RMB 4,638,400 (0.3511%) to RMB 0 (0%);
- Equity held by Huang Bomin (黄伯民) decreased from RMB 6,109,900 (0.4625%) to RMB 5,609,881.9 (0.4247%);
- Equity held by Pan Huizhong (潘惠忠) decreased from RMB 4,625,600 (0.3502%) to RMB 3,237,954.3 (0.2451%);
- Equity held by Ding Rongxing (丁荣兴) decreased from RMB 4,613,700 (0.3493%) to RMB 2,076,187.05 (0.1572%);
- Equity held by Chen Shaohui (陈少慧) decreased from RMB 4,529,300 (0.3429%) to RMB 2,264,674.50 (0.1714%);
- Equity held by Liu Peixing (刘培兴) decreased from RMB 4,622,600 (0.3499%) to RMB 2,311,324.5 (0.1750%);
- Equity held by Chu Guirong (褚桂荣) decreased from RMB 4,624,900 (0.3501%) to RMB 2,312,474.5 (0.1751%);
- Equity held by Xia Heliang (夏鹤良) decreased from RMB 4,609,200 (0.3489%) to RMB 2,304,624.5 (0.1745%);
- Equity held by Peng Yongfa (彭永法) decreased from RMB 4,625,800 (0.3502%) to RMB 3,238,094.3 (0.2451%);
- Equity held by Wang Qijiong (王启炯) decreased from RMB 4,616,200 (0.3494%) to RMB 3,238,094.3 (0.1747%);
- Equity held by Ge Xiangqian (葛向前) decreased from RMB 20,595,400 (1.5591%) to RMB 14,000,000 (1.0598%);
- Equity held by Xu Linfang (许林芳) decreased from RMB 20,608,700 (1.5601%) to RMB 16,233,226.2 (1.2289%);
- Equity held by Zhao Honglin (赵洪林) decreased from RMB 20,606,600 (1.5602%) to RMB 13,528,138.5 (1.0241%);
- Equity held by Yang Shilin (杨石林) decreased from RMB 20,644,100 (1.5628%) to RMB 12,201,173.55 (0.9236%);
- Equity held by Wu Yonghua (吴永华) decreased from RMB 20,645,900 (1.5629%) to RMB 10,846,207.6 (0.8211%);
- Equity held by Jia Xiangrong (贾祥榕) decreased from RMB 20,636,100 (1.5622%) to RMB 18,974,002.6 (1.4363%);
- Equity held by Liu Jian (刘俭) decreased from RMB 35,938,400 (2.7205%) to RMB 30,666,909.65 (2.3215%);
- Equity held by The Labor Union of Jiangsu Shagang Group Co Ltd (江苏沙钢集团有限公司工会) decreased from RMB 246,136,100 (18.63%) to RMB 0 (0%);
- Equity held by He Chunsheng (何春生) decreased from RMB 6,080,000 (0.4603%) to RMB 4,790,500.8 (0.3626%); and



- Equity held by Ji Yongxin (季永新) decreased from RMB 6,080,000 (0.4603%) to RMB 4,790,500.8 (0.3626%).
- 18 Dec 2012:
  - Equity held by Zhangjiagang Free Trade Zone Runyuan Stainless Steel Trading Co Ltd increased from RMB 229,417,823.1 (17.3670%) million to RMB 233,417,823.31 million (17.6698%); and
  - Equity held by Jia Xiangrong (贾祥榕) decreased from RMB 18,974,002.6 million (1.4363%) to RMB 14,974,002.6 million (1.1335%).

## 5.2. Organization / Ownership Chart

Further to review and analysis of available public records, a chart was prepared depicting both the ownership and organization of Shagang Group, highlighting proportion of state control.



In addition to the 13 steel production subsidiaries captured in the chart above, a focused review of the official website of Shagang Group identified approximately 23 subsidiaries involved in industrial chain extension, energy resources industry, logistics, financial investment, and real estate.<sup>57</sup>

Further investigative research and analysis found that:

- Shen Wenrong (沈文荣) became the factory manager of Zhangjiagang Steel Factory, the predecessor of Shagang Group, in 1984. Later, Shen Wenrong became the controller of Shagang Group and led its growth into the largest private steel enterprise in China. Besides his position in Shagang Group, Shen Wenrong was also a deputy party secretary of Zhangjiagang Municipal Government in the 1990s. Shen Wenrong was a representative of the 16<sup>th</sup> and 17<sup>th</sup> Communist Party of China National Congress.<sup>58</sup>

<sup>57</sup> [http://www.sha-steel.com/ywbk\\_1/fgcy/index.shtml](http://www.sha-steel.com/ywbk_1/fgcy/index.shtml)

<sup>58</sup> <http://finance.ifeng.com/people/comchief/shenwenrong.shtml>

- Zhangjiagang FTZ Xinghengde Trading Co Ltd, the largest shareholder of Shagang Group, is wholly-owned by a BVI-registered company Evergain International Corporation (恒得国际有限公司).<sup>59</sup> Its legal representative, Shen Qian (沈谦), is believed to be Shen Wenrong's second son.<sup>60</sup>
- Zhangjiagang FTZ Runyuan Stainless Steel Trading Co Ltd has limited media and online presence except for introduction on business directory websites.

### 5.3. State Ownership of Facilities or Assets

Focused high level research was conducted into Shagang Group and its major subsidiaries, mainly through their corporate websites, to identify major facilities / assets. These are listed below, along with the percentage of state ownership, as it relates to the specific company:

Company Name	Asset / Facility	Percentage Owned by the State
Shagang Group Anyang Yongxing Iron and Steel Co Ltd	<ul style="list-style-type: none"> <li>• Iron Smelting Mill (炼铁厂)<sup>61</sup></li> <li>• Steel Smelting Mill (炼钢厂)<sup>62</sup></li> </ul>	0%
Jiangsu Yonggang Group Co Ltd	<ul style="list-style-type: none"> <li>• The First Ore-sintering Mill (烧结一厂)<sup>63</sup></li> <li>• The Second Ore-sintering Mill (烧结二厂)<sup>64</sup></li> <li>• The Frist Iron Smelting Mill (炼铁一厂)<sup>65</sup></li> <li>• The Second Iron Smelting Mill (炼铁二厂)<sup>66</sup></li> <li>• The First Steel Smelting Mill (炼钢一厂)<sup>67</sup></li> <li>• The Second Steel Smelting Mill (炼钢二厂)<sup>68</sup></li> <li>• The First Steel Rolling Mill (轧钢一厂)<sup>69</sup></li> <li>• The Second Steel Rolling Mill (轧钢二厂)<sup>70</sup></li> <li>• The Third Steel Rolling Mill (轧钢三厂)<sup>71</sup></li> <li>• The Fourth Steel Rolling Mill (轧钢四厂)<sup>72</sup></li> </ul>	0%

<sup>59</sup> <http://www.sywg.com/sw/node189/node200/node799/node819/node976/u1ai1292428.html>

<sup>60</sup> [http://blog.sina.com.cn/s/blog\\_976388380101e4jf.html](http://blog.sina.com.cn/s/blog_976388380101e4jf.html)

<sup>61</sup> <http://www.cfbpco.com/tegang/Ch/NewsView.asp?id=483&SortID=11>

<sup>62</sup> Ibid

<sup>63</sup> <http://www.baik.com/wiki/%E6%B1%9F%E8%8B%8F%E6%B0%B8%E9%92%A2%E9%9B%86%E5%9B%A2%E6%9C%89%E9%99%90%E5%85%AC%E5%8F%B8>

<sup>64</sup> Ibid

<sup>65</sup> Ibid

<sup>66</sup> Ibid

<sup>67</sup> Ibid

<sup>68</sup> Ibid

<sup>69</sup> Ibid

<sup>70</sup> Ibid

<sup>71</sup> Ibid

<sup>72</sup> Ibid

## 6. ANSTEEL GROUP

Comprehensive research was conducted to obtain details of the state ownership of this Steel Producer, as detailed below. This information is largely obtained from the SAIC records retrieved for Ansteel Group, except where supplementary research and public records are indicated.

### 6.1. Overview of Corporate Development

Relevant public records were retrieved for Ansteel Group, but we did not locate any records in relation to historical changes of ownership over the past 10 years.

#### Anshan Iron and Steel Group Corporation

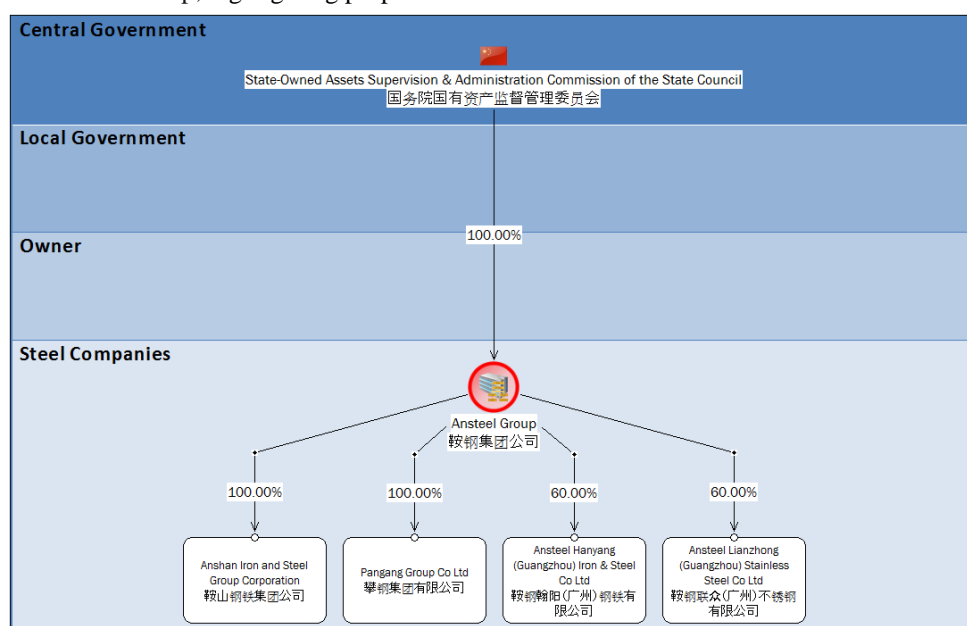
Relevant public records were also retrieved identifying historical ownership changes for a predecessor company of this Steel Producer, namely Anshan Iron and Steel Group Corporation (鞍山钢铁集团公司), which was restructured as part of Ansteel Group's incorporation and one wholly-owned subsidiary of Ansteel Group.<sup>73</sup> However, we did not locate any records regarding historical ownership changes over the past decade.

#### Pangang Group Co Ltd

In addition, relevant public records were also retrieved identifying historical ownership changes for another predecessor company of this Steel Producer, namely Pangang Group Co Ltd (攀钢集团有限公司), which was restructured as another part of Ansteel Group's incorporation and one wholly-owned subsidiary of Ansteel Group.<sup>74</sup> However, we did not locate any records regarding historical ownership changes over the past decade.

### 6.2. Organization / Ownership Chart

Further to review and analysis of available public records, a chart was prepared depicting both the ownership and organization of Ansteel Group, highlighting proportion of state control.



<sup>73</sup> <http://www.chinamoney.com.cn/fe/Info/11426578>

<sup>74</sup> Ibid

In addition to the four steel production/processing subsidiaries captured in the chart above, a focused review of available public records identified a further two subsidiaries involved in finance and financial investment.<sup>75</sup>

### 6.3. State Ownership of Facilities or Assets

Focused high level research was conducted into Ansteel Group and its major subsidiaries, mainly through their corporate websites, to identify major facilities / assets. These are listed below, along with the percentage of state ownership, as it relates to the specific company:

Company Name	Asset / Facility	Percentage Owned by the State
Ansteel Group	<ul style="list-style-type: none"> <li>• East Anshan Iron Mines (东鞍山铁矿)<sup>76</sup></li> <li>• Dayashan Iron Mines (大亚山铁矿)<sup>77</sup></li> <li>• Dagushan Iron Mines (大孤山铁矿)<sup>78</sup></li> <li>• Dongdashan Mine Concentrator Plant (东大山选矿厂)<sup>79</sup></li> <li>• Dagushan Mine Concentrator Plant (大孤山选矿厂)<sup>80</sup></li> <li>• Wafangzi Iron Mines (瓦房子铁矿)<sup>81</sup></li> <li>• Anshan Iron &amp; Steel Group Corporation Dong'anshan Sintering Plant (鞍山钢铁集团公司东鞍山烧结厂) (210300005016577)<sup>82</sup></li> <li>• Ansteel Group New Steel Co Ltd Iron-making General Plant (鞍钢集团新钢铁有限责任公司炼铁总厂)<sup>83</sup></li> </ul>	100%
Anshan Iron and Steel Group Corporation	<ul style="list-style-type: none"> <li>• Ansteel Co Ltd Iron-making General Plant (鞍钢股份有限公司炼铁总厂)<sup>84</sup></li> <li>• Ansteel Group Mine Industry Company Dalian Limestone Mines (鞍钢集团矿业公司大连石灰石矿) (210211000023794)<sup>85</sup></li> </ul>	100%

<sup>75</sup> <http://www.chinamoney.com.cn/fe/Info/11426578>

<sup>76</sup> [http://www.custeel.com/member/agzb\\_060323/](http://www.custeel.com/member/agzb_060323/)

<sup>77</sup> Ibid

<sup>78</sup> Ibid

<sup>79</sup> Ibid

<sup>80</sup> Ibid

<sup>81</sup> Ibid

<sup>82</sup> Ibid

<sup>83</sup> <http://www.youbian.com/huangye/info218147/>

<sup>84</sup> <http://anshan074225.11467.com/about.asp>

<sup>85</sup> [http://www.custeel.com/member/agzb\\_060323/](http://www.custeel.com/member/agzb_060323/)

	<ul style="list-style-type: none"> <li>• Ansteel Group Mine Industry Company Dalian Limestone New Mines (鞍钢集团矿业公司大连石灰石新矿) (210212000005011)<sup>86</sup></li> <li>• Anshan Iron and Steel Group Corporation Qidashan Iron Mines (鞍山钢铁集团公司齐大山铁矿)<sup>87</sup></li> <li>• Ansteel Co Ltd No.1 Steel-making Factory (鞍钢股份有限公司第一炼钢厂)<sup>88</sup></li> <li>• Ansteel Co Ltd No.2 Steel-making Factory (鞍钢股份有限公司第二炼钢厂)<sup>89</sup></li> <li>• Anshan Iron and Steel Group Corporation No.3 Steel-making Factory (鞍山钢铁集团公司第三炼钢厂)<sup>90</sup></li> </ul>	
Pangang Group Co Ltd	<ul style="list-style-type: none"> <li>• Pangang Group Sichuan Great Wall Special Steel Co Ltd Steel-making Plant (攀钢集团四川长城特殊钢有限责任公司炼钢厂)<sup>91</sup></li> <li>• Pangang Group Panzhihua Steel Vanadium Co Ltd Vanadium-refining &amp; Steel-making Plant (攀钢集团攀枝花钢钒有限公司提钒炼钢厂)<sup>92</sup></li> </ul>	100%

<sup>86</sup> Ibid

<sup>87</sup> <http://3296081.71ab.com/>

<sup>88</sup> <http://www.baike.com/wiki/%E9%9E%8D%E5%B1%B1%E7%AC%AC%E4%B8%80%E7%82%BC%E9%92%A2%E5%8E%82>

<sup>89</sup> <http://www.baike.com/wiki/%E9%9E%8D%E5%B1%B1%E7%AC%AC%E4%BA%8C%E7%82%BC%E9%92%A2%E5%8E%82>

<sup>90</sup> <http://www.doc88.com/p-731755365253.html>

<sup>91</sup> [http://www.embasoul.net/news/20150504/635663504209361250\\_1.shtml](http://www.embasoul.net/news/20150504/635663504209361250_1.shtml)

<sup>92</sup> <http://16674340.11315.com/>

## 7. WISCO

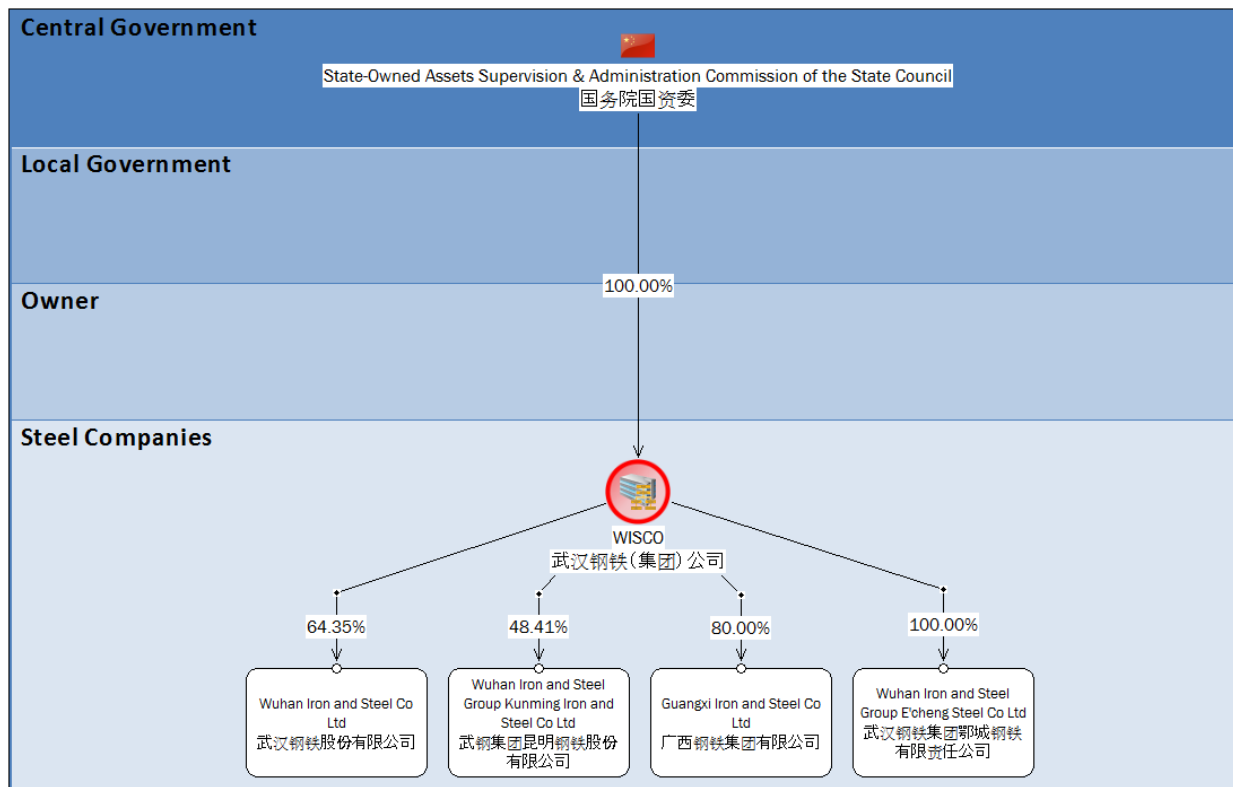
Comprehensive research was conducted to obtain details of the state ownership of this Steel Producer, as detailed below. This information is largely obtained from the SAIC records retrieved for WISCO, except where supplementary research and public records are indicated.

### 7.1. Overview of Corporate Development

Relevant public records were retrieved for WISCO, but we did not locate any records in relation to historical changes of ownership over the past 10 years. The company has been 100% owned by SASAC since incorporation on 9 January 1990.

### 7.2. Organization / Ownership Chart

Further to review and analysis of available public records, a chart was prepared depicting both the ownership and organization of WISCO, highlighting proportion of state control.



In addition to the four steel production subsidiaries captured in the chart above, a focused review of the 2014 annual return for WISCO identified approximately 20 further direct subsidiaries involved in other industry areas such as iron mining, construction, machinery processing, thermal power generation, finance, logistics, refractory materials, investment, engineering and technology research and development, hotels, and gas production.<sup>93</sup>

<sup>93</sup> [http://www.chinamoney.com.cn/fe/CMS5\\_G20306002Resource?info=11475465;res=14303908570171839651468;download=](http://www.chinamoney.com.cn/fe/CMS5_G20306002Resource?info=11475465;res=14303908570171839651468;download=)

### 7.3. State Ownership of Facilities or Assets

Focused high level research was conducted into WISCO and its major subsidiaries, mainly through their corporate websites, to identify major facilities / assets. These are listed below, along with the percentage of state ownership, as it relates to the specific company:

Company Name	Asset / Facility	Percentage Owned by the State
Wuhan Iron and Steel Group Co Ltd	<ul style="list-style-type: none"> <li>• Wuhan Iron and Steel Co Ltd Iron Mill (武汉钢铁股份有限公司炼铁厂)<sup>94</sup></li> <li>• Xuanhua Iron and Steel Group Co Ltd Steel Mill (武汉钢铁股份有限公司炼钢总厂)<sup>95</sup></li> </ul>	100%
Wuhan Iron and Steel Group E'cheng Steel Co Ltd	<ul style="list-style-type: none"> <li>• Wuhan Iron and Steel Group E'cheng Steel Co Ltd Iron Mill (武汉钢铁集团鄂城钢铁有限责任公司炼铁厂)<sup>96</sup></li> <li>• Wuhan Iron and Steel Group E'cheng Steel Co Ltd Steel Mill (武汉钢铁集团鄂城钢铁有限责任公司炼钢厂)<sup>97</sup></li> </ul>	100%
Wuhan Iron and Steel Group Kunming Iron and Steel Co Ltd	<ul style="list-style-type: none"> <li>• Wuhan Iron and Steel Group Kunming Iron and Steel Co Ltd Iron Mill (武钢集团昆明钢铁股份有限公司炼铁厂)<sup>98</sup></li> <li>• Wuhan Iron and Steel Group Kunming Iron and Steel Co Ltd Steel Mill (武钢集团昆明钢铁股份有限公司炼钢厂)<sup>99</sup></li> </ul>	100%

<sup>94</sup> <http://wgf.wisco.com.cn/cydw/index.jhtml>

<sup>95</sup> Ibid

<sup>96</sup> <http://www.ecsteel.com.cn/about.asp?type=1&type2=5>

<sup>97</sup> Ibid

<sup>98</sup> <http://www.ynsafety.gov.cn/contents/225/14508.html>

<sup>99</sup> Ibid

## 8. SHOUGANG GROUP

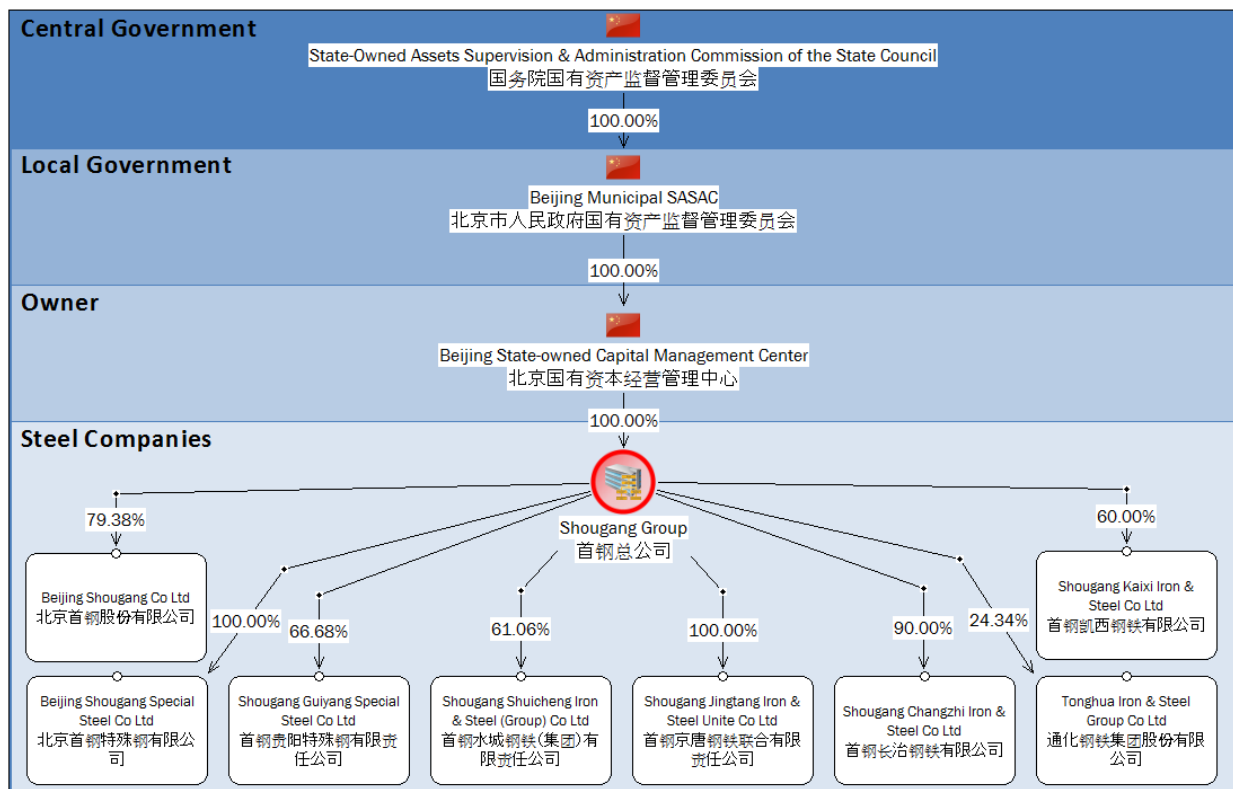
Comprehensive research was conducted to obtain details of the state ownership of this Steel Producer, as detailed below. This information is largely obtained from the SAIC records retrieved for Shougang Group, except where supplementary research and public records are indicated.

### 8.1. Overview of Corporate Development

Relevant public records were retrieved for Shougang Group, but we did not locate any records in relation to historical changes of ownership over the past 10 years. The company has been 100% owned by the Beijing State-owned Capital Management Center since incorporation on 13 March 1981.

### 8.2. Organization / Ownership Chart

Further to review and analysis of available public records, a chart was prepared depicting both the ownership and organization of Shougang Group, highlighting proportion of state control.



In addition to the eight steel production subsidiaries captured in the chart above, a focused review of the 2014 annual return as well as the official website of Shougang Corporation identified approximately 58 further direct group subsidiaries involved in other industry areas such as steel processing, environmental protection, mining, international trading, international engineering, construction, electromechanical equipment production, IT, real estate, education, service, and investment management.<sup>100</sup>

<sup>100</sup> [http://www.shougang.com.cn/shougang\\_cn\\_web/sygs/index.htm](http://www.shougang.com.cn/shougang_cn_web/sygs/index.htm)



### 8.3. State Ownership of Facilities or Assets

Focused high level research was conducted into Shougang Group and its major subsidiaries, mainly through their corporate websites, to identify major facilities / assets. These are listed below, along with the percentage of state ownership, as it relates to the specific company:

Company Name	Asset / Facility	Percentage Owned by the State
Shougang Group	<ul style="list-style-type: none"> <li>• The First Steel Smelting Plant of Shougang Corporation (首钢总公司第一炼钢厂)<sup>101</sup></li> <li>• The Second Steel Smelting Plant of Shougang Corporation (首钢总公司第二炼钢厂)<sup>102</sup></li> <li>• The Third Steel Smelting Plant of Shougang Corporation (首钢总公司第三炼钢厂)<sup>103</sup></li> <li>• Shougang Iron Smelting Plant (首钢炼铁厂)<sup>104</sup></li> <li>• Liaodong Vonsenite (辽东硼铁矿)<sup>105</sup></li> <li>• Ningxia Yangguang Ming Co Ltd (宁夏阳光矿业有限公司)<sup>106</sup></li> <li>• Shanxi Shougang Ming Co Ltd (山西首钢矿业有限公司)<sup>107</sup></li> <li>• Shougang Mining Dashihe Concentrating Plant (首钢矿业大石河选矿厂)<sup>108</sup></li> <li>• Shougang Mining Shuichang Concentrating Plant (首钢矿业水厂选矿厂)<sup>109</sup></li> </ul>	100%
Beijing Shougang Co Ltd	<ul style="list-style-type: none"> <li>• Shougang Qian'an Mining Base (首钢迁安矿山基地)<sup>110</sup></li> <li>• Qian'an Iron Mine (迁安铁矿)<sup>111</sup></li> <li>• Beijing Shougang Lujiashan Limestone Mine (北京首钢鲁家山石灰石矿有限公司)<sup>112</sup></li> </ul>	79.38%

<sup>101</sup> <http://jqiy.com/company-1-53-60-6041115-details.html>

<sup>102</sup> <http://renshi.people.com.cn/n/2013/1210/c139617-23799786.html>

<sup>103</sup> Ibid

<sup>104</sup> <http://www.dcsfg.com/gangguanjiage/292.html>

<sup>105</sup> [http://www.chinaneast.gov.cn/2010-03/10/c\\_13204580.htm](http://www.chinaneast.gov.cn/2010-03/10/c_13204580.htm)

<sup>106</sup> 2014 Annual Return of Shougang Corporation

<sup>107</sup> 2014 Annual Return of Shougang Corporation

<sup>108</sup> [http://www.shougang.com.cn/shougang\\_cn\\_web/sgky/index.htm](http://www.shougang.com.cn/shougang_cn_web/sgky/index.htm)

<sup>109</sup> Ibid

<sup>110</sup> [http://www.shougang.com.cn/shougang\\_cn\\_web/sgqg/index.htm](http://www.shougang.com.cn/shougang_cn_web/sgqg/index.htm)

<sup>111</sup> <http://stock.jrj.com.cn/share,000959.shtml>

<sup>112</sup> <http://www.sgljsk.cn/index.htm>

	<ul style="list-style-type: none"> <li>• Funing Shouqin Stone Works Co Ltd (抚宁县首秦石业有限公司)<sup>113</sup></li> <li>• Lulong Shougang Dolomite Co Ltd (卢龙县首钢白云石矿有限公司)<sup>114</sup></li> <li>• Tangxian Shougang Limestone Mine Co Ltd (唐县首钢石灰石矿有限公司)<sup>115</sup></li> <li>• Cold Rolling Base (冷轧基地)<sup>116</sup></li> <li>• The Second Steel Smelting Plant (第二炼钢厂)<sup>117</sup></li> <li>• Iron Smelting Plant (炼铁厂)<sup>118</sup></li> </ul>	
Beijing Shougang Special Steel Co Ltd	<ul style="list-style-type: none"> <li>• The Second Steel Smelting Plant of Shougang Special Steel (首钢特钢第二炼钢厂)<sup>119</sup></li> </ul>	100%
Shougang Guiyang Special Steel Co Ltd	<ul style="list-style-type: none"> <li>• Steel Smelting Plant (炼钢厂)<sup>120</sup></li> </ul>	66.68%
Shougang Shuicheng Iron & Steel Co Ltd	<ul style="list-style-type: none"> <li>• Iron Smelting Plant (炼铁厂)<sup>121</sup></li> <li>• Steel Smelting Plant (炼钢厂)<sup>122</sup></li> <li>• Steel Rolling Plant(轧钢厂)<sup>123</sup></li> </ul>	61.01%
Shougang Jingtang Iron & Steel Unite Co Ltd	<ul style="list-style-type: none"> <li>• Shougang Jingtang First Cold Rolling Plant (首钢京唐第一冷轧厂)<sup>124</sup></li> <li>• Shougang Jingtang Second Rolling Plant (首钢京唐第二冷轧厂)<sup>125</sup></li> <li>• Shougang Jingtang Third Rolling Plant (首钢京唐第三冷轧厂)<sup>126</sup></li> </ul>	100%
Shougang Changzhi Iron & Steel Co Ltd	<ul style="list-style-type: none"> <li>• Iron Smelting Plant (炼铁厂)<sup>127</sup></li> <li>• Steel Smelting Plant (炼钢厂)<sup>128</sup></li> </ul>	90%

<sup>113</sup> Ibid

<sup>114</sup> Ibid

<sup>115</sup> Ibid

<sup>116</sup> [http://www.shougang.com.cn/shougang\\_cn\\_web/sgsy/index.htm](http://www.shougang.com.cn/shougang_cn_web/sgsy/index.htm)

<sup>117</sup> <http://www.sggf.com.cn/doc/new-scgm-liangang.htm>

<sup>118</sup> <http://stock.jrj.com.cn/share/000959.shtml>

<sup>119</sup> <http://sgdaily.com/zhxw/103755.htm>

<sup>120</sup> [http://news.ifeng.com/gundong/detail\\_2013\\_11/27/31593457\\_0.shtml](http://news.ifeng.com/gundong/detail_2013_11/27/31593457_0.shtml)

<sup>121</sup> <http://www.ssgjt.com/1liaojie1s.aspx?id=117>

<sup>122</sup> Ibid

<sup>123</sup> Ibid

<sup>124</sup> [http://info.ytbxw.com/news\\_21004.html](http://info.ytbxw.com/news_21004.html)

<sup>125</sup> <http://www.20mcc.com.cn/pr01.aspx?id=339>

<sup>126</sup> <http://info.glinfo.com/13/0923/14/55E074A50C78D3AE.html>

<sup>127</sup> <http://info.glinfo.com/14/0702/09/65E1D9FE4F134F3D.html>

<sup>128</sup> <http://www.96369.net/news/201306/279465.html>

Tonghua Iron & Steel Group Co Ltd	<ul style="list-style-type: none"> <li>• Jilin Tonggang Mining Co Ltd (吉林通钢矿业有限责任公司)<sup>129</sup></li> <li>• Tonggang Group Slabstone Mining Co Ltd(通钢集团板石矿业有限责任公司) <sup>130</sup></li> <li>• Tonggang Group Dunhua Tadong Mining Co Ltd Tadong Iron Mine Project(通钢集团敦化塔东矿业有限责任公司塔东铁矿项目)<sup>131</sup></li> <li>• Tonghua Iron &amp; Steel Group Huadian Minging Co Ltd(通化钢铁集团桦甸矿业有限责任公司)<sup>132</sup></li> <li>• The Second Steel Smelting Plant (第二炼钢厂) <sup>133</sup></li> <li>• Sintering Plant (烧结厂) <sup>134</sup></li> </ul>	77.59% via Shougang Group (24.34%) and Shougang Holding Co Ltd (53.25%), which is a wholly-owned subsidiary of Shougang Group
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<sup>129</sup> [http://www.shougang.com.cn/shougang\\_cn\\_web/sgtg/index.htm](http://www.shougang.com.cn/shougang_cn_web/sgtg/index.htm)

<sup>130</sup> <http://www.ksjx.com.cn/Inc/File/ComDetail.aspx?UID=UIIW201402281114230BD164D9FEBA>

<sup>131</sup> [http://www.sdpc.gov.cn/fzgggz/gfz/zhd/201011/t20101102\\_378833.html](http://www.sdpc.gov.cn/fzgggz/gfz/zhd/201011/t20101102_378833.html)

<sup>132</sup> <http://www.ky114.cn/Qtyx/sort.asp?userid=865>

<sup>133</sup> <http://www.09635.com/company/1744861.aspx>

<sup>134</sup> <http://thgtjtyxsjc.cn.biz72.com/>

## 9. SHANDONG STEEL GROUP

Comprehensive research was conducted to obtain details of the state ownership of this Steel Producer, as detailed below. This information is largely obtained from the SAIC records retrieved for Shandong Steel Group, except where supplementary research and public records are indicated.

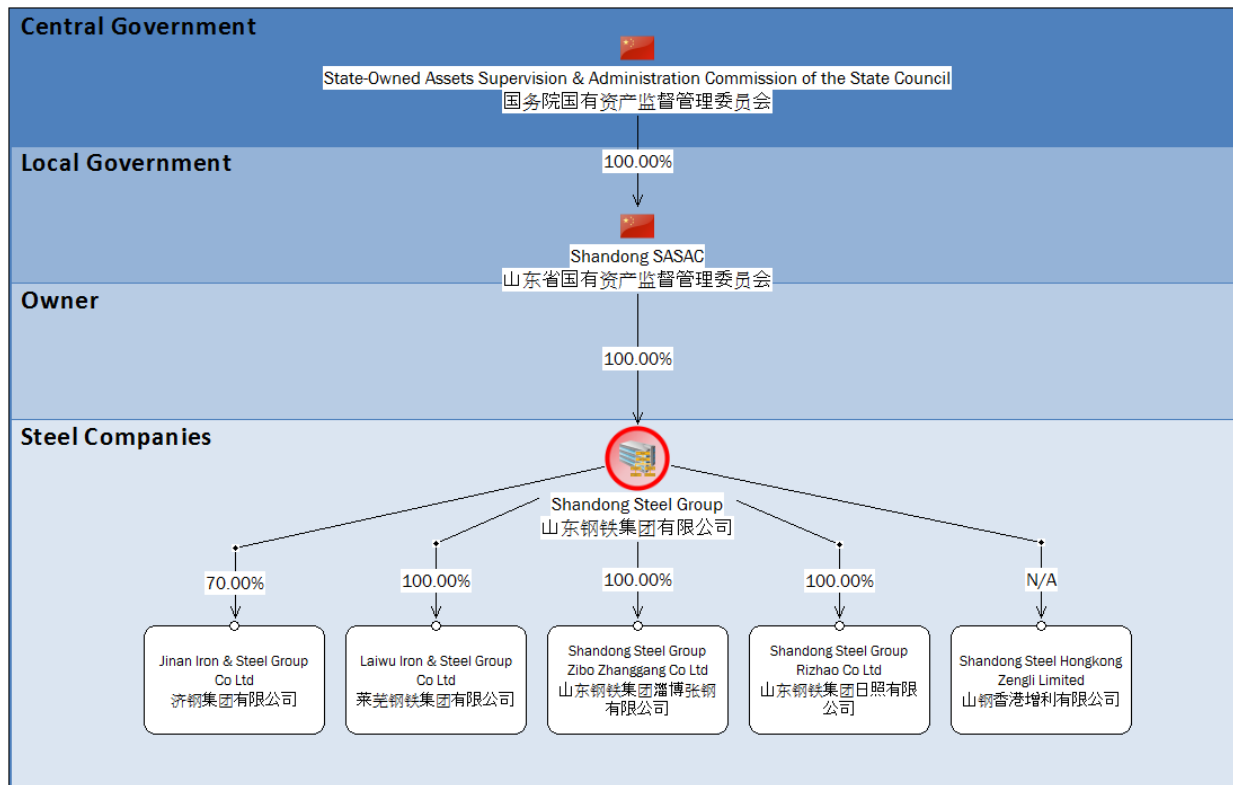
### 9.1. Overview of Corporate Development

Relevant public records were retrieved that identify ownership of Shandong Steel Group over the past 10 years. Below is a chronological overview of the changing ownership of the Steel Producer.

- 19 Mar 2008: Equity held by SASAC of Shandong Province (100%) increased from RMB 30 million to RMB 10 billion.
- 04 Jun 2014: Equity held by SASAC of Shandong Province increased from RMB 10 billion to RMB 10.45 billion.

### 9.2. Organization / Ownership Chart

Further to review and analysis of available public records, a chart was prepared depicting both the ownership and organization of Shandong Steel Group, highlighting proportion of state control.



In addition to the five steel production subsidiaries captured in the chart above, a focused review of the official website of Shandong Steel Group identified approximately three subsidiaries involved in production of refractory material, technical education, and hotel industry.<sup>135</sup>

<sup>135</sup> <http://www.sdsteel.cc/list-251211330194.htm>

### 9.3. State Ownership of Facilities or Assets

Focused high level research was conducted into Shandong Steel Group and its major subsidiaries, mainly through their corporate websites, to identify major facilities / assets. These are listed below, along with the percentage of state ownership, as it relates to the specific company:

Company Name	Asset / Facility	Percentage Owned by the State
Jinan Iron and Steel Group Co Ltd	<ul style="list-style-type: none"> <li>The First Steel Smelting Mill (第一炼钢厂)<sup>136</sup></li> <li>The Third Steel Smelting Mill (第三炼钢厂)<sup>137</sup></li> </ul>	70%
Laiwu Iron and Steel Group Co Ltd	<ul style="list-style-type: none"> <li>Steel Smelting Mill (炼钢厂)<sup>138</sup></li> <li>Iron Smelting Mill (炼铁厂)<sup>139</sup></li> <li>Profile Steel Mill (型钢厂)<sup>140</sup></li> </ul>	100%
Shandong Steel Group Zibo Zhanggang Co Ltd	Steel Smelting Mill (炼钢厂) <sup>141</sup>	100%
Shandong Steel Hongkong Zengli Limited	Tonkolili Iron Mine (唐克里里铁矿) <sup>142</sup>	N/A

<sup>136</sup> <http://www.asianeter.com/caseContent.aspx?type=case&id=210>

<sup>137</sup> <http://finance.sina.com.cn/g/20050908/0953302746.shtml>

<sup>138</sup> <http://www.laigang.com/lgnews/view.asp?id=4179>

<sup>139</sup> <http://www.laigang.com/lgnews/view.asp?id=4145>

<sup>140</sup> <http://www.laigang.com/lgnews/view.asp?id=3992>

<sup>141</sup> <http://zdsteel.com/shownews.asp?ID=548>

<sup>142</sup> <http://finance.sina.com.cn/chanjing/gsnews/20150318/094021747708.shtml>

## 10. MAGANG GROUP

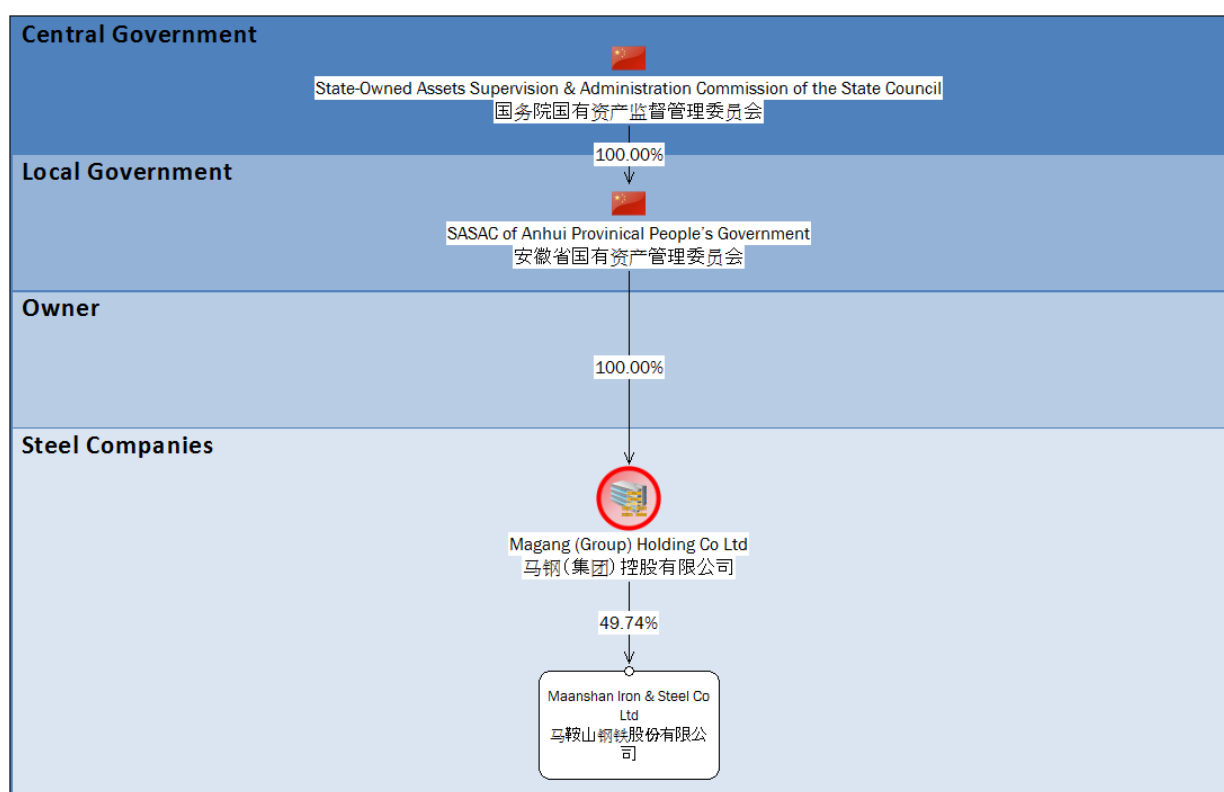
Comprehensive research was conducted to obtain details of the state ownership of this Steel Producer, as detailed below. This information is largely obtained from the SAIC records retrieved for Magang Group, except where supplementary research and public records are indicated.

### 10.1. Overview of Corporate Development

Relevant public records were retrieved for Magang Group, but we did not locate any records in relation to historical changes of ownership over the past 10 years. The company has been 100% owned by SASAC of Anhui Province since incorporation on 18 September 1998.

### 10.2. Organization / Ownership Chart

Further to review and analysis of available public records, a chart was prepared depicting both the ownership and organization of Magang Group, highlighting proportion of state control.



In addition to the steel production subsidiary captured in the chart above, a focused review of available public records identified a further 23 subsidiaries involved in resources development, logistics/transportation, engineering, investment, trading, real estate, energy technology, chemicals, and hygiene.<sup>143</sup>

<sup>143</sup> <http://www.chinamoney.com.cn/fe/Info/11543355>

### 10.3. State Ownership of Facilities or Assets

Focused high level research was conducted into Magang Group and its major subsidiaries, mainly through their corporate websites, to identify major facilities / assets. These are listed below, along with the percentage of state ownership, as it relates to the specific company:

Company Name	Asset / Facility	Percentage Owned by the State
Maanshan Iron & Steel Co Ltd	<ul style="list-style-type: none"> <li>• Maanshan Iron &amp; Steel Co Ltd No. 1 Iron-making Plant (马鞍山钢铁股份有限公司第一炼铁厂)<sup>144</sup></li> <li>• Maanshan Iron &amp; Steel Co Ltd No. 2 Iron-making Plant (马鞍山钢铁股份有限公司第二炼铁厂)<sup>145</sup></li> <li>• Maanshan Iron &amp; Steel Co Ltd No. 4 Iron-making Plant (马鞍山钢铁股份有限公司第四炼铁厂)<sup>146</sup></li> <li>• Maanshan Iron &amp; Steel Co Ltd No. 1 Steel-making Plant (马鞍山钢铁股份有限公司第一炼钢厂)<sup>147</sup></li> <li>• Maanshan Iron &amp; Steel Co Ltd No. 2 Steel-making Plant (马鞍山钢铁股份有限公司第二炼钢厂)<sup>148</sup></li> <li>• Maanshan Iron &amp; Steel Co Ltd No. 3 Steel-making Plant (马鞍山钢铁股份有限公司第三炼钢厂)<sup>149</sup></li> </ul>	49.74%

<sup>144</sup> [http://www.gthy.uei114.com/company\\_detail.jsp?companyId=3337640](http://www.gthy.uei114.com/company_detail.jsp?companyId=3337640)

<sup>145</sup> <http://anhui.mingluji.com/%E9%A9%AC%E9%9E%8D%E5%B1%B1%E9%92%A2%E9%93%81%E8%82%A1%E4%BB%BD%E6%9C%89%E9%99%90%E5%85%AC%E5%8F%B8%E7%AC%AC%E4%BA%8C%E7%82%BC%E9%93%81%E5%8E%82>

<sup>146</sup> <http://www.11467.com/maanshan/co/5205.htm>

<sup>147</sup> <http://www.youbian.com/organ2807847/>

<sup>148</sup> <http://0557.009006.com/4135032.html>

<sup>149</sup> <http://anhui.mingluji.com/%E9%A9%AC%E9%9E%8D%E5%B1%B1%E9%92%A2%E9%93%81%E8%82%A1%E4%BB%BD%E6%9C%89%E9%99%90%E5%85%AC%E5%8F%B8%E7%AC%AC%E4%B8%89%E7%82%BC%E9%92%A2%E5%8E%82>

## 11. TIANJIN BOHAI STEEL

Comprehensive research was conducted to obtain details of the state ownership of this Steel Producer, as detailed below. This information is largely obtained from the SAIC records retrieved for Tianjin Bohai Steel, except where supplementary research and public records are indicated.

### 11.1. Overview of Corporate Development

Relevant public records were retrieved that identify ownership of Tianjin Bohai Steel over the past 10 years. Below is a chronological overview of the changing ownership of the Steel Producer.

- 08 Jul 2010: Transfer of ownership from Tianjin Bohai State-owned Assets Operation and Management Co Ltd (天津渤海国有资产经营管理有限公司) (100%) to SASAC of Tianjin Municipality (100%). Equity held by SASAC of Tianjin Municipality increased from RMB 100 million to RMB 16 billion.
- 06 Nov 2012: Equity held by SASAC of Tianjin Municipality increased from RMB 16 billion to RMB 17 billion.

In July 2010, Tianjin Bohai Steel was established by Tianjin municipal government to combine the steel resources of Tianjin Iron Metallurgy Group Co Ltd (天津天铁冶金集团有限公司), Tianjin Metallurgy Group Co Ltd (天津冶金集团有限公司), Tianjin Iron and Steel Group Co Ltd (天津钢铁集团有限公司), and Tianjin Pipe (Group) Co Ltd (天津钢管集团股份有限公司) together. Relevant public records were also retrieved identifying historical ownership changes for these four predecessor companies of this Steel Producer. Below is a chronological overview of the changing ownership of this predecessor company.

#### **Tianjin Iron Metallurgy Group Co Ltd**

Relevant public records were also retrieved identifying historical ownership changes for a predecessor company of this Steel Producer, namely Tianjin Iron Metallurgy Group Co Ltd (天津天铁冶金集团有限公司), which was restructured as part of Tianjin Bohai Steel's incorporation. Below is a chronological overview of the changing ownership of this predecessor company.

- 2 Jul 2009: Transfer of ownership from Tianjin Municipal Government (100%) to SASAC of Tianjin Municipality (100%).
- 8 Jul 2010: Transfer of ownership from SASAC of Tianjin Municipality to Bohai Steel Group (渤海钢铁集团有限公司).
- 7 Jul 2014: Tianjin Guoteng Investment Co Ltd (天津国腾投资有限公司) became a shareholder and made an additional capital investment of RMB 1.5 billion. Meanwhile, Bohai Steel Group maintained its own shareholding of RMB 3.00119 billion.

#### **Tianjin Metallurgy Group Co Ltd**

Relevant public records were also retrieved identifying historical ownership changes for a predecessor company of this Steel Producer, namely Tianjin Metallurgy Group Co Ltd (天津冶金集团有限公司), which was restructured as part of Tianjin Bohai Steel's incorporation. Below is a chronological overview of the changing ownership of this predecessor company.

- 04 May 2009: Equity held by SASAC of Tianjin Municipality (100%) increased from RMB 900.7759million to RMB 1.0607759 billion.



- 22 May 2009: Equity held by SASAC of Tianjin Municipality increased from RMB 1.0607759 billion to RMB 1.5307759 billion.
- 04 Jun 2009: Equity held by SASAC of Tianjin Municipality increased from RMB 1.5307759 billion to RMB 2 billion.
- 08 Jul 2010: Transfer of ownership from SASAC of Tianjin Municipality (100%) to Bohai Steel Group (100%).
- 11 Aug 2014: Tianjin Guoteng Investment Co Ltd became a shareholder and made an additional capital investment of RMB 1.5 billion. Meanwhile, Bohai Steel Group maintained its own shareholding of RMB 3 billion.

### Tianjin Iron and Steel Group Co Ltd

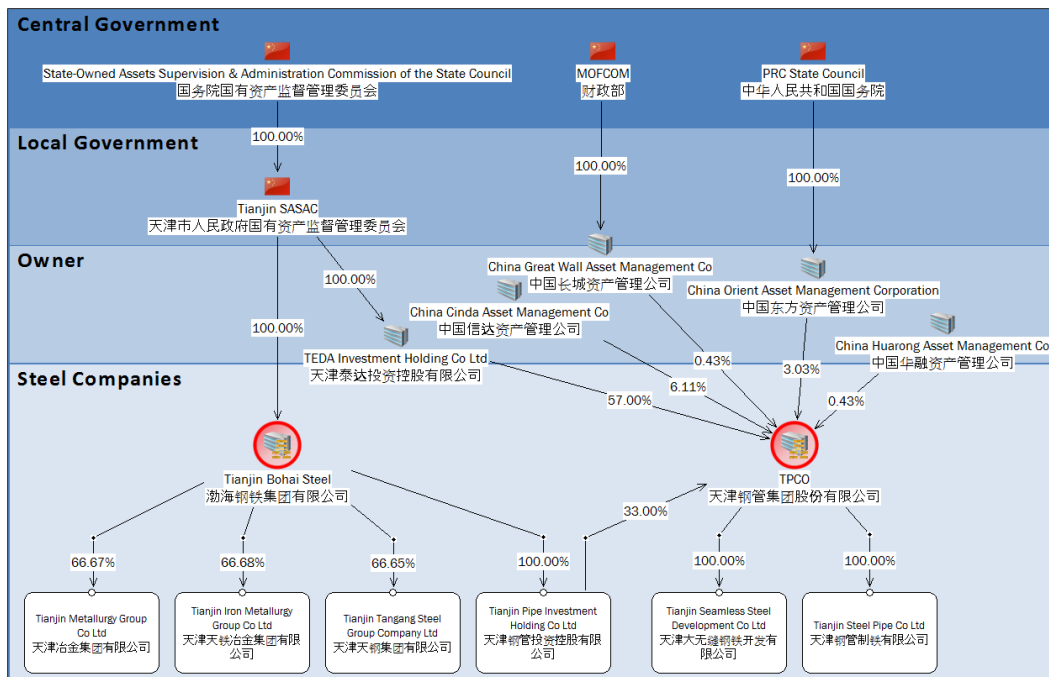
Relevant public records were also retrieved identifying historical ownership changes for a predecessor company of this Steel Producer, namely Tianjin Iron and Steel Group Co Ltd (天津钢铁集团有限公司), which was restructured as part of Tianjin Bohai Steel's incorporation. However, we did not locate any records in relation to historical changes of ownership over the past 10 years.

### Tianjin Pipe (Group) Co Ltd

Relevant public records were also retrieved identifying historical ownership changes for a predecessor company of this Steel Producer, namely Tianjin Pipe (Group) Co Ltd (天津钢管集团股份有限公司), which was restructured as part of Tianjin Bohai Steel's incorporation. However, we did not locate any records in relation to historical changes of ownership over the past 10 years.

## 11.2. Organization / Ownership Chart

Further to review and analysis of available public records, a chart was prepared depicting both the ownership and organization of Tianjin Bohai Steel, highlighting proportion of state control:



In addition to the four steel production subsidiaries captured in the chart above, a focused review of the official website of Tianjin Bohai Steel identified approximately four further group subsidiaries involved in other industry areas such as trading and investment.<sup>150</sup>

### 11.3. State Ownership of Facilities or Assets

Focused high level research was conducted into Tianjin Bohai Steel and its major subsidiaries, mainly through their corporate websites, to identify major facilities / assets. These are listed below, along with the percentage of state ownership, as it relates to the specific company:

Company Name	Asset / Facility	Percentage Owned by the State
Tianjin Bohai Steel	<ul style="list-style-type: none"> <li>Bohai Steel Group Co Ltd No. 1 Iron Mill (渤海钢铁集团有限公司第一炼铁厂)<sup>151</sup></li> <li>Bohai Steel Group Co Ltd No. 2 Iron Mill (渤海钢铁集团有限公司第二炼铁厂)<sup>152</sup></li> </ul>	100%
Tianjin Iron Metallurgy Group Co Ltd	<ul style="list-style-type: none"> <li>Tianjin Iron Metallurgy Group Co Ltd No. 1 Iron Mill (天津天铁冶金集团有限公司第一炼铁厂)<sup>153</sup></li> <li>Tianjin Iron Metallurgy Group Co Ltd No. 2 Iron Mill (天津天铁冶金集团有限公司第二炼铁厂)<sup>154</sup></li> <li>Tianjin Iron Metallurgy Group Co Ltd Steel Mill (天津天铁冶金集团有限公司炼钢厂)<sup>155</sup></li> </ul>	100%
Tianjin Tiangang Steel Group Co Ltd	<ul style="list-style-type: none"> <li>Tianjin Tiangang Steel Group Co Ltd Iron Mill (天津天钢集团有限公司炼铁厂)<sup>156</sup></li> </ul>	100%
Tianjin Steel Group Co Ltd (天津钢铁集团有限公司) <sup>157</sup>	<ul style="list-style-type: none"> <li>Tianjin Steel Group Co Ltd Iron Mill (天津钢铁集团有限公司炼铁厂)<sup>158</sup></li> <li>Tianjin Steel Group Co Ltd Steel Mill (天津钢铁集团有限公司炼钢厂)<sup>159</sup></li> </ul>	100%

<sup>150</sup> <http://www.bohaisteel.com/About/index/id/3.html>

<sup>151</sup> <http://factory.mysteel.com/14/0618/10/51282BBB9A4DB7F4.html>

<sup>152</sup> Ibid

<sup>153</sup> <http://www.llo86.com/news.aspx?id=214189>

<sup>154</sup> <http://news.12371.cn/2015/04/03/ART11428024573158150.shtml>

<sup>155</sup> <http://www.tjsafety.gov.cn/tj/jianguansichu/zhengwuxinxi/4527.html>

<sup>156</sup> <http://www.bohaisteel.com/News/detail/id/563.html>

<sup>157</sup> Tianjin Steel Group Co Ltd (天津钢铁集团有限公司) is 65.79% owned by Tianjin Tiangang Steel Group Co Ltd (天津天钢集团有限公司) and 34.21% owned by Tianjin Guoteng Investment Co Ltd (天津国腾投资有限公司), a wholly-state-owned enterprise.

<sup>158</sup> Ibid

<sup>159</sup> <http://www.tjsx.net/praise/20645.htm>

## 12. BENXI STEEL

Comprehensive research was conducted to obtain details of the state ownership of this Steel Producer, as detailed below. This information is largely obtained from the SAIC records retrieved for Benxi Steel, except where supplementary research and public records are indicated.

### 12.1. Overview of Corporate Development

Relevant public records were retrieved for Benxi Steel, but we did not locate any records in relation to historical changes of ownership since its incorporation.

The company's official website indicates that Benxi Steel was formally established on 8 June 2010 with approval from the Liaoning Provincial Party Committee and Liaoning Provincial Government.<sup>160</sup> According to a Sina Finance news report dated 10 June 2010, Benxi Iron & Steel (Group) Co Ltd and Beitai Iron & Steel (Group) Co Ltd had merged and restructured into Benxi Steel, and the two companies were about to become subsidiaries of the newly established Benxi Steel.<sup>161</sup>

The company has been 100% owned by SASAC of Liaoning Province since incorporation on 25 November 2010.

#### **Benxi Iron & Steel (Group) Co Ltd**

Relevant public records were also retrieved identifying historical ownership changes for a predecessor company of this Steel Producer, namely Benxi Iron & Steel (Group) Co Ltd (本溪钢铁(集团)有限责任公司), which was restructured as part of Benxi Steel's incorporation. Below is a chronological overview of the changing ownership of this predecessor company.

- 04 Apr 2006: Transfer of ownership from SASAC (100%) to SASAC of Liaoning Province (100%).
- 08 Jun 2011: Transfer of ownership from SASAC of Liaoning Province (100%) to Benxi Steel (100%).

#### **Beitai Iron & Steel (Group) Co Ltd**

Relevant public records were also retrieved identifying historical ownership changes for a predecessor company of this Steel Producer, namely Beitai Iron & Steel (Group) Co Ltd (北台钢铁(集团)有限责任公司), which was restructured as part of Tianjin Bohai Steel's incorporation. Below is a chronological overview of the changing ownership of this predecessor company, we note that shareholding amounts and percentages were not revealed in this record (we have ascertained that, currently, SASAC is the sole shareholder of this entity).

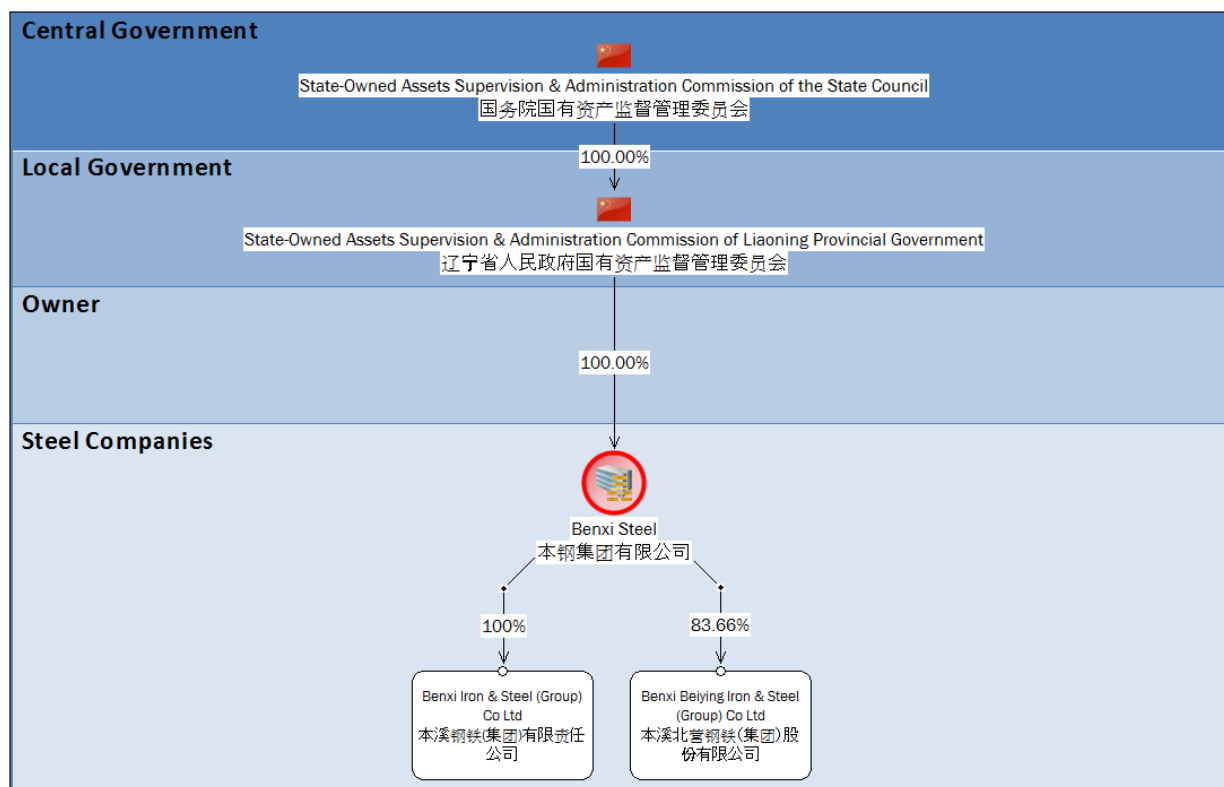
- 14 Mar 2008: Transfer of ownership from SASAC (100%) to Beijing Digital China Co Ltd (北京神州数码有限公司) and Liaoning Yaodu Development Co Ltd (辽宁药都发展有限公司).
- 09 Jun 2015: Transfer of ownership from Beijing Digital China Co Ltd and Liaoning Yaodu Development Co Ltd to SASAC (100%).

<sup>160</sup> <http://www.bxsteel.com/GenSit.asp?page=1>

<sup>161</sup> <http://finance.sina.com.cn/chanjing/gsnews/20100610/01518092433.shtml>

## 12.2. Organization / Ownership Chart

Further to review and analysis of available public records, a chart was prepared depicting both the ownership and organization of Benxi Steel, highlighting proportion of state control.



In addition to the two steel production subsidiaries captured in the chart above, a focused review of the official website of Benxi Steel identified approximately three further group subsidiaries involved in other industry areas such as mining, steel plates, and steel rolling.<sup>162</sup>

## 12.3. State Ownership of Facilities or Assets

Focused high level research was conducted into Benxi Steel and its major subsidiaries, mainly through their corporate websites, to identify major facilities / assets. These are listed below, along with the percentage of state ownership, as it relates to the specific company:

Company Name	Asset / Facility	Percentage Owned by the State
Benxi Iron & Steel (Group) Co Ltd	<ul style="list-style-type: none"> <li>Benxi Iron &amp; Steel (Group) Mining Co Ltd Nanfen Concentrating Plant (本溪钢铁(集团)矿业有限责任公司南芬选矿厂)<sup>163</sup></li> <li>Benxi Iron &amp; Steel (Group) Co Ltd Steel Plant (本溪钢铁(集团)有限责任公司炼钢厂)<sup>164</sup></li> </ul>	100%

<sup>162</sup> <http://www.bxsteel.com/GenSit.asp?page=3>

<sup>163</sup> <http://benxi.qicou.com/qiye/24001/>

<sup>164</sup> [http://company.ch.gongchang.com/info/55584021\\_e413/](http://company.ch.gongchang.com/info/55584021_e413/)

	<ul style="list-style-type: none"> <li>• Benxi Iron &amp; Steel (Group) Co Ltd Special Steel Plant (本溪钢铁(集团)有限责任公司特殊钢厂)<sup>165</sup></li> <li>• Bengang Plates Co Ltd Cold Rolling Plant (本钢板材股份有限公司冷轧厂)<sup>166</sup></li> <li>• Bengang Puxiang Cold Rolling Plant (本钢浦项冷轧厂)<sup>167</sup></li> <li>• Benxi Iron &amp; Steel Group Hot Rolling Plant- No.1 Branch Plant (本溪钢铁集团热轧厂一分厂)<sup>168</sup></li> <li>• Benxi Iron &amp; Steel Group Hot Rolling Plant- No.2 Branch Plant (本溪钢铁集团热轧厂二分厂)<sup>169</sup></li> <li>• Benxi Iron &amp; Steel Group Hot Rolling Plant- No.3 Branch Plant (本溪钢铁集团热轧厂三分厂)<sup>170</sup></li> </ul>	
Benxi Beiyong Iron & Steel (Group) Co Ltd	Benxi Beiyong Iron & Steel (Group) Co Ltd Steel Plant (本溪北营钢铁(集团)股份有限公司炼钢厂) <sup>171</sup>	83.66%

<sup>165</sup> <http://1220019.1024sj.com/>

<sup>166</sup> [http://bxsteel.fengji.com/news/1458/news\\_show\\_1458355.html](http://bxsteel.fengji.com/news/1458/news_show_1458355.html)

<sup>167</sup> [http://www.posco-china.com/public.action?\\_page.id=Page\\_ea83a819431e1ce101431e1d92b90025&news.id=NEWS\\_204&p=131](http://www.posco-china.com/public.action?_page.id=Page_ea83a819431e1ce101431e1d92b90025&news.id=NEWS_204&p=131)

<sup>168</sup> <http://www.rozh.com.cn/list.aspx?id=207>

<sup>169</sup> Ibid

<sup>170</sup> Ibid

<sup>171</sup> <http://18558307.11315.com/>

## 13. VALIN STEEL GROUP

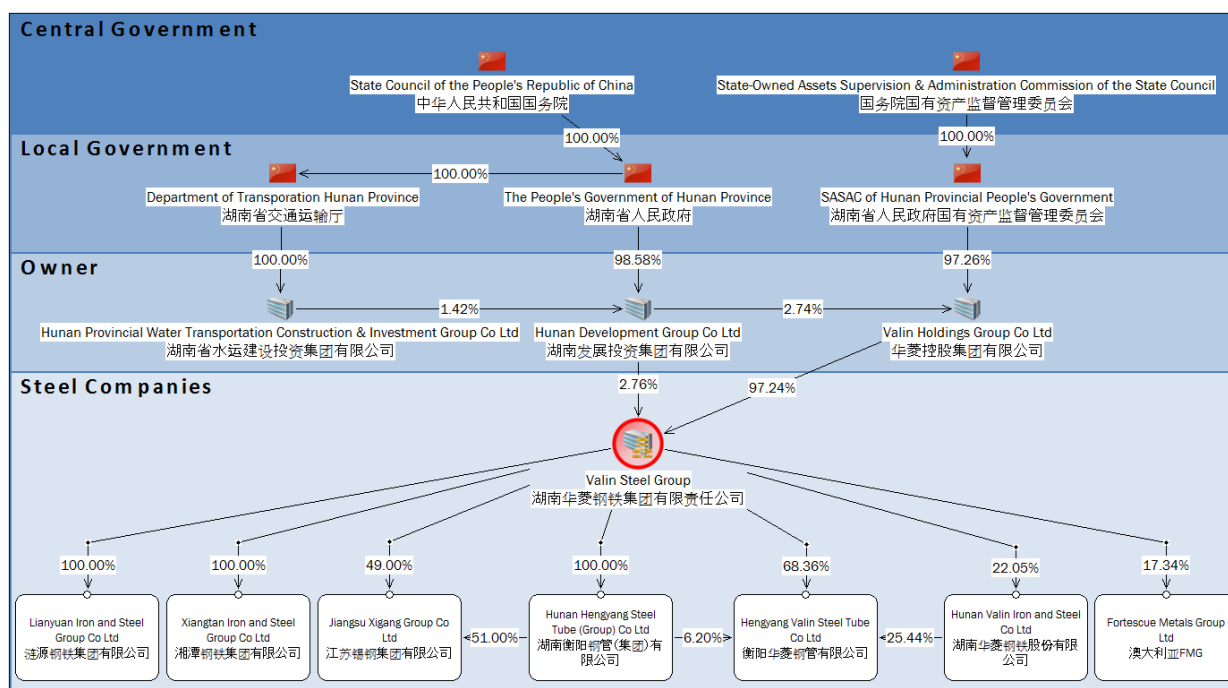
Comprehensive research was conducted to obtain details of the state ownership of this Steel Producer, as detailed below. This information is largely obtained from the SAIC records retrieved for Valin Steel Group, except where supplementary research and public records are indicated.

### 13.1. Overview of Corporate Development

Relevant public records were retrieved that identify ownership of Valin Steel Group over the past 10 years. However, we did not locate any records in relation to historical changes of ownership over this period. The company has been 97.24% owned by Valin Holdings Group Co Ltd since incorporation on 9 November 1997.

### 13.2. Organization / Ownership Chart

Further to review and analysis of available public records, a chart was prepared depicting both the ownership and organization of Valin Steel Group, highlighting proportion of state control.



In addition to the seven steel production subsidiaries captured in the chart above, a focused review of the official website of Valin Steel Group identified approximately six subsidiaries involved in steel deep processing industry, financial industry, and logistics industry.<sup>172</sup>

### 13.3. State Ownership of Facilities or Assets

Focused high level research was conducted into Valin Steel Group and its major subsidiaries, mainly through their corporate websites, to identify major facilities / assets. These are listed below, along with the percentage of state ownership, as it relates to the specific company:

<sup>172</sup> <http://www.chinavalin.com/Column.aspx?ColId=13>

Company Name	Asset / Facility	Percentage Owned by the State
Lianyuan Iron and Steel Co Ltd	<ul style="list-style-type: none"> <li>The First Smelting and Rolling Mill (一炼轧厂)<sup>173</sup></li> <li>Iron Smelting Mill (炼铁厂)<sup>174</sup></li> </ul>	100%
Xiangtan Iron and Steel Co Ltd	<ul style="list-style-type: none"> <li>Iron Smelting Mill (炼铁厂)<sup>175</sup></li> <li>The Second Steel Smelting Mill (二炼钢厂)<sup>176</sup></li> </ul>	100%
Hunan Hengyang Steel Tube (Group) Co Ltd	Steel Smelting Mill (炼钢分厂) <sup>177</sup>	100%
Hengyang Valin Steel Tube Co Ltd	<ul style="list-style-type: none"> <li>Iron Smelting Mill (炼铁分厂)<sup>178</sup></li> <li>Steel Smelting Mill (炼钢分厂)<sup>179</sup></li> <li>The First Steel Smelting Mill (第一炼钢厂)<sup>180</sup></li> </ul>	68.36%
Fortescue Metals Group Ltd	<ul style="list-style-type: none"> <li>Cloudbreak Iron Ore Mine<sup>181</sup></li> <li>Christmas Creek Iron Ore Mine<sup>182</sup></li> <li>Solomon Hub Iron Ore Mine<sup>183</sup></li> </ul>	17.34%

<sup>173</sup> <http://www.eeo.com.cn/2014/0505/260087.shtml>

<sup>174</sup> <http://www.chinavalin.com/Info.aspx?ModelId=1&Id=268>

<sup>175</sup> <http://hualingxiangtan.cn.gongchang.com/news/278624.html>

<sup>176</sup> <http://www.lawtime.cn/info/shengchan/cyqlyw/2011122742294.html>

<sup>177</sup> <http://hysteeltube.com/Customerservice/OtherFiles/2149.html>

<sup>178</sup> <http://www.hysteeltube.com/Info.aspx?ModelId=1&Id=5273>

<sup>179</sup> Ibid

<sup>180</sup> [http://quotes.money.163.com/f10/ggmx\\_000932\\_774824.html](http://quotes.money.163.com/f10/ggmx_000932_774824.html)

<sup>181</sup> [https://en.wikipedia.org/wiki/Cloudbreak\\_mine](https://en.wikipedia.org/wiki/Cloudbreak_mine)

<sup>182</sup> <http://www.mining-technology.com/projects/christmas-creek/>

<sup>183</sup> <http://www.mining-technology.com/projects/-solomon-hub-iron-ore-mine-western-australia/>

## 14. JIANLONG STEEL GROUP

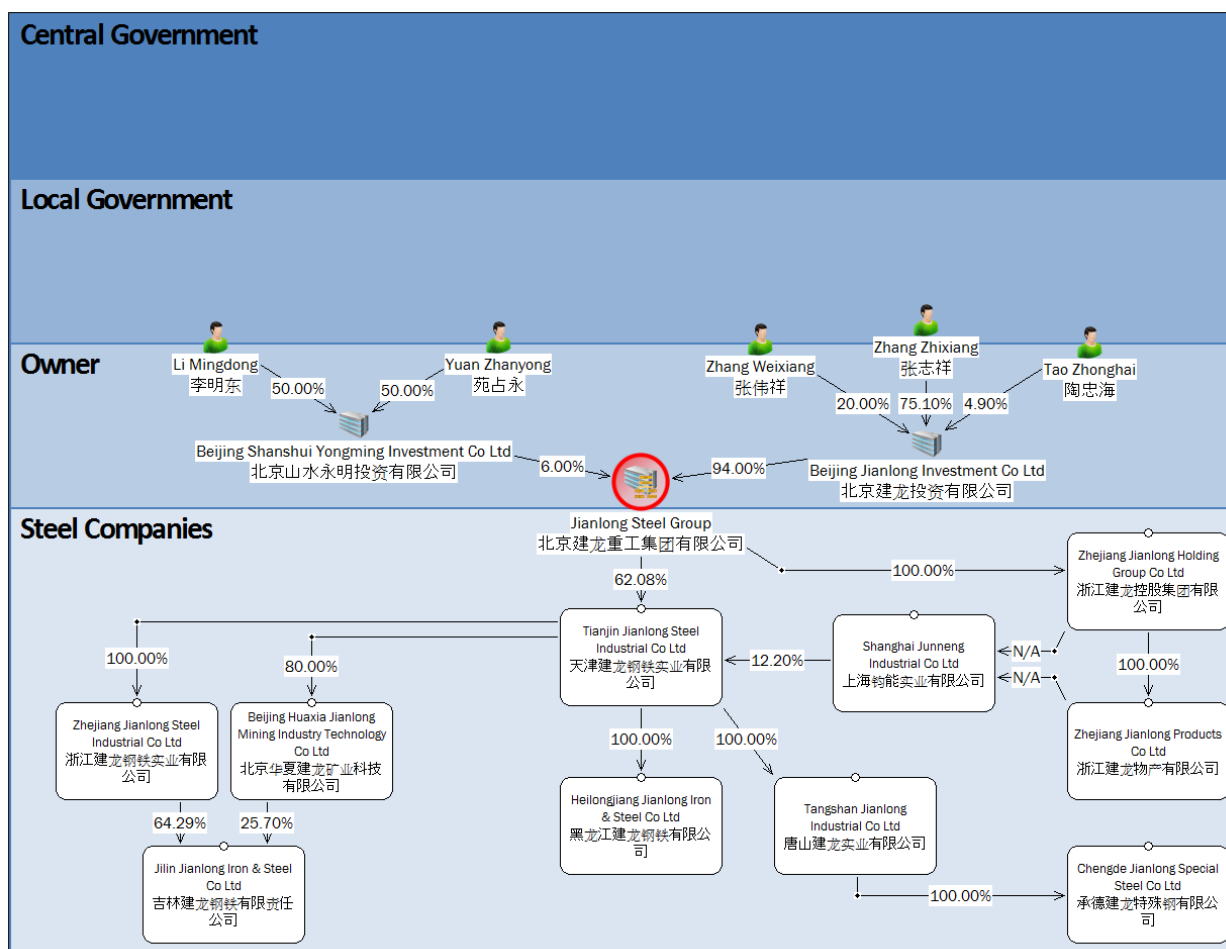
Comprehensive research was conducted to obtain details of the state ownership of this Steel Producer, as detailed below. This information is largely obtained from the SAIC records retrieved for Jianlong Steel Group, except where supplementary research and public records are indicated.

### 14.1. Overview of Corporate Development

Relevant public records were retrieved that identify ownership Jianlong Steel Group over the past 10 years. However, we did not locate any records in relation to historical changes of ownership over this period. The company has been 94% owned by Beijing Jianlong Investment Co Ltd since incorporation on 8 December 2006.

### 14.2. Organization / Ownership Chart

Further to review and analysis of available public records, a chart was prepared depicting both the ownership and organization of Jianlong Steel Group, highlighting proportion of state control.



In addition to seven steel production subsidiaries captured in the chart above, a focused review of the official website of Jianlong Steel Group identified a further eight subsidiaries involved in shipping industry and new industry.<sup>184</sup>

Further investigative research and analysis found that:

<sup>184</sup> <http://www.ejianlong.com/d/jl001/introduce.html>



- No direct government ties have been identified in relation to Beijing Jianlong Investment Co Ltd (北京建龙投资有限公司), which is the majority shareholder of Jianlong Steel Group.
- Zhang Zhixiang (张志祥) is the registered legal representative and the majority shareholder of Beijing Jianlong Investment Co Ltd. Zhang Zhixiang became a deputy of the 10<sup>th</sup> National People’s Congress of Hebei Province in 2003 and his deputy period ended in 2008.<sup>185</sup> He became a deputy of the 12<sup>th</sup> National People’s Congress of Heilongjiang Province in 2013.<sup>186</sup> Zhang Zhixiang is also a member of Chinese People’s Political Consultative Conference (中国人民政治协商委员会) of Tangshan Municipality.<sup>187</sup> Moreover, Zhang Zhixiang holds positions as a vice-chairman of China Metallurgical Construction Association (中国冶金建设协会), standing director of China Iron & Steel Industry Association (中国钢铁工业协会), vice chairman of China Business Council (中国工商理事会), and standing director of the 8<sup>th</sup> Council of The Chinese Society for Metals (中国金属学会).<sup>188</sup>
- Zhang Weixiang (张伟祥), the second largest shareholder (20%) of Beijing Jianlong Investment Co Ltd, is the younger brother of Zhang Zhixiang.<sup>189</sup>
- Tao Zhonghai (陶忠海), the final shareholder (4.9%) of Beijing Jianlong Investment Co Ltd, is the cousin of Zhang Zhixiang and Zhang Weixiang.<sup>190</sup>

### 14.3. State Ownership of Facilities or Assets

Focused high level research was conducted into Jianlong Steel Group and its major subsidiaries, mainly through their corporate websites, to identify major facilities / assets. These are listed below, along with the percentage of state ownership, as it relates to the specific company:

Company Name	Asset / Facility	Percentage Owned by the State
Tangshan Jianlong Industrial Co Ltd	Tangshan Jianlong Industrial Co Ltd (唐山建龙实业有限公司炼铁厂) <sup>191</sup>	0%

<sup>185</sup> [https://zh.wikipedia.org/wiki/%E5%BC%A0%E5%BF%97%E7%A5%A5\\_\(%E4%BC%81%E4%B8%9A%E5%AE%B6\)](https://zh.wikipedia.org/wiki/%E5%BC%A0%E5%BF%97%E7%A5%A5_(%E4%BC%81%E4%B8%9A%E5%AE%B6))

<sup>186</sup> Ibid

<sup>187</sup> <http://mingren.maigoo.com/947.html>

<sup>188</sup> <http://www.foton.com.cn/upload/2014/0417/20140417095534638.pdf>

<sup>189</sup> [https://zh.wikipedia.org/wiki/%E5%BC%A0%E5%BF%97%E7%A5%A5\\_\(%E4%BC%81%E4%B8%9A%E5%AE%B6\)](https://zh.wikipedia.org/wiki/%E5%BC%A0%E5%BF%97%E7%A5%A5_(%E4%BC%81%E4%B8%9A%E5%AE%B6))

<sup>190</sup> [http://ac.huiyinet.cn/e/d/f\\_6.html](http://ac.huiyinet.cn/e/d/f_6.html)

<sup>191</sup> <http://www.huquan.net/detail/2472515.html>

## 15. FANGDA STEEL

Comprehensive research was conducted to obtain details of the state ownership of this Steel Producer, as detailed below. This information is largely obtained from the SAIC records retrieved for Fangda Steel, except where supplementary research and public records are indicated.

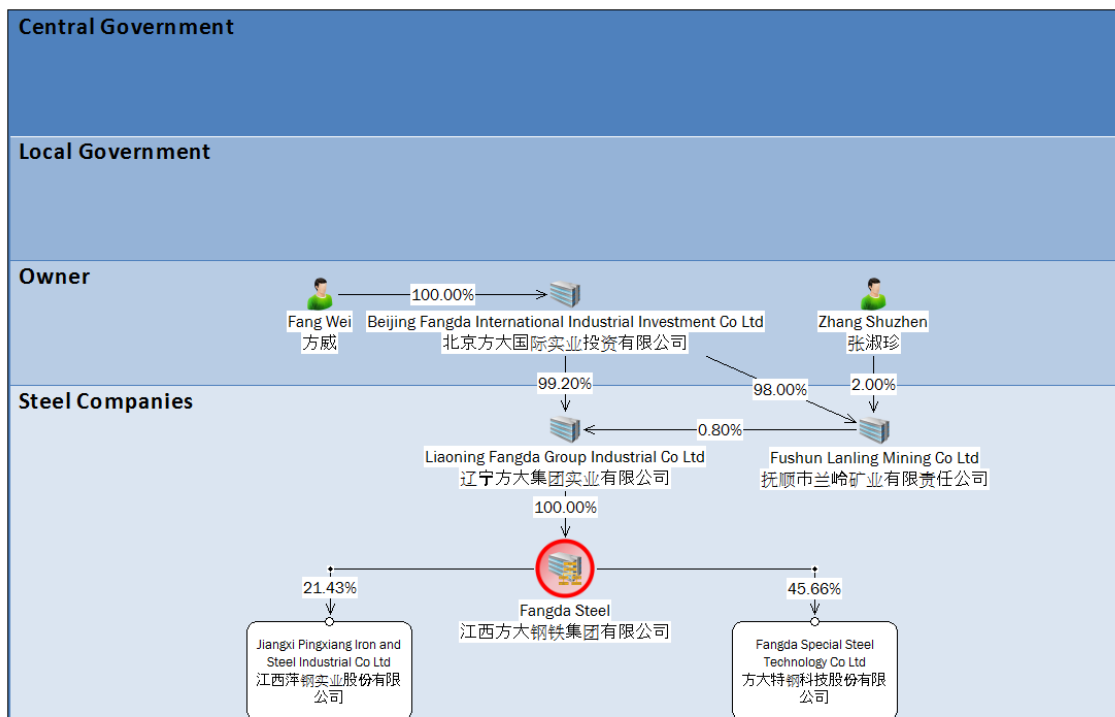
### 15.1. Overview of Corporate Development

Relevant public records were retrieved that identify ownership of Fangda Steel over the past 10 years. Below is a chronological overview of the changing ownership of the Steel Producer.

- 30 Oct 2009: Transfer of ownership from Jiangxi Metallurgy Group Company (江西省冶金集团公司) (57.9713%) to Liaoning Fangda Group Industry Co Ltd (辽宁方大集团实业有限公司) (57.9713%). Meanwhile, China Huarong Asset Management Co (中国华融资产管理公司) (37.7818%) and China Orient Asset Management Corporation (中国东方资产管理公司) (4.2469%) maintained their shareholding ownership.
- 05 Jan 2013: Transfer of ownership from Liaoning Fangda Group Industry Co Ltd (57.9713%), China Huarong Asset Management Co (37.7818%), and China Orient Asset Management Corporation (4.2469%) to Liaoning Fangda Group Industry Co Ltd (95.753%) and China Orient Asset Management Corporation (4.247%).
- 01 Feb 2013: Transfer of ownership from Liaoning Fangda Group Industry Co Ltd (95.753%) and China Orient Asset Management Corporation (4.247%) to Liaoning Fangda Group Industry Co Ltd (100%).

### 15.2. Organization / Ownership Chart

Further to review and analysis of available public records, a chart was prepared depicting both the ownership and organization of Fangda Steel, highlighting proportion of state control.



In addition to the two steel production subsidiaries captured in the chart above, a focused review of available public records for Fangda Steel identified approximately 12 group subsidiaries involved in other industry areas such as vehicle parts, iron ore mining, trading, real estate, and engineering machinery.<sup>192</sup>

Further investigative research and analysis found that:

- No direct government ties have been identified in relation to Fangda Steel. However, our research noted that Fangda Steel was previously a state-owned enterprise named Nanchang Steel Co Ltd (南昌钢铁有限责任公司) prior to an acquisition by Liaoning Fangda Group Industry Co Ltd (辽宁方大集团实业有限公司) in 2009. According to the corporate record from the SAIC, Liaoning Fangda Group Industry Co Ltd acquired 57.97% of Nanchang Steel Co Ltd on 30 October 2009, and changed the company name from Nanchang Steel Co Ltd into Jiangxi Fangda Steel Science and Technology Co Ltd (江西方大钢铁科技有限公司). On 1 February 2013, Liaoning Fangda Group Industry Co Ltd acquired all shares from the other shareholders and became the sole shareholder of Jiangxi Fangda Steel Science and Technology Co Ltd. On 28 April 2013, Jiangxi Fangda Steel Science and Technology Co Ltd changed its name to Jiangxi Fangda Steel Group Co Ltd (江西方大钢铁集团有限公司).
- Fang Wei (方威) is the registered legal representative of Fangda Steel and its three parent companies, and indirectly holds 99.98% of Fangda Steel shares through his ownership of Fangda Steel’s parent companies. Fang Wei was a deputy in the 10th National People's Congress of Liaoning Province. However, the standing committee of Liaoning Provincial National People's Congress removed Fang Wei from the position as a deputy in the 12th National People's Congress in 2014. It was alleged that Fang Wei was under investigation because of Fangda Group’s acquisitions in Jiangxi province, including the acquisition of Fangda Steel, however, further research could not locate further information about this case or the allegations.<sup>193</sup>

### 15.3. State Ownership of Facilities or Assets

Focused high level research was conducted into Fangda Steel and its major subsidiaries, mainly through their corporate websites, to identify major facilities / assets. These are listed below, along with the percentage of state ownership, as it relates to the specific company:

Company Name	Asset / Facility	Percentage Owned by the State
Fangda Special Steel Technology Co Ltd	<ul style="list-style-type: none"> <li>• Fangda Special Steel Technology Co Ltd Iron Mill (方大特钢科技股份有限公司炼铁厂)<sup>194</sup></li> <li>• Fangda Special Steel Technology Co Ltd Steel Mill (方大特钢科技股份有限公司炼钢厂)<sup>195</sup></li> </ul>	0%
Pingxiang Pinggang Iron and Steel Co Ltd (萍乡萍钢钢铁有限公司) <sup>196</sup>	<ul style="list-style-type: none"> <li>• Pingxiang Pinggang Iron and Steel Co Ltd Iron Mill (萍乡萍钢钢铁有限公司炼铁厂)<sup>197</sup></li> </ul>	0%

<sup>192</sup> <http://www.cninfo.com.cn/finalpage/2015-03-18/1200710385.PDF>;

<http://www.pxsteel.com/xzzjg.asp>

<sup>193</sup> <http://finance.china.com.cn/stock/special/fdfw/>

<sup>194</sup> [http://www.ktcn.com.cn/Article/qydjnyfdtgjfbpjngzx\\_1.html](http://www.ktcn.com.cn/Article/qydjnyfdtgjfbpjngzx_1.html)

<sup>195</sup> [http://www.fangda-specialsteels.com/web/News.aspx?S\\_Id=3342](http://www.fangda-specialsteels.com/web/News.aspx?S_Id=3342)

<sup>196</sup> Pingxiang Pinggang Iron and Steel Co Ltd (萍乡萍钢钢铁有限公司) is wholly-owned by Jiangxi Pingxiang Iron and Steel Industrial Co Ltd.

<sup>197</sup> <http://pggygs.feijiu.net/aboutusNews.aspx>

	<ul style="list-style-type: none"> <li>• Pingxiang Pinggang Iron and Steel Co Ltd Steel Mill (萍乡萍钢钢铁有限公司炼钢厂)<sup>198</sup></li> </ul>	
Jiujiang Pinggang Iron and Steel Co Ltd (九江萍钢钢铁有限公司) <sup>199</sup>	<ul style="list-style-type: none"> <li>• Jiujiang Pinggang Iron and Steel Co Ltd Iron Mill (九江萍钢钢铁有限公司炼铁厂)<sup>200</sup></li> <li>• Jiujiang Pinggang Iron and Steel Co Ltd Steel Mill (九江萍钢钢铁有限公司炼钢厂)<sup>201</sup></li> </ul>	0%
Pingxiang Pinggang Anyuan Steel Co Ltd (萍乡萍钢安源钢铁有限公司) <sup>202</sup>	<ul style="list-style-type: none"> <li>• Pingxiang Pinggang Iron and Steel Co Ltd Iron Mill (萍乡萍钢安源钢铁有限公司炼铁厂)<sup>203</sup></li> <li>• Pingxiang Pinggang Iron and Steel Co Ltd Steel Mill (萍乡萍钢安源钢铁有限公司炼钢厂)<sup>204</sup></li> </ul>	0%

<sup>198</sup> Ibid

<sup>199</sup> Jiujiang Pinggang Iron and Steel Co Ltd (九江萍钢钢铁有限公司) is wholly-owned by Jiangxi Pingxiang Iron and Steel Industrial Co Ltd.

<sup>200</sup> <http://www.pxsteel.com/mypxsteel/recruitment/offer/temp/%E7%82%BC%E9%93%81%E5%8E%82%E5%8E%82%E9%95%BF%E7%BB%84%E9%98%81%E6%89%BF%E5%8C%85%E6%8B%9B%E6%A0%87%E5%85%AC%E5%91%8A.html>

<sup>201</sup> <http://www.pxsteel.com/>

<sup>202</sup> Pingxiang Pinggang Anyuan Steel Co Ltd (萍乡萍钢安源钢铁有限公司) is wholly-owned by Jiangxi Pingxiang Iron and Steel Industrial Co Ltd.

<sup>203</sup> <http://www.pxzpj.com/edit/UploadFile/2012316151057394.doc>

<sup>204</sup> [http://www.ktcn.com.cn/Article/qydfypgaygtcdbpjngz\\_1.html](http://www.ktcn.com.cn/Article/qydfypgaygtcdbpjngz_1.html)

## 16. RIZHAO STEEL

Comprehensive research was conducted to obtain details of the state ownership of this Steel Producer, as detailed below. This information is largely obtained from the SAIC records retrieved for Rizhao Steel, except where supplementary research and public records are indicated.

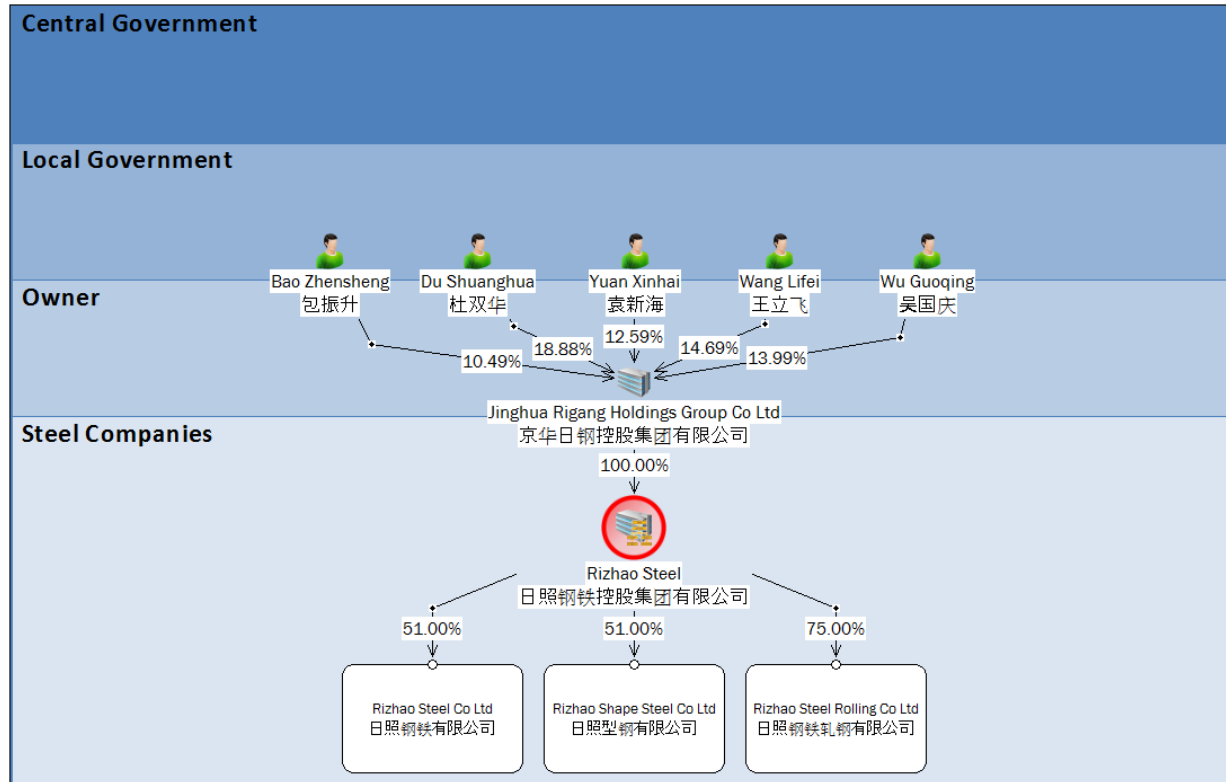
### 16.1. Overview of Corporate Development

Relevant public records were retrieved that identify ownership of Rizhao Steel over the past 10 years. Below is a chronological overview of the changing ownership of the Steel Producer.

- 29 Dec 2006: Transfer of ownership from Jinghua Innovation Group Co Ltd (90.91%) and Laiwu Jinghua Steel Pipe Co Ltd (9.09%) to Jinghua Innovation Group Co Ltd (100%).
- 06 Dec 2011: Equity held by Jinghua Innovation Group Co Ltd increased from RMB 220 million to RMB 800 million.
- 16 Dec 2013: Transfer of ownership from Jinghua Innovation Group Co Ltd (100%) to Jinghua Rigang Holdings Co Ltd (100%).
- 01 Apr 2014: Transfer of ownership from Jinghua Rigang Holdings Co Ltd (100%) to Jinghua Rigang Holdings Group Co Ltd (100%).

### 16.2. Organization / Ownership Chart

Further to review and analysis of available public records, a chart was prepared depicting both the ownership and organization of Rizhao Steel, highlighting proportion of state control.



In addition to the three steel production subsidiaries captured in the chart above, a focused review of the official website of Rizhao Steel and other media sources identified approximately three further group subsidiaries involved in other industry areas such as gas,<sup>205</sup> domestic trading, and international trading.<sup>206</sup>

Further investigative research and analysis found that:

- No direct government ties have been identified in relation to Rizhao Steel or its parent company, Jinghua Rigang Holdings Group Co Ltd. However, we located a news report from 9 September 2009 that Rizhao Steel signed an *Assets Restructuring and Cooperation Agreement* with Shandong Steel Group on 6 September 2009.<sup>207</sup> The news mentioned that, according to the agreement, both parties would invest in Shandong Iron & Steel Group Rizhao Co Ltd (山东钢铁集团日照有限公司) as a newly established subsidiary of Shandong Steel Group and that Rizhao Steel would become a member of Shandong Steel Group, which was wholly-owned by Shandong SASAC. However, a news report on 10 September 2013 indicated that this restructuring deal had not materialized.<sup>208</sup>
- According to corporate records, Du Shuanghua (杜双华) is the legal representative of Rizhao Steel as well as its parent company Jinghua Rigang Holdings Group Co Ltd, and indirectly holds 18.88% of Rizhao Steel shares via Jinghua Rigang Holdings Group Co Ltd. According to media research, Du Shuanghua is the current president of Rizhao Steel and has been engaged in the steel production industry since 1987. In 1993, Du Shuanghua established Hebei Jinghua Pipe Co Ltd (河北京华制管有限公司) and then, since 2001, successively built several pipe companies in Tangshan, Baotou, Laiwu, Guangzhou, Sichuan, etc. In 2003, Du Shuanghua established Jinghua Innovation Group Co Ltd and Rizhao Steel.<sup>209</sup> Public domain research did not find any confirmed government ties with regard to Du Shuanghua.
- According to corporate records, Bao Zhensheng (包振升) indirectly holds 10.48% of Rizhao Steel shares via Jinghua Rigang Holdings Group Co Ltd. According to media research, Bao Zhensheng was born in 5 June 1964 in Hengshui and is identified as the current president of Chengdu Pengzhou Jinghua Pipe Co Ltd (成都彭州京华制管有限公司), the president of the Hebei Chamber of Commerce of Sichuan Province, and the vice president of Hebei Entrepreneurs Federation of Sichuan Province.<sup>210</sup> Public domain research did not find any confirmed government ties with regard to Bao Zhensheng.
- According to corporate records, Wang Lifei (王立飞) is the vice general manager of Rizhao Steel and indirectly holds 14.69% of Rizhao Steel shares via Jinghua Rigang Holdings Group Co Ltd. According to media research, Wang Lifei is the director of China Children and Teenager's Fund.<sup>211</sup> Public domain research did not find any confirmed government ties with regard to Wang Lifei.
- According to corporate records, Yuan Xinhai (袁新海) is a director of Jinghua Rigang Holdings Group Co Ltd and indirectly holds 12.95% of Rizhao Steel shares via Jinghua Group. According to media research, Yuan Xinhai is the vice general manager of Rizhao Steel and is said to be a relative of Du Shuanghua.<sup>212</sup> Public domain research did not find any confirmed government ties with regard to Yuan Xinhai.
- According to corporate records, Wu Guoqing (吴国庆) is a director of Jinghua Rigang Holdings Co Ltd and indirectly holds 13.99% of Rigang Steel shares via Jinghua Rigang Holdings Co Ltd. According to the

<sup>205</sup> <http://finance.sina.com.cn/leadership/crz/20061109/09465363315.shtml>

<sup>206</sup> <http://www.rizhaosteel.com/About.asp?YCL=22>

<sup>207</sup> <http://finance.sina.com.cn/chanjing/gnews/20090907/04566714022.shtml>

<sup>208</sup> <http://finance.sina.com.cn/chanjing/gnews/20130910/093916716370.shtml>

<sup>209</sup> <http://finance.ifeng.com/people/comchief/dushuanghua.shtml>

<sup>210</sup> <http://www.chef.org.cn/Item/26.aspx>

<sup>211</sup> <http://gongyi.qq.com/a/20110613/000028.htm>

<sup>212</sup> <http://rz.qixiangba.cn/s/r/o.html>

company's official website, Wu Guoqing is the vice general manager of Jinghua Innovation Group Co Ltd.<sup>213</sup> Public domain research did not find any confirmed government ties with regard to Wu Guoqing.

### 16.3. State Ownership of Facilities or Assets

Focused high level research was conducted into Rizhao Steel and its major subsidiaries, mainly through their corporate websites, to identify major facilities / assets. These are listed below, along with the percentage of state ownership, as it relates to the specific company:

Company Name	Asset / Facility	Percentage Owned by the State
Rizhao Steel	<ul style="list-style-type: none"><li>• Sintering Plant(烧结厂)<sup>214</sup></li><li>• Iron Smelting Plant(炼铁厂)<sup>215</sup></li><li>• Steel Smelting Plant (炼钢厂)<sup>216</sup></li><li>• H Steel Shaping Plant(H型钢厂)<sup>217</sup></li></ul>	None

<sup>213</sup> [http://www.jhcxjt.com/about\\_djs.asp](http://www.jhcxjt.com/about_djs.asp)

<sup>214</sup> <http://finance.sina.com.cn/roll/20100818/16548504958.shtml>

<sup>215</sup> Ibid

<sup>216</sup> Ibid

<sup>217</sup> Ibid

## 17. ANYANG STEEL

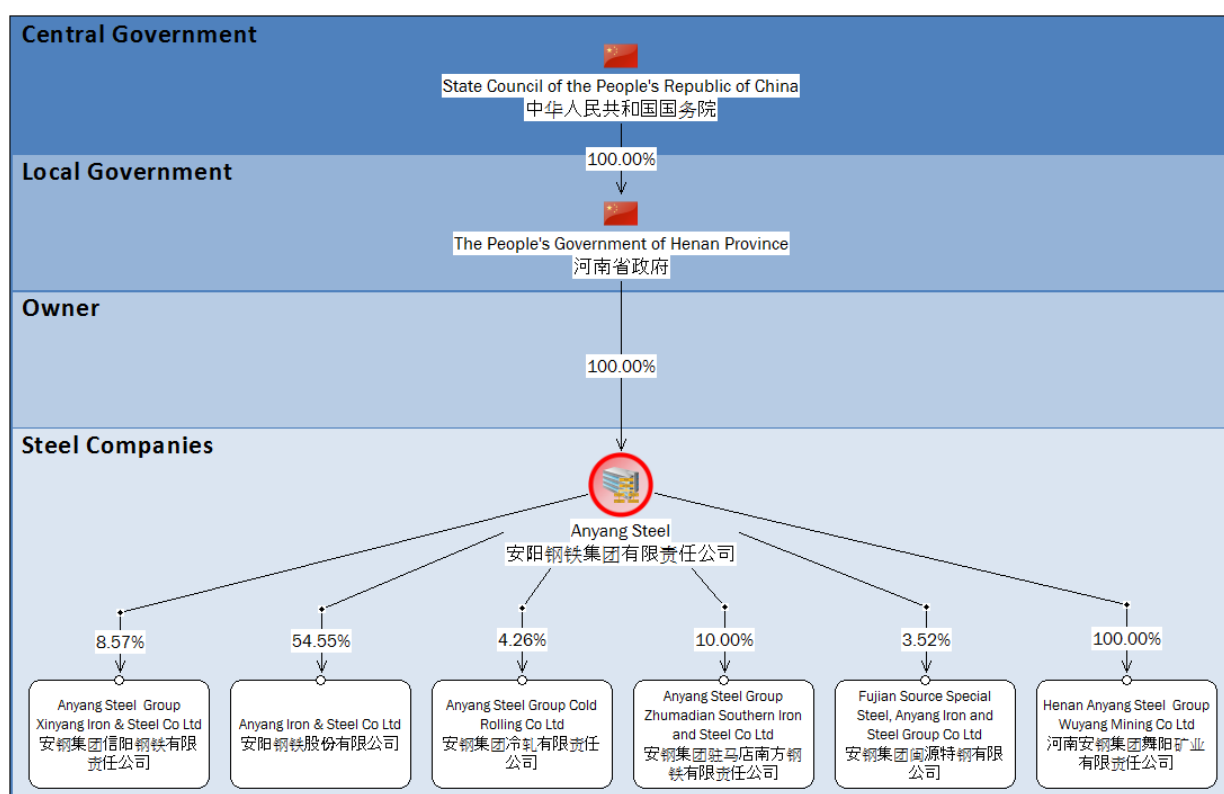
Comprehensive research was conducted to obtain details of the state ownership of this Steel Producer, as detailed below. This information is largely obtained from the SAIC records retrieved for Anyang Steel, except where supplementary research and public records are indicated.

### 17.1. Overview of Corporate Development

Relevant public records were retrieved that identify ownership of Anyang Steel over the past 10 years. However, we did not locate any records in relation to historical changes of ownership over this period. The company has been 100% owned by the People's Government of Henan Province since incorporation in 27 December 1995.

### 17.2. Organization / Ownership Chart

Further to review and analysis of available public records, a chart was prepared depicting both the ownership and organization of Anyang Steel, highlighting proportion of state control.



In addition to the six steel production subsidiaries captured in the chart above, a focused review of the official website of Anyang Steel identified approximately 17 subsidiaries involved in logistics, steel extended processing, engineering technology industry, international trading, real estate, and life services.<sup>218</sup>

<sup>218</sup> <http://www.angang.com.cn/cjjs/index.shtml>



## 17.3. State Ownership of Facilities or Assets

Focused high level research was conducted into Anyang Steel and its major subsidiaries, mainly through their corporate websites, to identify major facilities / assets. These are listed below, along with the percentage of state ownership, as it relates to the specific company:

Company Name	Asset / Facility	Percentage Owned by the State
Anyang Steel	<ul style="list-style-type: none"> <li>• The First Smelting and Rolling Mill (第一炼轧厂)<sup>219</sup></li> <li>• The Second Smelting and Rolling Mill (第二炼轧厂)<sup>220</sup></li> <li>• The Second Smelting Mill (第二炼钢厂)<sup>221</sup></li> <li>• The First Steel Rolling Mill (第一轧钢厂)<sup>222</sup></li> <li>• The Second Steel Rolling Mill (第二轧钢厂)<sup>223</sup></li> <li>• Angang Iron Smelting Mill (安钢炼铁厂)<sup>224</sup></li> </ul>	100%
Fujian Source Special Steel, Anyang Iron and Steel Group Co Ltd	<ul style="list-style-type: none"> <li>• Iron Smelting Mill (炼铁厂)<sup>225</sup></li> <li>• The First Steel Smelting Mill (一炼钢厂)<sup>226</sup></li> <li>• The Second Steel Smelting Mill (二炼钢厂)<sup>227</sup></li> <li>• Steel Rolling Mill (轧钢厂)<sup>228</sup></li> </ul>	3.52%
Anyang Steel Group Xinyang Iron & Steel Co Ltd	Steel Smelting Mill (炼钢厂) <sup>229</sup>	8.57%

<sup>219</sup> <http://www.angang.com.cn/gsxw/298810.shtml>

<sup>220</sup> <http://www.angang.com.cn/gsxw/299651.shtml>

<sup>221</sup> <http://www.angang.com.cn/gsxw/300775.shtml>

<sup>222</sup> <http://www.angang.com.cn/gsxw/299650.shtml>

<sup>223</sup> <http://www.angang.com.cn/gsxw/300151.shtml>

<sup>224</sup> <http://www.angang.com.cn/gsxw/295011.shtml>

<sup>225</sup> <http://www.agmytg.com/index.php?s=/Home/Article/detail/id/28.html>

<sup>226</sup> Ibid

<sup>227</sup> Ibid

<sup>228</sup> Ibid

<sup>229</sup> <http://www.xyisco.com/view.asp?articleid=163>

## 18. TAIYUAN STEEL

Comprehensive research was conducted to obtain details of the state ownership of this Steel Producer, as detailed below. This information is largely obtained from the SAIC records retrieved for Taiyuan Steel, except where supplementary research and public records are indicated.

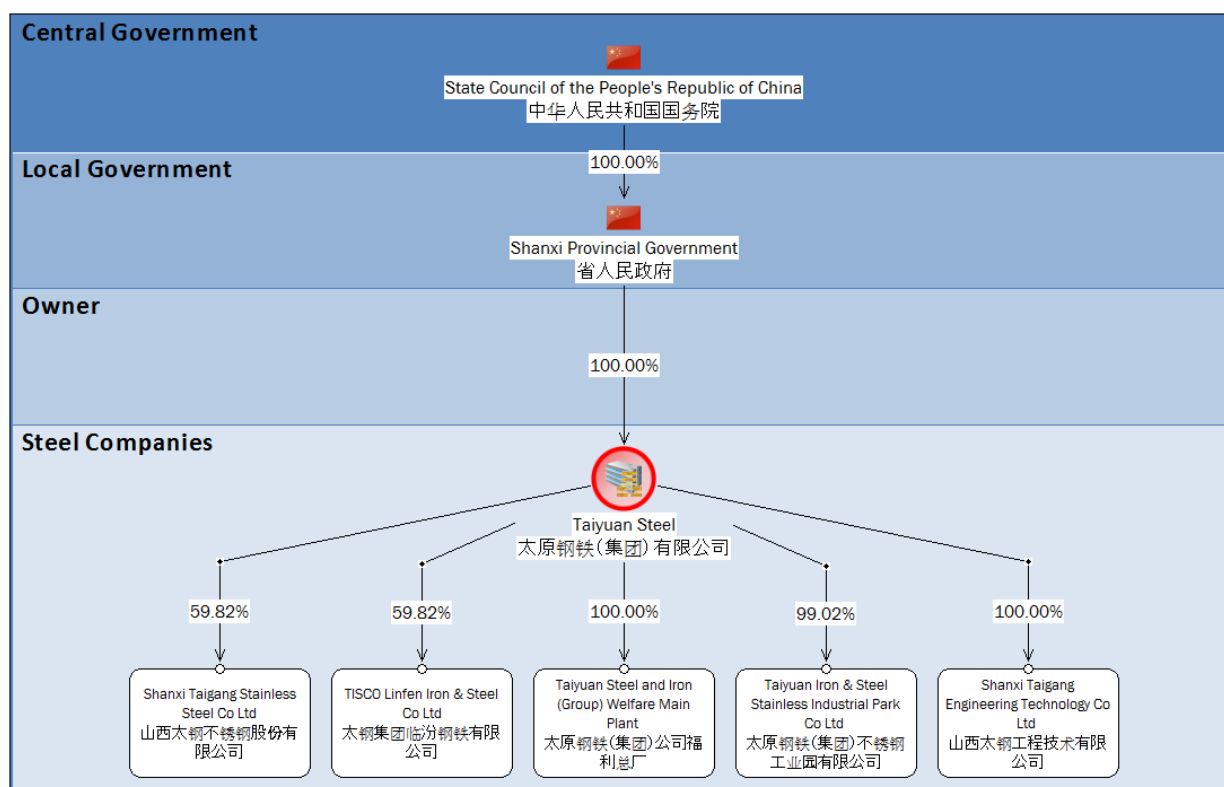
### 18.1. Overview of Corporate Development

Relevant public records were retrieved that identify ownership of Taiyuan Steel over the past 10 years. Below is a chronological overview of the changing ownership of the Steel Producer.

- 04 Jun 2008: Equity held by Shanxi Provincial Government (100%) increased from RMB 3.34572 billion to RMB 6.075414 billion.
- 06 Mar 2014: Equity held by Shanxi Provincial Government increased from RMB 6.075414 billion to RMB 6.479289 billion.

### 18.2. Organization / Ownership Chart

Further to review and analysis of available public records, a chart was prepared depicting both the ownership and organization of Taiyuan Steel, highlighting proportion of state control.



In addition to five steel production subsidiaries captured in the chart above, a focused review of available public records identified a further 21 subsidiaries involved in resources development, trading, coal, engineering technology, logistics, financial investment, materials development, construction, and agriculture.<sup>230</sup>

<sup>230</sup> <http://www.chinamoney.com.cn/fe/Info/11477119>

## 18.3. State Ownership of Facilities or Assets

Focused high level research was conducted into Taiyuan Steel and its major subsidiaries, mainly through their corporate websites, to identify major facilities / assets. These are listed below, along with the percentage of state ownership, as it relates to the specific company:

Company Name	Asset / Facility	Percentage Owned by the State
Taiyuan Steel	<ul style="list-style-type: none"> <li>• Taiyuan Iron &amp; Steel (Group) Co Ltd No. 1 Steel-making Plant (太原钢铁 (集团) 有限公司第一炼钢厂)<sup>231</sup></li> <li>• Taiyuan Iron &amp; Steel (Group) Co Ltd No. 2 Steel-making Plant (太原钢铁 (集团) 有限公司第二炼钢厂)<sup>232</sup></li> <li>• Taiyuan Iron &amp; Steel (Group) Co Ltd No. 3 Steel-making Plant (太原钢铁 (集团) 有限公司第三炼钢厂)<sup>233</sup></li> <li>• Taiyuan Iron &amp; Steel (Group) Co Ltd Iron-making Plant (太原钢铁 (集团) 有限公司炼铁厂)<sup>234</sup></li> </ul>	100%
Shanxi Taigang Stainless Steel Co Ltd	Shanxi Taigang Stainless Steel Co Ltd Steel-making Plant (山西太钢不锈钢股份有限公司炼钢厂) <sup>235</sup>	59.82%

<sup>231</sup> <http://shanxi.93soso.com/company/shanxi51550/>

<sup>232</sup> [http://company.ch.gongchang.com/info/53208819\\_a66d/](http://company.ch.gongchang.com/info/53208819_a66d/)

<sup>233</sup> <http://161.shanxi.8671.net/>

<sup>234</sup> <http://www.tisco.com.cn/meitikantaigang/2015081409202740483.html>

<sup>235</sup> [http://www.youbian.com/shenghuo/taiyuan\\_76218/](http://www.youbian.com/shenghuo/taiyuan_76218/)

## 19. BAOTOU STEEL

Comprehensive research was conducted to obtain details of the state ownership of this Steel Producer, as detailed below. This information is largely obtained from the SAIC records retrieved for Baotou Steel, except where supplementary research and public records are indicated.

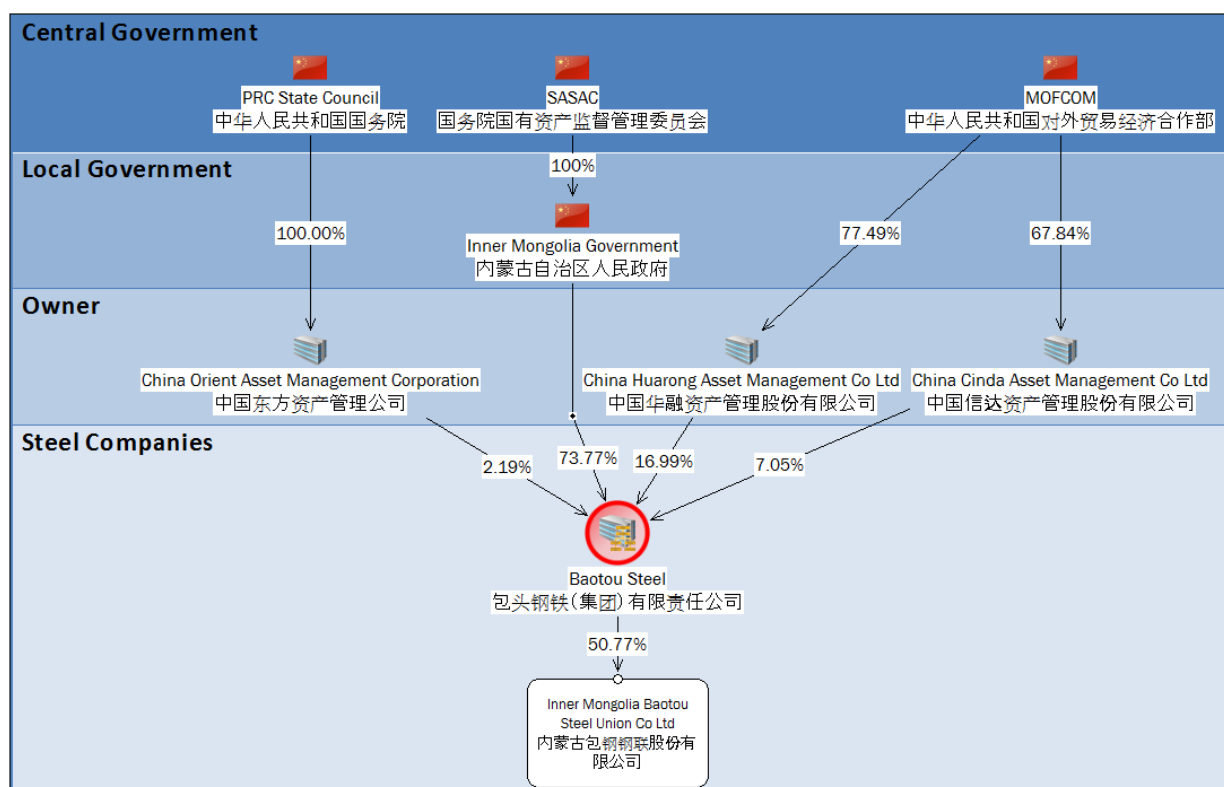
### 19.1. Overview of Corporate Development

Relevant public records were retrieved for Baotou Steel, but we did not locate any records in relation to historical changes of ownership over the past 10 years. The company has been 73.77% owned by Inner Mongolia Government since incorporation on 3 June 1998.

Further investigative research has learnt that, in 2007, the shareholders of Baotou Steel, specifically the Inner Mongolia Government, China Huarong Asset Management Co, China Orient Asset Management Corporation, and China Cinda Asset Management Co (中国信达资产管理公司/中国信达资产管理股份有限公司) decided to revise the registered capital of Baotou Steel to RMB 14.759 billion.<sup>236</sup> Years later, on 3 July 2013, the Inner Mongolia Government raised its capital investment in Baotou Steel and the registered capital increased from RMB 14.759 billion to 14.871 billion.<sup>237</sup>

### 19.2. Organization / Ownership Chart

Further to review and analysis of available public records, a chart was prepared depicting both the ownership and organization of Baotou Steel, highlighting proportion of state control.



In addition to the one steel production subsidiary captured in the chart above, a focused review of annual return for Baotou Steel identified approximately 15 further direct subsidiaries involved in other industry areas such as raw earth

<sup>236</sup> [http://www.chinamoney.com.cn/fe/CMS5\\_G20306002Resource?info=11730680;res=1431658079793369602538;download=](http://www.chinamoney.com.cn/fe/CMS5_G20306002Resource?info=11730680;res=1431658079793369602538;download=)

<sup>237</sup> [http://www.chinamoney.com.cn/fe/CMS5\\_G20306002Resource?info=11730680;res=1431658079793369602538;download=](http://www.chinamoney.com.cn/fe/CMS5_G20306002Resource?info=11730680;res=1431658079793369602538;download=)

production and processing, mining, machinery manufacture and processing, trading, accommodation, hospital, property, energy-saving technology, and finance.<sup>238</sup>

### 19.3. State Ownership of Facilities or Assets

Focused high level research was conducted into Baotou Steel and its major subsidiaries, mainly through their corporate websites, to identify major facilities / assets. These are listed below, along with the percentage of state ownership, as it relates to the specific company:

Company Name	Asset / Facility	Percentage Owned by the State
Inner Mongolia Baotou Steel Union Co Ltd	<ul style="list-style-type: none"> <li>• Inner Mongolia Baotou Steel Union Co Ltd Iron Mill (内蒙古包钢钢联股份有限公司炼铁厂)<sup>239</sup></li> <li>• Inner Mongolia Baotou Steel Union Co Ltd Steel Mill (内蒙古包钢钢联股份有限公司炼钢厂)<sup>240</sup></li> <li>• Baotou Steel Iron Mill (包钢炼铁厂)<sup>241</sup></li> <li>• Jiujiang Pinggang Iron and Steel Co Ltd Iron Mill (包钢炼钢厂)<sup>242</sup></li> </ul>	50.77%

<sup>238</sup> [http://www.chinamoney.com.cn/fe/CMS5\\_G20306002Resource?info=11730680;res=1431658079793369602538;download=](http://www.chinamoney.com.cn/fe/CMS5_G20306002Resource?info=11730680;res=1431658079793369602538;download=)

<sup>239</sup> [http://webcache.googleusercontent.com/search?q=cache:pu\\_YUHmKf04J:nmgepb.gov.cn:8088/enterprisemonitor/enterprise-info!getCompanyInfo.action%3Fcompanyid%3D10255+&cd=7&hl=zh-CN&ct=clnk&gl=](http://webcache.googleusercontent.com/search?q=cache:pu_YUHmKf04J:nmgepb.gov.cn:8088/enterprisemonitor/enterprise-info!getCompanyInfo.action%3Fcompanyid%3D10255+&cd=7&hl=zh-CN&ct=clnk&gl=)

<sup>240</sup> <http://www.btsteel.com/notice.asp?id=662>

<sup>241</sup> <http://www.huanqiu803.com/sell/show-htm-itemid-45667.html>

<sup>242</sup> <http://www.btsteel.com/notice.asp?id=714>

## 20. HEBEI JINGYE GROUP

Comprehensive research was conducted to obtain details of the state ownership of this Steel Producer, as detailed below. This information is largely obtained from the SAIC records retrieved for Hebei Jingye Group, except where supplementary research and public records are indicated.

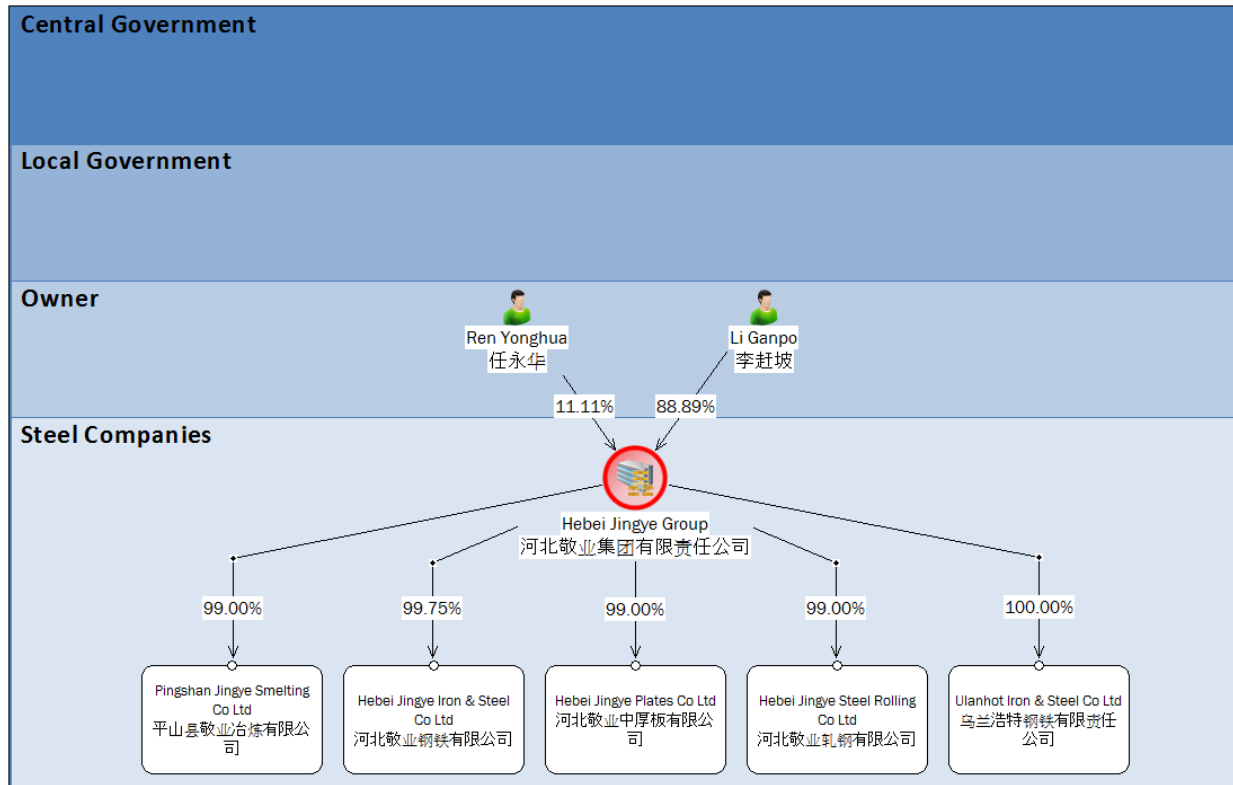
### 20.1. Overview of Corporate Development

Relevant public records were retrieved that identify ownership of Hebei Jingye Group over the past 10 years. Below is a chronological overview of the changing ownership of the Steel Producer.

- 18 Sep 2014: Equity held by Li Ganpo (李赶坡) increased from RMB 50 million to RMB 70 million.
- 08 Jan 2015: Equity held by Li Ganpo (李赶坡) increased from RMB 70 million to RMB 80 million.

### 20.2. Organization / Ownership Chart

Further to review and analysis of available public records, a chart was prepared depicting both the ownership and organization of Hebei Jingye Group, highlighting proportion of state control.



In addition to the five steel production subsidiaries captured in the chart above, a focused review of the official website of Hebei Jingye Group identified approximately 21 further group subsidiaries involved in other industry areas such as steel processing, hospitality, real estate, and trading.<sup>243</sup>

Further investigative research and analysis found that:

<sup>243</sup> [http://www.hbjyt.com/list/?204\\_1.html](http://www.hbjyt.com/list/?204_1.html)

- No direct government ties have been identified in relation to Hebei Jingye Group. However, a news report from 20 March 2012 revealed that Hebei Steel Group had incorporated Hebei Jingye Group and 11 other private steel companies since November 2010 as a way of sharing resources such as reputation, management skills, technical consulting, and purchase and sales channels, instead of capital investment. According to this report, Hebei Steel Group would hold 10% of shares of each company.<sup>244</sup> Hebei Steel Group is wholly-owned by SASAC of Hebei Province according to corporate records. Further research into this matter identified a media reference on 20 January 2014 reporting that an insider from one of these 12 steel companies disclosed that most of the companies had left Hebei Steel Group since the second half of 2013.<sup>245</sup>
- According to corporate records, Li Ganpo (李赶坡) is the legal representative and general manager of Hebei Jingye Group and directly holds 88.89% of the group's shares. Investigative research learnt that Li Ganpo was born in Pingshan County of Hebei Province in July 1949 and graduated from Tsinghua University with an EMBA. He is a member of the Communist Party. Li Ganpo originally worked as a teacher in Pingshan and then successively served as the Secretary of the Communist Party of Pingshan Nandian People's Commune, the Secretary of the Communist Party of Nandian Working Committee, the Director of Hebei Pingshan Brewery (河北平山啤酒厂), and the Vice Secretary of the Communist Party of the Chenggang District of Pingshan. In 1988, Li Ganpo established Hebei Jingye Group and has served as the Chairman of the Board since then.<sup>246</sup>
- According to corporate records, Ren Yonghua (任永华) is the supervisor of Hebei Jingye Group and directly holds 11.11% of Hebei Jingye Group shares, according to corporate records. No confirmed information was found in relation to Ren Yonghua from public domain and could not ascertain any government ties in relation to Ren Yonghua.

### 20.3. State Ownership of Facilities or Assets

Focused high level research was conducted into Hebei Jingye Group and its major subsidiaries, mainly through their corporate websites, to identify major facilities / assets. These are listed below, along with the percentage of state ownership, as it relates to the specific company:

Company Name	Asset / Facility	Percentage Owned by the State
Hebei Jingye Group	<ul style="list-style-type: none"> <li>• Steel Rolling Plant(轧钢厂)<sup>247</sup></li> <li>• Iron Smelting Plant(炼铁厂)<sup>248</sup></li> <li>• Steel Smelting Plant(炼钢厂)<sup>249</sup></li> <li>• Sintering Plant(烧结厂)<sup>250</sup></li> </ul>	None

<sup>244</sup> <http://finance.sina.com.cn/chanjing/gsnews/20120320/015411627768.shtml>

<sup>245</sup> <http://energy.people.com.cn/n/2014/0127/c71890-24240226.html>

<sup>246</sup> <http://energy.people.com.cn/n/2014/0127/c71890-24240226.html>

<sup>247</sup> [http://www.ktcn.com.cn/Article/qydjtjgtcdjbpjngzxm\\_1.html](http://www.ktcn.com.cn/Article/qydjtjgtcdjbpjngzxm_1.html)

<sup>248</sup> Ibid

<sup>249</sup> Ibid

<sup>250</sup> Ibid

## 21. JIUQUAN STEEL

Comprehensive research was conducted to obtain details of the state ownership of this Steel Producer, as detailed below. This information is largely obtained from the SAIC records retrieved for Jiuquan Steel, except where supplementary research and public records are indicated.

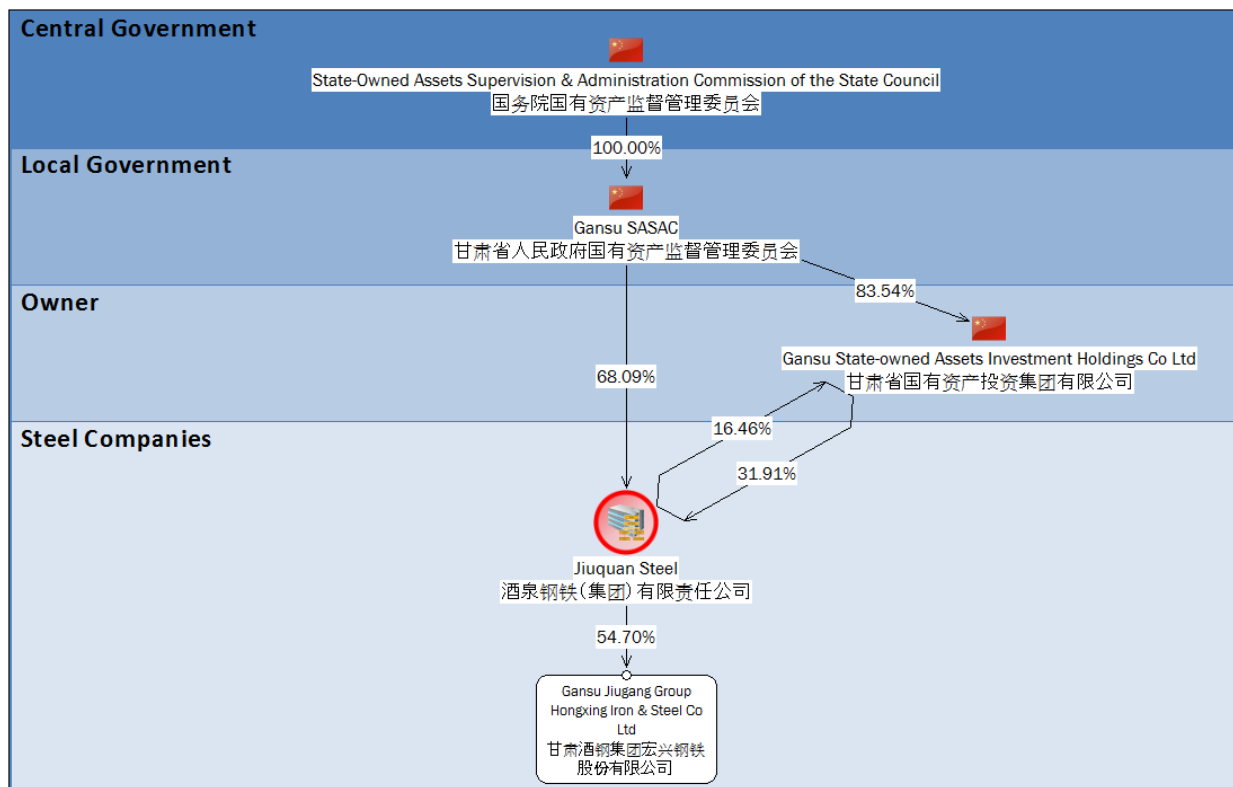
### 21.1. Overview of Corporate Development

Relevant public records were retrieved that identify ownership of Jiuquan Steel over the past 10 years. Below is a chronological overview of the changing ownership of the Steel Producer.

- 01 Jun 2009: Transfer of ownership from Jiuquan Steel (100%) to SASAC of Gansu Province (100%). Equity increased from RMB 3.59196 billion to RMB 9.73932 billion.
- 30 Dec 2013: Transfer of ownership from SASAC of Gansu Province (100%) to SASAC of Gansu Province (68.088%) and Gansu State-owned Assets Investment Holding Co Ltd (甘肃省国有资产投资集团有限公司) (31.912%).

### 21.2. Organization / Ownership Chart

Further to review and analysis of available public records, a chart was prepared depicting both the ownership and organization of Jiuquan Steel, highlighting proportion of state control.



In addition to the one steel production subsidiary captured in the chart above, a focused review of the official website of Jiuquan Steel identified approximately seven subsidiaries involved in industries of constructive materials, construction, heavy-industry, automobile sales, life services, trading, and hotel management.<sup>251</sup>

<sup>251</sup> <http://www.jiugang.com/structure/shouye/index>



## 21.3. State Ownership of Facilities or Assets

Focused high level research was conducted into Jiuquan Steel and its major subsidiaries, mainly through their corporate websites, to identify major facilities / assets. These are listed below, along with the percentage of state ownership, as it relates to the specific company:

Company Name	Asset / Facility	Percentage Owned by the State
Gansu Jiugang Group Hongxing Iron and Steel Co Ltd	<ul style="list-style-type: none"> <li>• Smelting and Rolling Mill (炼轧厂)<sup>252</sup></li> <li>• Iron Smelting Mill (炼铁厂)<sup>253</sup></li> <li>• Xigou Iron Mine (西沟矿)<sup>254</sup></li> <li>• Jingtieshan Mine (镜铁山矿)<sup>255</sup></li> </ul>	54.70%
Jiugang Group Yuzhong Iron and Steel Co Ltd (酒钢集团榆中钢铁有限责任公司) <sup>256</sup>	<ul style="list-style-type: none"> <li>• Iron Smelting Mill (炼铁分厂)<sup>257</sup></li> <li>• Steel Smelting Mill (炼钢分厂)<sup>258</sup></li> <li>• Steel Rolling Mill (轧钢分厂)<sup>259</sup></li> </ul>	54.70%

<sup>252</sup> <http://www.jisco.cn/structure/xwzx/gsxw3?infid=3694>

<sup>253</sup> <http://www.jisco.cn/structure/xwzx/gsxw3?infid=3692>

<sup>254</sup> [http://www.jisco.cn/html/\\_info\\_3\\_001/\\_D2782Y\\_4311\\_7235\\_gf\\_18\\_/2015-07-15/xwzx/gsxw3\\_3690.html](http://www.jisco.cn/html/_info_3_001/_D2782Y_4311_7235_gf_18_/2015-07-15/xwzx/gsxw3_3690.html)

<sup>255</sup> [http://www.jisco.cn/html/\\_info\\_3\\_001/\\_D2782Y\\_4311\\_7235\\_gf\\_18\\_/2015-07-07/xwzx/gsxw3\\_3683.html](http://www.jisco.cn/html/_info_3_001/_D2782Y_4311_7235_gf_18_/2015-07-07/xwzx/gsxw3_3683.html)

<sup>256</sup> Jiugang Group Yuzhong Iron and Steel Co Ltd (酒钢集团榆中钢铁有限责任公司) is wholly-owned by Gansu Jiugang Group Hongxing Iron and Steel Co Ltd.

<sup>257</sup> [http://ajj.lanzhou.gov.cn/aqscbzhjs/201401/t20140124\\_292956.html](http://ajj.lanzhou.gov.cn/aqscbzhjs/201401/t20140124_292956.html)

<sup>258</sup> Ibid

<sup>259</sup> Ibid

## 22. ZONGHENG STEEL

Comprehensive research was conducted to obtain details of the state ownership of this Steel Producer, as detailed below. This information is largely obtained from the SAIC records retrieved for Zongheng Steel, except where supplementary research and public records are indicated.

### 22.1. Overview of Corporate Development

Relevant public records were retrieved that identify ownership of Zongheng Steel over the past 10 years. Below is a chronological overview of the changing ownership of the Steel Producer, we note that shareholding amounts were not disclosed in this record.

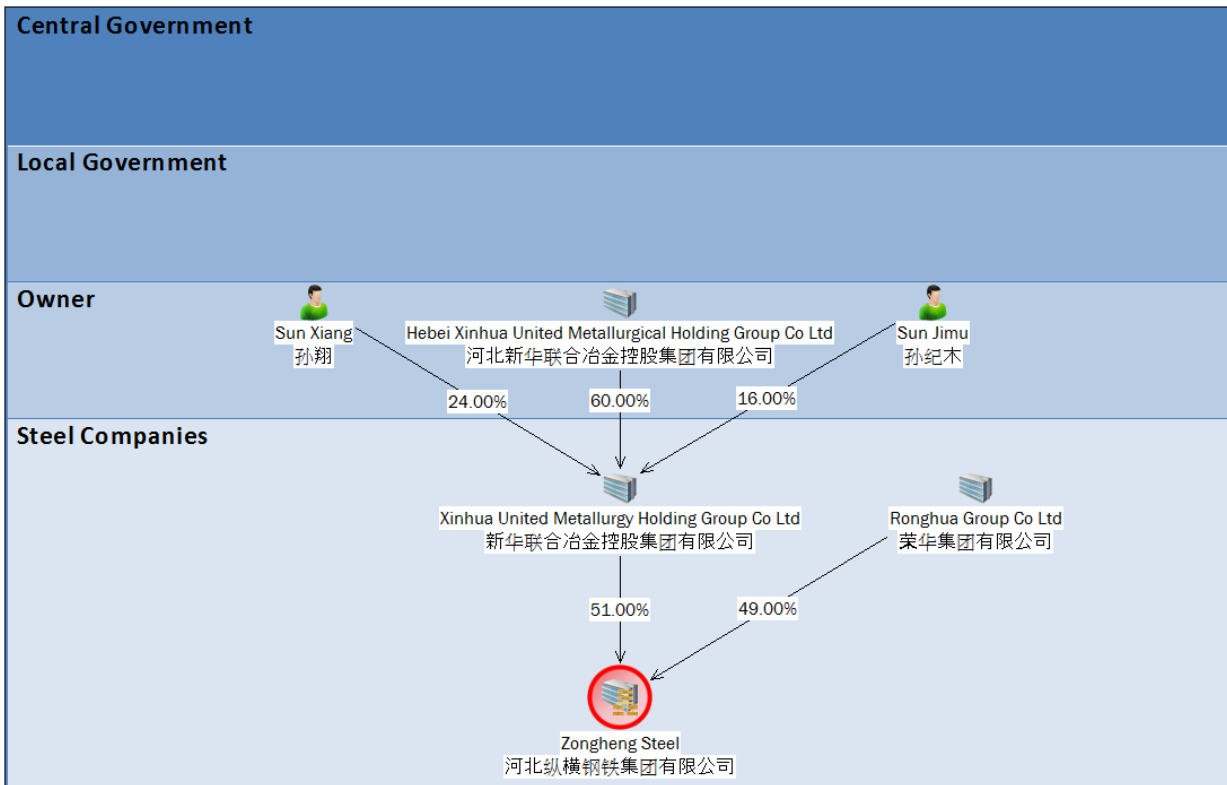
- 28 Apr 2005: Transfer of ownership from Zhejiang Zongheng Light Textile Group Co Ltd (浙江纵横轻纺集团有限公司) (40%), Handan Sanlian Iron & Steel Foundry Co Ltd (邯郸市三联钢铁铸造有限责任公司) (35%), and Ma Jianfang (25%) to Zongheng Holding Group Co Ltd (纵横控股集团有限公司) (40%), Handan Sanlian Iron & Steel Foundry Co Ltd (35%), and Ronghua Group Co Ltd (荣华集团有限公司) (25%).
- 8 July 2005: Transfer of ownership from Zongheng Holding Group Co Ltd (40%) to Handan Sanlian Iron & Steel Foundry Co Ltd (75%).
- 30 Dec 2005: Transfer of ownership from Handan Sanlian Iron & Steel Foundry Co Ltd (75%) to Beijing Senhao Technology Development Co Ltd (北京森豪科技发展有限公司) (45%) and Handan Sanlian Iron & Steel Foundry Co Ltd (30%) maintains a portion of ownership.
- 27 June 2008:
  - Equity held by Ronghua Group Co Ltd increased from 25% to 49%;
  - Equity held by Beijing Senhao Technology Development Co Ltd increased from 45% to 49.5%; and
  - Equity held by Handan Sanlian Iron & Steel Foundry Co Ltd decreased from 30% to 1.5%.
- 19 February 2009: Transfer of ownership from Beijing Senhao Technology Development Co Ltd (51%)<sup>260</sup> to Xinhua United Metallurgy Holding Group Co Ltd (新华联合冶金控股集团有限公司) (51%).<sup>261</sup>
- 3 July 2009: Transfer of ownership from Handan Sanlian Iron & Steel Foundry Co Ltd (1.5%) to Beijing Senhao Technology Development Co Ltd (51%).
- 17 July 2012:
  - Equity held by Xinhua United Metallurgy Holding Group Co Ltd decreased from USD 12.3318560930 million to USD 12.3318 million; and
  - Equity held by Ronghua Group Co Ltd maintained at USD 11.8482 million.
- 11 March 2015:
  - Equity held by Xinhua United Metallurgy Holding Group Co Ltd maintained at USD 12.3318 million; and
  - Equity held by Ronghua Group Co Ltd maintained at USD 11.8482 million.

### 22.2. Organization / Ownership Chart

Further to review and analysis of available public records, a chart was prepared depicting both the ownership and organization of Zongheng Steel, highlighting proportion of state control.

<sup>260</sup> Note: a discrepancy was found with the share transfer timeline and percentages in the record of historical changes and, to the extent possible, has verified the accuracy of our report with the original record. It appears this discrepancy may result from an administrative filing error at the local SAIC bureau.

<sup>261</sup> Note: A review of Xinhua United Metallurgy Holding Group Co Ltd's official website found that this company had reportedly relocated from Beijing to Cangzhou in Hebei Province and changed its business name to Hebei Sinogiant Group Co Ltd (河北新华联合冶金控股集团有限公司) in the process. However, there were no historical name changes for Xinhua United Metallurgy Holding Group Co Ltd in their corporate records, and that both Xinhua United Metallurgy Holding Group Co Ltd and Hebei Sinogiant Group Co Ltd are registered as two different legal entities at the respective local SAIC bureaus of these two cities.



Focused review of available public records identified a further three subsidiaries involved in metal materials production, metal industry information consulting, and engineering technology.<sup>262</sup> However, we did not identify any steel production subsidiaries of Zongheng Steel.

### 22.3. State Ownership of Facilities or Assets

Focused high level research was conducted into Zongheng Steel and its major subsidiaries, mainly through their corporate websites, to identify major facilities / assets. These are listed below, along with the percentage of state ownership, as it relates to the specific company:

Company Name	Asset / Facility	Percentage Owned by the State
Zongheng Steel	<ul style="list-style-type: none"> <li>Zongheng Iron &amp; Steel Group Co Ltd Iron-making Plant (河北纵横钢铁集团有限公司炼铁厂)<sup>263</sup></li> <li>Zongheng Iron &amp; Steel Group Co Ltd Steel-making Plant (河北纵横钢铁集团有限公司炼钢厂)<sup>264</sup></li> <li>Zongheng Iron &amp; Steel Group Co Ltd Steel Rolling Mill (河北纵横钢铁集团有限公司轧钢厂)<sup>265</sup></li> </ul>	0%

<sup>262</sup> <http://www.zonghengsteel.com/about.asp>

<sup>263</sup> <http://www.zonghengsteel.com/zuzhi.asp>

<sup>264</sup> Ibid

<sup>265</sup> Ibid

## 23. DONGBEI GROUP

Comprehensive research was conducted to obtain details of the state ownership of this Steel Producer, as detailed below. This information is largely obtained from the SAIC records retrieved for Dongbei Group, except where supplementary research and public records are indicated.

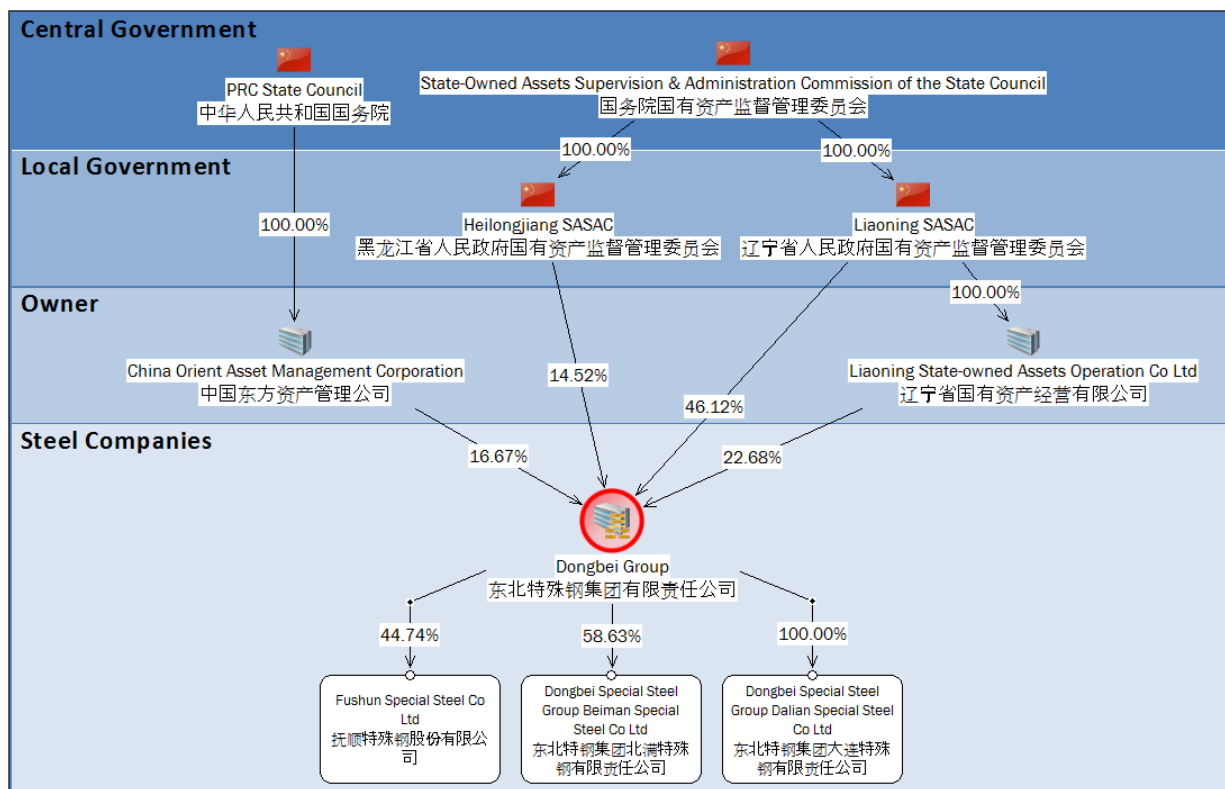
### 23.1. Overview of Corporate Development

Relevant public records were retrieved that identify ownership of Dongbei Group over the past 10 years. Below is a chronological overview of the changing ownership of the Steel Producer.

- 29 May 2006: The shareholders were changed from China Cinda Asset Management Co, China Huarong Asset Management Co, China Orient Asset Management Corporation, SASAC of Liaoning Province, SASAC of Heilongjiang Province, and Fushun Special Steel (Group) Co Ltd (抚顺特殊钢 (集团) 有限责任公司) to China Construction Bank Co Ltd (中国建设银行股份有限公司), China Huarong Asset Management Co, China Orient Asset Management Corporation, SASAC of Liaoning Province, SASAC of Heilongjiang Province, and Fushun Special Steel (Group) Co Ltd.
- 12 May 2010: The shareholders were changed from China Construction Bank Co Ltd, China Huarong Asset Management Co, China Orient Asset Management Corporation, SASAC of Liaoning Province, SASAC of Heilongjiang Province, and Fushun Special Steel (Group) Co Ltd to China Huarong Asset Management Co, China Orient Asset Management Corporation, SASAC of Liaoning Province, SASAC of Heilongjiang Province, and Fushun Special Steel (Group) Co Ltd.
- 01 Nov 2012: The shareholders were changed from China Huarong Asset Management Co, China Orient Asset Management Corporation, SASAC of Liaoning Province, SASAC of Heilongjiang Province, and Fushun Special Steel (Group) Co Ltd to China Huarong Asset Management Co, China Orient Asset Management Corporation, SASAC of Liaoning Province, SASAC of Heilongjiang Province, and Liaoning State-owned Assets Operation Co Ltd (辽宁省国有资产经营有限公司).
- 13 Jan 2014: The shareholders were changed from China Huarong Asset Management Co, China Orient Asset Management Corporation, SASAC of Liaoning Province, SASAC of Heilongjiang Province, and Liaoning State-owned Assets Operation Co Ltd to China Orient Asset Management Corporation, SASAC of Liaoning Province, SASAC of Heilongjiang Province, and Liaoning State-owned Assets Operation Co Ltd.

### 23.2. Organization / Ownership Chart

Further to review and analysis of available public records, a chart was prepared depicting both the ownership and organization of Dongbei Group, highlighting proportion of state control.



In addition to the three steel production subsidiaries captured in the chart above, a focused review of the 2014 annual return for Dongbei Group identified approximately 24 further direct subsidiaries involved in other industry areas such as recyclable resources, electromechanically engineering, real estate, hotel, trading, mining, information technology, and advertising.<sup>266</sup>

### 23.3. State Ownership of Facilities or Assets

Focused high level research was conducted into Dongbei Group and its major subsidiaries, mainly through their corporate websites, to identify major facilities / assets. These are listed below, along with the percentage of state ownership, as it relates to the specific company:

Company Name	Asset / Facility	Percentage Owned by the State
Fushun Special Steel Co Ltd	<ul style="list-style-type: none"> <li>Fushun Special Steel Co Ltd Iron Mill (抚顺特殊钢股份有限公司炼铁厂)<sup>267</sup></li> <li>Fushun Special Steel Co Ltd No. 1 Steel Mill (抚顺特殊钢股份有限公司第一炼钢厂)<sup>268</sup></li> <li>Fushun Special Steel Co Ltd No. 2 Steel Mill (抚顺特殊钢股份有限公司第二炼钢厂)<sup>269</sup></li> <li>Fushun Special Steel Co Ltd No. 3 Steel Mill (抚顺特殊钢股份有限公司第三炼钢厂)<sup>270</sup></li> </ul>	44.74%

<sup>266</sup> [http://www.chinamoney.com.cn/fe/CMS5\\_G20306002Resource?info=11936565;res=14328865884051351972444;download=](http://www.chinamoney.com.cn/fe/CMS5_G20306002Resource?info=11936565;res=14328865884051351972444;download=)

<sup>267</sup> <http://www.dtsteel.com/news6-view.jsp?id=2149>

<sup>268</sup> <http://www.fs-ss.com/zjzg/1634447142.html>

<sup>269</sup> Ibid

<sup>270</sup> Ibid

<p>Dongbei Special Steel Group Beiman Special Steel Co Ltd</p>	<ul style="list-style-type: none"> <li>• Dongbei Special Steel Group Beiman Special Steel Co Ltd Iron Mill (东北特钢集团北满特殊钢有限责任公司炼铁厂)<sup>271</sup></li> <li>• Dongbei Special Steel Group Beiman Special Steel Co Ltd No. 1 Steel Mill (东北特钢集团北满特殊钢有限责任公司第一炼钢厂)<sup>272</sup></li> <li>• Dongbei Special Steel Group Beiman Special Steel Co Ltd No. 2 Steel Mill (东北特钢集团北满特殊钢有限责任公司第二炼钢厂)<sup>273</sup></li> <li>• Dongbei Special Steel Group Beiman Special Steel Co Ltd No. 3 Steel Mill (东北特钢集团北满特殊钢有限责任公司第三炼钢厂)<sup>274</sup></li> </ul>	<p>100%</p>
<p>Dongbei Special Steel Group Dalian Special Steel Co Ltd</p>	<ul style="list-style-type: none"> <li>• Fangda Special Steel Technology Co Ltd Iron Mill (东北特钢集团大连特殊钢有限责任公司炼铁厂)<sup>275</sup></li> <li>• Dongbei Special Steel Group Dalian Special Steel Co Ltd No. 1 Steel Mill (东北特钢集团大连特殊钢有限责任公司第一炼钢厂)<sup>276</sup></li> <li>• Dongbei Special Steel Group Dalian Special Steel Co Ltd No. 2 Steel Mill (东北特钢集团大连特殊钢有限责任公司第二炼钢厂)<sup>277</sup></li> <li>• Dongbei Special Steel Group Dalian Special Steel Co Ltd No. 3 Steel Mill (东北特钢集团大连特殊钢有限责任公司第三炼钢厂)<sup>278</sup></li> </ul>	<p>100%</p>

<sup>271</sup> <http://www.fs-ss.com/zzjg/1634447142.html>

<sup>272</sup> Ibid

<sup>273</sup> <http://www.bmsteel.com.cn/zuzhi.jsp>

<sup>274</sup> Ibid

<sup>275</sup> <http://www.fs-ss.com/zzjg/1634447142.html>

<sup>276</sup> [http://www.dltsg.com/news\\_view.jsp?id=897](http://www.dltsg.com/news_view.jsp?id=897)

<sup>277</sup> Ibid

<sup>278</sup> Ibid

## 24. TSINGSHAN GROUP

Comprehensive research was conducted to obtain details of the state ownership of this Steel Producer, as detailed below. This information is largely obtained from the SAIC records retrieved for Tsingshan Group, except where supplementary research and public records are indicated.

### 24.1. Overview of Corporate Development

Relevant public records were retrieved that identify ownership of Tsingshan Group over the past 10 years. Below is a chronological overview of the changing ownership of the Steel Producer.

Date	Equity and Ownership % before Change	Equity and Ownership % after Change
17 Feb 2005	Wu Zhengyi (吴正义) RMB 0.72 million (0.6%); Sun Guangsheng (孙光胜) RMB 0.96 million (0.8%); Xu Yonghe (许永鹤) RMB 0.96 million (0.8%); Zhang Jilun (张积伦) RMB 0.96 million (0.8%); Chen Jie (陈杰) RMB 1.44 million (1.2%); Xiang Bingxue (项秉雪) RMB 1.44 million (1.2%); Jiang Haihong (姜海洪) RMB 1.68 million (1.4%); Wang Jianguo (王建国) RMB 2.4 million (2%); Zhang Hongsong (张洪松) RMB 2.4 million (2%); Xiang Haiyan (项海燕) RMB 2.76 million (2.3%); Ni Shiqing (倪士清) RMB 3.24 million (2.7%); He Gangui (何干贵) RMB 3.72 million (3.1%); Zhang Xianqin (张宪勤) RMB 3.72 million (3.1%); Feng Shaode (冯绍德) RMB 4.32 million (3.6%); He Congzhen (何丛珍) RMB 4.32 million (3.6%); Sun Yuanlin (孙元磷) RMB 4.56 million (3.8%); Chen Shangsong (陈上松) RMB 5.4 million (4.5%); Wang Jiancong (王建聪) RMB 5.4 million (4.5%);	Wu Zhengyi (吴正义) RMB 1.62 million (0.8%); Sun Guangsheng (孙光胜) RMB 2.4 million (1.2%); Xu Yonghe (许永鹤) RMB 1.6 million (0.8%); Zhang Jilun (张积伦) RMB 1.6 million (0.8%); Chen Jie (陈杰) RMB 4 million (2%); Xiang Bingxue (项秉雪) RMB 2.4 million (1.2%); Jiang Haihong (姜海洪) RMB 2.4 million (1.4%); Wang Jianguo (王建国) RMB 4 million (2%); Zhang Hongsong (张洪松) RMB 2.4 million (2%); Xiang Haiyan (项海燕) RMB 4.6 million (2.3%); Ni Shiqing (倪士清) RMB 5.4 million (2.7%); He Gangui (何干贵) RMB 6.2 million (3.1%); Zhang Xianqin (张宪勤) RMB 6.2 million (3.1%); Feng Shaode (冯绍德) RMB 7.2 million (3.6%); He Congzhen (何丛珍) RMB 7.2 million (3.6%); Sun Yuanlin (孙元磷) RMB 7.6 million (3.8%); Chen Shangsong (陈上松) RMB 9 million (4.5%); Wang Jiancong (王建聪) RMB 9 million (4.5%);

	<p>Zhang Jimin (张积敏) RMB 8.64 million (7.2%); Xiang Guangtong (项光通) RMB 12.96 million (10.8%); Wu Zupeng (吴祖鹏) RMB 18 million (15%); Xiang Guangda (项光达) RMB 30 million (25%)</p>	<p>Zhang Jimin (张积敏) RMB 14.4 million (7.2%) Xiang Guangtong (项光通) RMB 21.6 million (10.8%) Wu Zupeng (吴祖鹏) RMB 30 million (15%) Xiang Guangda (项光达) RMB 47.6 million (23.8%)</p>
30 Sep 2007	<p>Wu Zhengyi (吴正义) RMB 1.62 million (0.8%); Sun Guangsheng (孙光胜) RMB 2.4 million (1.2%); Xu Yonghe (许永鹤) RMB 1.6 million (0.8%) Zhang Jilun (张积伦) RMB 1.6 million (0.8%) Chen Jie (陈杰) RMB 4 million (2%) Xiang Bingxue (项秉雪) RMB 2.4 million (1.2%) Jiang Haihong (姜海洪) RMB 2.4 million (1.4%) Wang Jianguo (王建国) RMB 4 million (2%) Zhang Hongsong (张洪松) RMB 2.4 million (2%) Xiang Haiyan (项海燕) RMB 4.6 million (2.3%) Ni Shiqing (倪士清) RMB 5.4 million (2.7%) He Gangui (何干贵) RMB 6.2 million (3.1%) Zhang Xianqin (张宪勤) RMB 6.2 million (3.1%) Feng Shaode (冯绍德) RMB 7.2 million (3.6%) He Congzhen (何丛珍) RMB 7.2 million (3.6%) Sun Yuanlin (孙元磷) RMB 7.6 million (3.8%) Chen Shangsong (陈上松) RMB 9 million (4.5%) Wang Jiancong (王建聪) RMB 9 million (4.5%) Zhang Jimin (张积敏) RMB 14.4 million (7.2%) Xiang Guangtong (项光通) RMB 21.6 million (10.8%)</p>	<p>Xu Yonghe (许永鹤) RMB 4 million (2%) Zhang Jilun (张积伦) RMB 4 million (2%) Xiang Bingxue (项秉雪) RMB 8 million (4%) Jiang Haihong (姜海洪) RMB 8 million (4%) Zhang Hongsong (张洪松) RMB 5 million (2.5%) Xiang Haiyan (项海燕) RMB 4 million (2%) Feng Shaode (冯绍德) RMB 5 million (2.5%) He Congzhen (何丛珍) RMB 5 million (2.5%) Sun Yuanlin (孙元磷) RMB 10 million (5%) Chen Shangsong (陈上松) RMB 8 million (4%) Zhang Jimin (张积敏) RMB 16 million (8%) Xiang Guangtong (项光通) RMB 16 million (8%) Xiang Binghe (项炳和) RMB 2 million (1%) Shanghai Dingxin Investment Co Ltd (上海鼎信投资有限公司) RMB 105 million (52.5%)</p>



	<p>Wu Zupeng (吴祖鹏) RMB 30 million (15%) Xiang Guangda (项光达) RMB 47.6 million (23.8%)</p>	
21 Dec 2007	<p>Xu Yonghe (许永鹤) RMB 4 million (2%) Zhang Jilun (张积伦) RMB 4 million (2%) Xiang Bingxue (项秉雪) RMB 8 million (4%) Jiang Haihong (姜海洪) RMB 8 million (4%) Zhang Hongsong (张洪松) RMB 5 million (2.5%) Xiang Haiyan (项海燕) RMB 4 million (2%) Feng Shaode (冯绍德) RMB 5 million (2.5%) He Congzhen (何丛珍) RMB 5 million (2.5%) Sun Yuanlin (孙元磷) RMB 10 million (5%) Chen Shangsong (陈上松) RMB 8 million (4%) Zhang Jimin (张积敏) RMB 16 million (8%) Xiang Guangtong (项光通) RMB 16 million (8%) Xiang Binghe (项炳和) RMB 2 million (1%) Shanghai Dingxin Investment Co Ltd (上海鼎信投资有限公司) RMB 105 million (52.5%)</p>	<p>Xu Yonghe (许永鹤) RMB 4 million (2%) Zhang Jilun (张积伦) RMB 4 million (2%) Xiang Bingxue (项秉雪) RMB 8 million (4%) Jiang Haihong (姜海洪) RMB 67.6 million (33.8%) Xiang Haiyan (项海燕) RMB 4 million (2%) Feng Shaode (冯绍德) RMB 5 million (2.5%) He Congzhen (何丛珍) RMB 5 million (2.5%) Sun Yuanlin (孙元磷) RMB 10 million (5%) Chen Shangsong (陈上松) RMB 8 million (4%) Zhang Jimin (张积敏) RMB 16 million (8%) Xiang Binghe (项炳和) RMB 2 million (1%) Shanghai Dingxin Investment Co Ltd (上海鼎信投资有限公司) RMB 66.4 million (33.2%)</p>
02 Dec 2008	<p>Xu Yonghe (许永鹤) RMB 4 million (2%) Zhang Jilun (张积伦) RMB 4 million (2%) Xiang Bingxue (项秉雪) RMB 8 million (4%) Jiang Haihong (姜海洪) RMB 67.6 million (33.8%) Xiang Haiyan (项海燕) RMB 4 million (2%) Feng Shaode (冯绍德) RMB 5 million (2.5%) He Congzhen (何丛珍) RMB 5 million (2.5%) Sun Yuanlin (孙元磷)</p>	<p>Xu Yonghe (许永鹤) RMB 5 million (2%) Zhang Jilun (张积伦) RMB 5 million (2%) Xiang Bingxue (项秉雪) RMB 10 million (4%) Jiang Haihong (姜海洪) RMB 84.5 million (33.8%) Xiang Haiyan (项海燕) RMB 5 million (2%) Feng Shaode (冯绍德) RMB 6.25 million (2.5%) He Congzhen (何丛珍) RMB 6.25 million (2.5%) Sun Yuanlin (孙元磷)</p>

	<p>RMB 10 million (5%) Chen Shangsong (陈上松) RMB 8 million (4%) Zhang Jimin (张积敏) RMB 16 million (8%) Xiang Binghe (项炳和) RMB 2 million (1%) Shanghai Dingxin Investment Co Ltd (上海鼎信投资有限公司) RMB 66.4 million (33.2%)</p>	<p>RMB 12.5 million (5%) Chen Shangsong (陈上松) RMB 10 million (4%) Zhang Jimin (张积敏) RMB 20 million (8%) Xiang Binghe (项炳和) RMB 2.5 million (1%) Shanghai Dingxin Investment Co Ltd (上海鼎信投资有限公司) RMB 83 million (33.2%)</p>
05 Dec 2009	<p>Xu Yonghe (许永鹤) RMB 5 million (2%) Zhang Jilun (张积伦) RMB 5 million (2%) Xiang Bingxue (项秉雪) RMB 10 million (4%) Jiang Haihong (姜海洪) RMB 84.50 million (33.8%) Xiang Haiyan (项海燕) RMB 5 million (2%) Feng Shaode (冯绍德) RMB 6.25 million (2.5%) He Congzhen (何丛珍) RMB 6.25 million (2.5%) Sun Yuanlin (孙元磷) RMB 12.50 million (5%) Chen Shangsong (陈上松) RMB 10 million (4%) Zhang Jimin (张积敏) RMB 20 million (8%) Xiang Binghe (项炳和) RMB 2.5 million (1%) Shanghai Dingxin Investment Co Ltd (上海鼎信投资有限公司) RMB 83 million (33.2%)</p>	<p>Xu Yonghe (许永鹤) RMB 6.4 million (2%) Zhang Jilun (张积伦) RMB 6.4 million (2%) Xiang Bingxue (项秉雪) RMB 12.80 million (4%) Jiang Haihong (姜海洪) RMB 108.16 million (33.8%) Xiang Haiyan (项海燕) RMB 6.4 million (2%) Feng Shaode (冯绍德) RMB 8 million (2.5%) He Congzhen (何丛珍) RMB 8 million (2.5%) Sun Yuanlin (孙元磷) RMB 16 million (5%) Chen Shangsong (陈上松) RMB 12.80 million (4%) Zhang Jimin (张积敏) RMB 25.60 million (8%) Xiang Binghe (项炳和) RMB 3.2 million (1%) Shanghai Dingxin Investment Co Ltd (上海鼎信投资有限公司) RMB 106.24 million (33.2%)</p>
25 Jan 2010	<p>Xu Yonghe (许永鹤) RMB 6.4 million (2%) Zhang Jilun (张积伦) RMB 6.4 million (2%) Xiang Bingxue (项秉雪) RMB 12.80 million (4%) Jiang Haihong (姜海洪) RMB 108.16 million (33.8%) Xiang Haiyan (项海燕) RMB 6.4 million (2%) Feng Shaode (冯绍德) RMB 8 million (2.5%) He Congzhen (何丛珍)</p>	<p>Xu Yonghe (许永鹤) RMB 6.4 million (2%) Zhang Jilun (张积伦) RMB 6.4 million (2%) Xiang Bingxue (项秉雪) RMB 12.80 million (4%) Jiang Haihong (姜海洪) RMB 108.16 million (33.8%) Xiang Haiyan (项海燕) RMB 6.4 million (2%) Feng Shaode (冯绍德) RMB 8 million (2.5%) He Congzhen (何丛珍)</p>

	<p>RMB 8 million (2.5%) Sun Yuanlin (孙元磷) RMB 16 million (5%) Chen Shangsong (陈上松) RMB 12.80 million (4%) Zhang Jimin (张积敏) RMB 25.60 million (8%) Xiang Binghe (项炳和) RMB 3.2 million (1%) Shanghai Dingxin Investment Co Ltd (上海鼎信投资有限公司) RMB 106.24 million (33.2%)</p>	<p>RMB 8 million (2.5%) Sun Yuanlin (孙元磷) RMB 16 million (5%) Chen Shangsong (陈上松) RMB 12.80 million (4%) Zhang Jimin (张积敏) RMB 25.60 million (8%) Xiang Binghe (项炳和) RMB 3.2 million (1%) Shanghai Dingxin Investment Co Ltd (上海鼎信投资有限公司) RMB 64.64 million (20.2%) Zhejiang Tsingshan Enterprise Management Co Ltd (浙江青山企业管理有限公司) RMB 41.6 million (13%)</p>
31 Dec 2010	<p>Xu Yonghe (许永鹤) RMB 6.4 million (2%) Zhang Jilun (张积伦) RMB 6.4 million (2%) Xiang Bingxue (项秉雪) RMB 12.8 million (4%) Jiang Haihong (姜海洪) RMB 108.16 million (33.8%) Xiang Haiyan (项海燕) RMB 6.4 million (2%) Feng Shaode (冯绍德) RMB 8 million (2.5%) He Congzhen (何丛珍) RMB 8 million (2.5%) Sun Yuanlin (孙元磷) RMB 16 million (5%) Chen Shangsong (陈上松) RMB 12.8 million (4%) Zhang Jimin (张积敏) RMB 25.6 million (8%) Xiang Binghe (项炳和) RMB 3.2 million (1%) Shanghai Dingxin Investment Co Ltd (上海鼎信投资有限公司) RMB 64.64 million (20.2%) Zhejiang Tsingshan Enterprise Management Co Ltd (浙江青山企业管理有限公司) RMB 41.6 million (13%)</p>	<p>Xu Yonghe (许永鹤) RMB 6.3 million (1.5%) Zhang Jilun (张积伦) RMB 8.4 million (2%) Xiang Bingxue (项秉雪) RMB 16.8 million (4%) Jiang Haihong (姜海洪) RMB 16.8 million (4%) Xiang Haiyan (项海燕) RMB 8.4 million (2%) Feng Shaode (冯绍德) RMB 10.5 million (2.5%) He Congzhen (何丛珍) RMB 10.5 million (2.5%) Sun Yuanlin (孙元磷) RMB 21 million (5%) Chen Shangsong (陈上松) RMB 16.8 million (4%) Zhang Jimin (张积敏) RMB 33.6 million (8%) Xiang Binghe (项炳和) RMB 4.2 million (1%) Shanghai Dingxin Investment Co Ltd (上海鼎信投资有限公司) RMB 84.84 million (20.2%) Zhejiang Tsingshan Enterprise Management Co Ltd (浙江青山企业管理有限公司) RMB 54.6 million (13%) Xiang Guangtong (项光通) RMB 33.6 million (8%) Xiang Guangda (项光达)</p>

		RMB 93.66 million (22.3%)
16 May 2011	<p>Xu Yonghe (许永鹤) RMB 6.3 million (1.5%)</p> <p>Zhang Jilun (张积伦) RMB 8.4 million (2%)</p> <p>Xiang Bingxue (项秉雪) RMB 16.8 million (4%)</p> <p>Jiang Haihong (姜海洪) RMB 16.8 million (4%)</p> <p>Xiang Haiyan (项海燕) RMB 8.4 million (2%)</p> <p>Feng Shaode (冯绍德) RMB 10.5 million (2.5%)</p> <p>He Congzhen (何丛珍) RMB 10.5 million (2.5%)</p> <p>Sun Yuanlin (孙元磷) RMB 21 million (5%)</p> <p>Chen Shangsong (陈上松) RMB 16.8 million (4%)</p> <p>Zhang Jimin (张积敏) RMB 33.6 million (8%)</p> <p>Xiang Binghe (项炳和) RMB 4.2 million (1%)</p> <p>Shanghai Dingxin Investment Co Ltd (上海鼎信投资有限公司) RMB 84.84 million (20.2%)</p> <p>Zhejiang Tsingshan Enterprise Management Co Ltd (浙江青山企业管理有限公司) RMB 54.6 million (13%)</p> <p>Xiang Guangtong (项光通) RMB 33.6 million (8%)</p> <p>Xiang Guangda (项光达) RMB 93.66 million (22.3%)</p>	<p>Xu Yonghe (许永鹤) RMB 6.3 million (1.5%)</p> <p>Zhang Jilun (张积伦) RMB 8.4 million (2%)</p> <p>Xiang Bingxue (项秉雪) RMB 16.8 million (4%)</p> <p>Jiang Haihong (姜海洪) RMB 16.8 million (4%)</p> <p>Xiang Haiyan (项海燕) RMB 8.4 million (2%)</p> <p>Feng Shaode (冯绍德) RMB 10.5 million (2.5%)</p> <p>He Congzhen (何丛珍) RMB 10.5 million (2.5%)</p> <p>Sun Yuanlin (孙元磷) RMB 21 million (5%)</p> <p>Chen Shangsong (陈上松) RMB 16.8 million (4%)</p> <p>Zhang Jimin (张积敏) RMB 33.6 million (8%)</p> <p>Xiang Binghe (项炳和) RMB 4.2 million (1%)</p> <p>Shanghai Dingxin Investment Co Ltd (上海鼎信投资有限公司) RMB 82.74 million (19.7%)</p> <p>Zhejiang Tsingshan Enterprise Management Co Ltd (浙江青山企业管理有限公司) RMB 56.7 million (13.5%)</p> <p>Xiang Guangtong (项光通) RMB 33.6 million (8%)</p> <p>Xiang Guangda (项光达) RMB 93.66 million (22.3%)</p>
03 Jun 2011	<p>Xu Yonghe (许永鹤) RMB 6.3 million (1.5%)</p> <p>Zhang Jilun (张积伦) RMB 8.4 million (2%)</p> <p>Xiang Bingxue (项秉雪) RMB 16.8 million (4%)</p> <p>Jiang Haihong (姜海洪) RMB 16.8 million (4%)</p> <p>Xiang Haiyan (项海燕) RMB 8.4 million (2%)</p> <p>Feng Shaode (冯绍德) RMB 10.5 million (2.5%)</p> <p>He Congzhen (何丛珍) RMB 10.5 million (2.5%)</p>	<p>Xu Yonghe (许永鹤) RMB 7.5 million (1.5%)</p> <p>Zhang Jilun (张积伦) RMB 10 million (2%)</p> <p>Xiang Bingxue (项秉雪) RMB 20 million (4%)</p> <p>Jiang Haihong (姜海洪) RMB 20 million (4%)</p> <p>Xiang Haiyan (项海燕) RMB 10 million (2%)</p> <p>Feng Shaode (冯绍德) RMB 12.5 million (2.5%)</p> <p>He Congzhen (何丛珍) RMB 12.5 million (2.5%)</p>

	<p>Sun Yuanlin (孙元磷) RMB 21 million (5%)</p> <p>Chen Shangsong (陈上松) RMB 16.8 million (4%)</p> <p>Zhang Jimin (张积敏) RMB 33.6 million (8%)</p> <p>Xiang Binghe (项炳和) RMB 4.2 million (1%)</p> <p>Shanghai Dingxin Investment Co Ltd (上海鼎信投资有限公司) RMB 82.74 million (19.7%)</p> <p>Zhejiang Tsingshan Enterprise Management Co Ltd (浙江青山企业管理有限公司) RMB 56.7 million (13.5%)</p> <p>Xiang Guangtong (项光通) RMB 33.6 million (8%)</p> <p>Xiang Guangda (项光达) RMB 93.66 million (22.3%)</p>	<p>Sun Yuanlin (孙元磷) RMB 25 million (5%)</p> <p>Chen Shangsong (陈上松) RMB 20 million (4%)</p> <p>Zhang Jimin (张积敏) RMB 40 million (8%)</p> <p>Xiang Binghe (项炳和) RMB 5 million (1%)</p> <p>Shanghai Dingxin Investment Co Ltd (上海鼎信投资有限公司) RMB 98.5 million (19.7%)</p> <p>Zhejiang Tsingshan Enterprise Management Co Ltd (浙江青山企业管理有限公司) RMB 67.5 million (13.5%)</p> <p>Xiang Guangtong (项光通) RMB 40 million (8%)</p> <p>Xiang Guangda (项光达) RMB 111.5 million (22.3%)</p>
09 Sep 2011	<p>Xu Yonghe (许永鹤) RMB 7.5 million (1.5%)</p> <p>Zhang Jilun (张积伦) RMB 10 million (2%)</p> <p>Xiang Bingxue (项秉雪) RMB 20 million (4%)</p> <p>Jiang Haihong (姜海洪) RMB 20 million (4%)</p> <p>Xiang Haiyan (项海燕) RMB 10 million (2%)</p> <p>Feng Shaode (冯绍德) RMB 12.5 million (2.5%)</p> <p>He Congzhen (何丛珍) RMB 12.5 million (2.5%)</p> <p>Sun Yuanlin (孙元磷) RMB 25 million (5%)</p> <p>Chen Shangsong (陈上松) RMB 20 million (4%)</p> <p>Zhang Jimin (张积敏) RMB 40 million (8%)</p> <p>Xiang Binghe (项炳和) RMB 5 million (1%)</p> <p>Shanghai Dingxin Investment Co Ltd (上海鼎信投资有限公司) RMB 98.5 million (19.7%)</p> <p>Zhejiang Tsingshan Enterprise Management Co Ltd (浙江青山企业管理有限公司) RMB 67.5 million (13.5%)</p>	<p>Xu Yonghe (许永鹤) RMB 9 million (1.5%)</p> <p>Zhang Jilun (张积伦) RMB 12 million (2%)</p> <p>Xiang Bingxue (项秉雪) RMB 24 million (4%)</p> <p>Jiang Haihong (姜海洪) RMB 24 million (4%)</p> <p>Xiang Haiyan (项海燕) RMB 12 million (2%)</p> <p>Feng Shaode (冯绍德) RMB 15 million (2.5%)</p> <p>He Congzhen (何丛珍) RMB 15 million (2.5%)</p> <p>Sun Yuanlin (孙元磷) RMB 30 million (5%)</p> <p>Chen Shangsong (陈上松) RMB 24 million (4%)</p> <p>Zhang Jimin (张积敏) RMB 48 million (8%)</p> <p>Xiang Binghe (项炳和) RMB 6 million (1%)</p> <p>Shanghai Dingxin Investment Co Ltd (上海鼎信投资有限公司) RMB 118.2 million (19.7%)</p> <p>Zhejiang Tsingshan Enterprise Management Co Ltd (浙江青山企业管理有限公司) RMB 81 million (13.5%)</p>

	Xiang Guangtong (项光通) RMB 40 million (8%) Xiang Guangda (项光达) RMB 111.5 million (22.3%)	Xiang Guangtong (项光通) RMB 48 million (8%) Xiang Guangda (项光达) RMB 133.8 million (22.3%)
19 Sep 2011	Xu Yonghe (许永鹤) RMB 9 million (1.5%) Zhang Jilun (张积伦) RMB 12 million (2%) Xiang Bingxue (项秉雪) RMB 24 million (4%) Jiang Haihong (姜海洪) RMB 24 million (4%) Xiang Haiyan (项海燕) RMB 12 million (2%) Feng Shaode (冯绍德) RMB 15 million (2.5%) He Congzhen (何丛珍) RMB 15 million (2.5%) Sun Yuanlin (孙元磷) RMB 30 million (5%) Chen Shangsong (陈上松) RMB 24 million (4%) Zhang Jimin (张积敏) RMB 48 million (8%) Xiang Binghe (项炳和) RMB 6 million (1%) Shanghai Dingxin Investment Co Ltd (上海鼎信投资有限公司) RMB 118.2 million (19.7%) Zhejiang Tsingshan Enterprise Management Co Ltd (浙江青山企业管理有限公司) RMB 81 million (13.5%) Xiang Guangtong (项光通) RMB 48 million (8%) Xiang Guangda (项光达) RMB 133.8 million (22.3%)	Xu Yonghe (许永鹤) RMB 10.8 million (1.5%) Zhang Jilun (张积伦) RMB 14.4 million (2%) Xiang Bingxue (项秉雪) RMB 28.8 million (4%) Jiang Haihong (姜海洪) RMB 28.8 million (4%) Xiang Haiyan (项海燕) RMB 14.4 million (2%) Feng Shaode (冯绍德) RMB 18 million (2.5%) He Congzhen (何丛珍) RMB 18 million (2.5%) Sun Yuanlin (孙元磷) RMB 36 million (5%) Chen Shangsong (陈上松) RMB 28.8 million (4%) Zhang Jimin (张积敏) RMB 57.6 million (8%) Xiang Binghe (项炳和) RMB 7.2 million (1%) Shanghai Dingxin Investment Co Ltd (上海鼎信投资有限公司) RMB 141.84 million (19.7%) Zhejiang Tsingshan Enterprise Management Co Ltd (浙江青山企业管理有限公司) RMB 97.2 million (13.5%) Xiang Guangtong (项光通) RMB 57.6 million (8%) Xiang Guangda (项光达) RMB 160.56 million (22.3%)
07 Dec 2011	Xu Yonghe (许永鹤) RMB 10.8 million (1.5%) Zhang Jilun (张积伦) RMB 14.4 million (2%) Xiang Bingxue (项秉雪) RMB 28.8 million (4%) Jiang Haihong (姜海洪) RMB 28.8 million (4%) Xiang Haiyan (项海燕) RMB 14.4 million (2%) Feng Shaode (冯绍德)	Xu Yonghe (许永鹤) RMB 12 million (1.5%) Zhang Jilun (张积伦) RMB 16 million (2%) Xiang Bingxue (项秉雪) RMB 32 million (4%) Jiang Haihong (姜海洪) RMB 32 million (4%) Xiang Haiyan (项海燕) RMB 16 million (2%) Feng Shaode (冯绍德)

	<p>RMB 18 million (2.5%) He Congzhen (何丛珍) RMB 18 million (2.5%) Sun Yuanlin (孙元磷) RMB 36 million (5%) Chen Shangsong (陈上松) RMB 28.8 million (4%) Zhang Jimin (张积敏) RMB 57.6 million (8%) Xiang Binghe (项炳和) RMB 7.2 million (1%) Shanghai Dingxin Investment Co Ltd (上海鼎信投资有限公司) RMB 141.84 million (19.7%) Zhejiang Tsingshan Enterprise Management Co Ltd (浙江青山企业管理有限公司) RMB 97.2 million (13.5%) Xiang Guangtong (项光通) RMB 57.6 million (8%) Xiang Guangda (项光达) RMB 160.56 million (22.3%)</p>	<p>RMB 20 million (2.5%) He Congzhen (何丛珍) RMB 20 million (2.5%) Sun Yuanlin (孙元磷) RMB 40 million (5%) Chen Shangsong (陈上松) RMB 32 million (4%) Zhang Jimin (张积敏) RMB 64 million (8%) Xiang Binghe (项炳和) RMB 8 million (1%) Shanghai Dingxin Investment Co Ltd (上海鼎信投资有限公司) RMB 157.6 million (19.7%) Zhejiang Tsingshan Enterprise Management Co Ltd (浙江青山企业管理有限公司) RMB 108 million (13.5%) Xiang Guangtong (项光通) RMB 64 million (8%) Xiang Guangda (项光达) RMB 178.4 million (22.3%)</p>
10 Oct 2012	<p>Xu Yonghe (许永鹤) RMB 12 million (1.5%) Zhang Jilun (张积伦) RMB 16 million (2%) Xiang Bingxue (项秉雪) RMB 32 million (4%) Jiang Haihong (姜海洪) RMB 32 million (4%) Xiang Haiyan (项海燕) RMB 16 million (2%) Feng Shaode (冯绍德) RMB 20 million (2.5%) He Congzhen (何丛珍) RMB 20 million (2.5%) Sun Yuanlin (孙元磷) RMB 40 million (5%) Chen Shangsong (陈上松) RMB 32 million (4%) Zhang Jimin (张积敏) RMB 64 million (8%) Xiang Binghe (项炳和) RMB 8 million (1%) Shanghai Dingxin Investment Co Ltd (上海鼎信投资有限公司) RMB 157.6 million (19.7%)</p>	<p>Xu Yonghe (许永鹤) RMB 15 million (1.5%) Zhang Jilun (张积伦) RMB 20 million (2%) Xiang Bingxue (项秉雪) RMB 40 million (4%) Jiang Haihong (姜海洪) RMB 40 million (4%) Xiang Haiyan (项海燕) RMB 20 million (2%) Feng Shaode (冯绍德) RMB 25 million (2.5%) He Congzhen (何丛珍) RMB 25 million (2.5%) Sun Yuanlin (孙元磷) RMB 50 million (5%) Chen Shangsong (陈上松) RMB 40 million (4%) Zhang Jimin (张积敏) RMB 80 million (8%) Xiang Binghe (项炳和) RMB 10 million (1%) Shanghai Dingxin Investment Co Ltd (上海鼎信投资有限公司) RMB 197 million (19.7%)</p>

	<p>Zhejiang Tsingshan Enterprise Management Co Ltd (浙江青山企业管理有限公司)</p> <p>RMB 108 million (13.5%)</p> <p>Xiang Guangtong (项光通)</p> <p>RMB 64 million (8%)</p> <p>Xiang Guangda (项光达)</p> <p>RMB 178.4 million (22.3%)</p>	<p>Zhejiang Tsingshan Enterprise Management Co Ltd (浙江青山企业管理有限公司)</p> <p>RMB 135 million (13.5%)</p> <p>Xiang Guangtong (项光通)</p> <p>RMB 80 million (8%)</p> <p>Xiang Guangda (项光达)</p> <p>RMB 223 million (22.3%)</p>
18 Dec 2012	<p>Xu Yonghe (许永鹤)</p> <p>RMB 15 million (1.5%)</p> <p>Zhang Jilun (张积伦)</p> <p>RMB 20 million (2%)</p> <p>Xiang Bingxue (项秉雪)</p> <p>RMB 40 million (4%)</p> <p>Jiang Haihong (姜海洪)</p> <p>RMB 40 million (4%)</p> <p>Xiang Haiyan (项海燕)</p> <p>RMB 20 million (2%)</p> <p>Feng Shaode (冯绍德)</p> <p>RMB 25 million (2.5%)</p> <p>He Congzhen (何丛珍)</p> <p>RMB 25 million (2.5%)</p> <p>Sun Yuanlin (孙元磷)</p> <p>RMB 50 million (5%)</p> <p>Chen Shangsong (陈上松)</p> <p>RMB 40 million (4%)</p> <p>Zhang Jimin (张积敏)</p> <p>RMB 80 million (8%)</p> <p>Xiang Binghe (项炳和)</p> <p>RMB 10 million (1%)</p> <p>Shanghai Dingxin Investment Co Ltd (上海鼎信投资有限公司)</p> <p>RMB 197 million (19.7%)</p> <p>Zhejiang Tsingshan Enterprise Management Co Ltd (浙江青山企业管理有限公司)</p> <p>RMB 135 million (13.5%)</p> <p>Xiang Guangtong (项光通)</p> <p>RMB 80 million (8%)</p> <p>Xiang Guangda (项光达)</p> <p>RMB 223 million (22.3%)</p>	<p>Xu Yonghe (许永鹤)</p> <p>RMB 22.5 million (1.5%)</p> <p>Zhang Jilun (张积伦)</p> <p>RMB 30 million (2%)</p> <p>Xiang Bingxue (项秉雪)</p> <p>RMB 60 million (4%)</p> <p>Jiang Haihong (姜海洪)</p> <p>RMB 60 million (4%)</p> <p>Xiang Haiyan (项海燕)</p> <p>RMB 30 million (2%)</p> <p>Feng Shaode (冯绍德)</p> <p>RMB 37.5 million (2.5%)</p> <p>He Congzhen (何丛珍)</p> <p>RMB 37.5 million (2.5%)</p> <p>Sun Yuanlin (孙元磷)</p> <p>RMB 75 million (5%)</p> <p>Chen Shangsong (陈上松)</p> <p>RMB 60 million (4%)</p> <p>Zhang Jimin (张积敏)</p> <p>RMB 120 million (8%)</p> <p>Xiang Binghe (项炳和)</p> <p>RMB 15 million (1%)</p> <p>Shanghai Dingxin Investment Co Ltd (上海鼎信投资有限公司)</p> <p>RMB 295.5 million (19.7%)</p> <p>Zhejiang Tsingshan Enterprise Management Co Ltd (浙江青山企业管理有限公司)</p> <p>RMB 202.5 million (13.5%)</p> <p>Xiang Guangtong (项光通)</p> <p>RMB 120 million (8%)</p> <p>Xiang Guangda (项光达)</p> <p>RMB 334.5 million (22.3%)</p>
28 May 2014	<p>Xu Yonghe (许永鹤)</p> <p>RMB 22.5 million (1.5%)</p> <p>Zhang Jilun (张积伦)</p> <p>RMB 30 million (2%)</p> <p>Xiang Bingxue (项秉雪)</p> <p>RMB 60 million (4%)</p> <p>Jiang Haihong (姜海洪)</p>	<p>Xu Yonghe (许永鹤)</p> <p>RMB 27 million (1.5%)</p> <p>Zhang Jilun (张积伦)</p> <p>RMB 36 million (2%)</p> <p>Xiang Bingxue (项秉雪)</p> <p>RMB 72 million (4%)</p> <p>Jiang Haihong (姜海洪)</p>

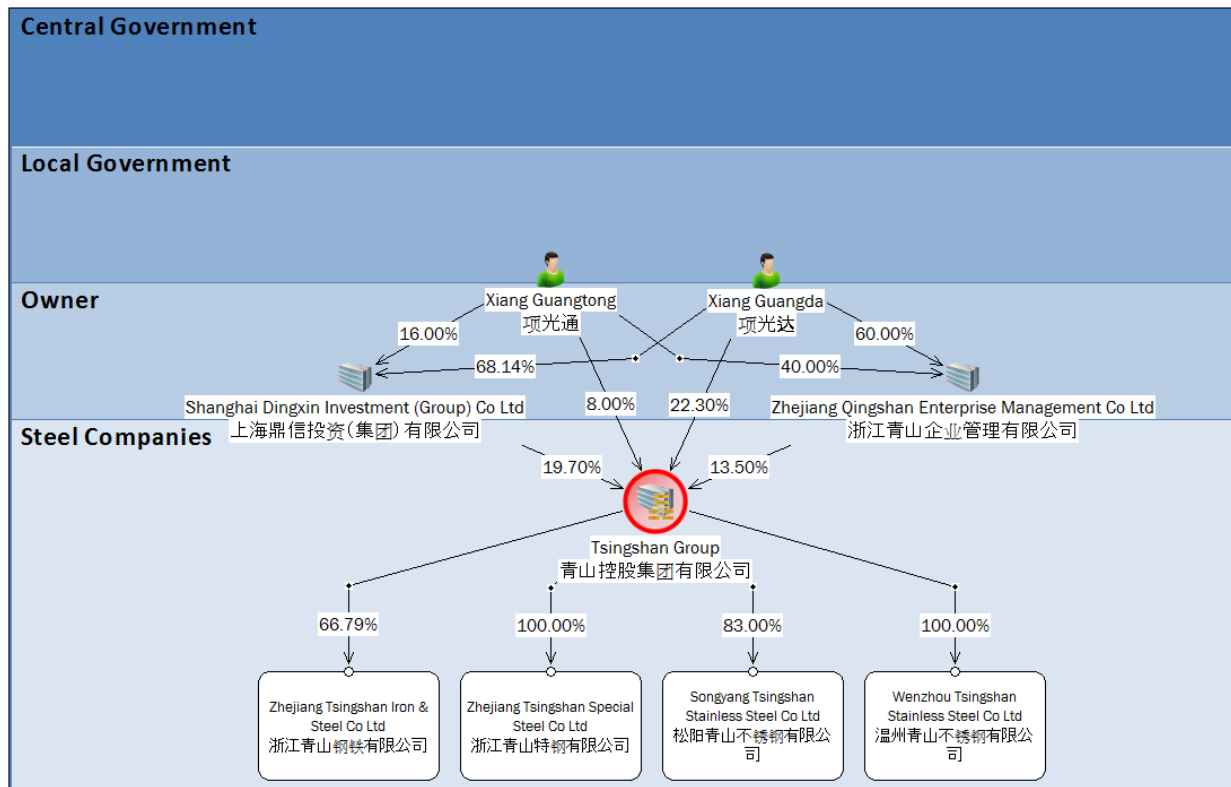


	<p>RMB 60 million (4%) Xiang Haiyan (项海燕) RMB 30 million (2%) Feng Shaode (冯绍德) RMB 37.5 million (2.5%) He Congzhen (何丛珍) RMB 37.5 million (2.5%) Sun Yuanlin (孙元磷) RMB 75 million (5%) Chen Shangsong (陈上松) RMB 60 million (4%) Zhang Jimin (张积敏) RMB 120 million (8%) Xiang Binghe (项炳和) RMB 15 million (1%) Shanghai Dingxin Investment Co Ltd (上海鼎信投资有限公司) RMB 295.5 million (19.7%) Zhejiang Tsingshan Enterprise Management Co Ltd (浙江青山企业管理有限公司) RMB 202.5 million (13.5%) Xiang Guangtong (项光通) RMB 120 million (8%) Xiang Guangda (项光达) RMB 334.5 million (22.3%)</p>	<p>RMB 72 million (4%) Xiang Haiyan (项海燕) RMB 36 million (2%) Feng Shaode (冯绍德) RMB 45 million (2.5%) He Congzhen (何丛珍) RMB 45 million (2.5%) Sun Yuanlin (孙元磷) RMB 90 million (5%) Chen Shangsong (陈上松) RMB 72 million (4%) Zhang Jimin (张积敏) RMB 144 million (8%) Xiang Binghe (项炳和) RMB 18 million (1%) Shanghai Dingxin Investment Co Ltd (上海鼎信投资有限公司) RMB 354.6 million (19.7%) Zhejiang Tsingshan Enterprise Management Co Ltd (浙江青山企业管理有限公司) RMB 243 million (13.5%) Xiang Guangtong (项光通) RMB 144 million (8%) Xiang Guangda (项光达) RMB 401.4 million (22.3%)</p>
11 Jun 2014	<p>Xu Yonghe (许永鹤) RMB 27 million (1.5%) Zhang Jilun (张积伦) RMB 36 million (2%) Xiang Bingxue (项秉雪) RMB 72 million (4%) Jiang Haihong (姜海洪) RMB 72 million (4%) Xiang Haiyan (项海燕) RMB 36 million (2%) Feng Shaode (冯绍德) RMB 45 million (2.5%) He Congzhen (何丛珍) RMB 45 million (2.5%) Sun Yuanlin (孙元磷) RMB 90 million (5%) Chen Shangsong (陈上松) RMB 72 million (4%) Zhang Jimin (张积敏) RMB 144 million (8%) Xiang Binghe (项炳和) RMB 18 million (1%)</p>	<p>Xu Yonghe (许永鹤) RMB 30 million (1.5%) Zhang Jilun (张积伦) RMB 34 million (2%) Xiang Bingxue (项秉雪) RMB 80 million (4%) Jiang Haihong (姜海洪) RMB 80 million (4%) Xiang Haiyan (项海燕) RMB 40 million (2%) Feng Shaode (冯绍德) RMB 50 million (2.5%) He Congzhen (何丛珍) RMB 50 million (2.5%) Sun Yuanlin (孙元磷) RMB 100 million (5%) Chen Shangsong (陈上松) RMB 80 million (4%) Zhang Jimin (张积敏) RMB 160 million (8%) Xiang Binghe (项炳和) RMB 20 million (1%)</p>

	<p>Shanghai Dingxin Investment Co Ltd (上海鼎信投资有限公司) RMB 354.6 million (19.7%)</p> <p>Zhejiang Tsingshan Enterprise Management Co Ltd (浙江青山企业管理有限公司) RMB 243 million (13.5%)</p> <p>Xiang Guangtong (项光通) RMB 144 million (8%)</p> <p>Xiang Guangda (项光达) RMB 401.4 million (22.3%)</p>	<p>Shanghai Dingxin Investment Co Ltd (上海鼎信投资有限公司) RMB 394 million (19.7%)</p> <p>Zhejiang Tsingshan Enterprise Management Co Ltd (浙江青山企业管理有限公司) RMB 270 million (13.5%)</p> <p>Xiang Guangtong (项光通) RMB 160 million (8%)</p> <p>Xiang Guangda (项光达) RMB 446 million (22.3%)</p>
15 Apr 2015	<p>Xu Yonghe (许永鹤) RMB 30 million (1.5%)</p> <p>Zhang Jilun (张积伦) RMB 34 million (2%)</p> <p>Xiang Bingxue (项秉雪) RMB 80 million (4%)</p> <p>Jiang Haihong (姜海洪) RMB 80 million (4%)</p> <p>Xiang Haiyan (项海燕) RMB 40 million (2%)</p> <p>Feng Shaode (冯绍德) RMB 50 million (2.5%)</p> <p>He Congzhen (何丛珍) RMB 50 million (2.5%)</p> <p>Sun Yuanlin (孙元磷) RMB 100 million (5%)</p> <p>Chen Shangsong (陈上松) RMB 80 million (4%)</p> <p>Zhang Jimin (张积敏) RMB 160 million (8%)</p> <p>Xiang Binghe (项炳和) RMB 20 million (1%)</p> <p>Shanghai Dingxin Investment Co Ltd (上海鼎信投资有限公司) RMB 394 million (19.7%)</p> <p>Zhejiang Tsingshan Enterprise Management Co Ltd (浙江青山企业管理有限公司) RMB 270 million (13.5%)</p> <p>Xiang Guangtong (项光通) RMB 160 million (8%)</p> <p>Xiang Guangda (项光达) RMB 446 million (22.3%)</p>	<p>Xu Yonghe (许永鹤) RMB 33 million (1.5%)</p> <p>Zhang Jilun (张积伦) RMB 44 million (2%)</p> <p>Xiang Bingxue (项秉雪) RMB 88 million (4%)</p> <p>Jiang Haihong (姜海洪) RMB 88 million (4%)</p> <p>Xiang Haiyan (项海燕) RMB 44 million (2%)</p> <p>Feng Shaode (冯绍德) RMB 55 million (2.5%)</p> <p>He Congzhen (何丛珍) RMB 55 million (2.5%)</p> <p>Sun Yuanlin (孙元磷) RMB 11 million (0.5%)</p> <p>Chen Shangsong (陈上松) RMB 88 million (4%)</p> <p>Zhang Jimin (张积敏) RMB 176 million (8%)</p> <p>Xiang Binghe (项炳和) RMB 22 million (1%)</p> <p>Shanghai Dingxin Investment Co Ltd (上海鼎信投资有限公司) RMB 433.4 million (19.7%)</p> <p>Zhejiang Tsingshan Enterprise Management Co Ltd (浙江青山企业管理有限公司) RMB 297 million (13.5%)</p> <p>Xiang Guangtong (项光通) RMB 176 million (8%)</p> <p>Xiang Guangda (项光达) RMB 490.6 million (22.3%)</p>

## 24.2. Organization / Ownership Chart

Further to review and analysis of available public records, a chart was prepared depicting both the ownership and organization of Tsingshan Group, highlighting proportion of state control.



In addition to the four steel production subsidiaries captured in the chart above, a focused review of the official website of Tsingshan Group identified approximately 27 further group subsidiaries involved in other industry areas such as mining, technology development, resources development and logistics, metal materials, and shipping.<sup>279</sup>

Further investigative research and analysis found that:

- No direct government ties have been identified in relation to Tsingshan Group or its two company shareholders, Shanghai Dingxin Investment Co Ltd and Zhejiang Qingshan Enterprise Management Co Ltd.
- According to corporate records, Xiang Guangda (项光达) is the majority shareholder of Tsingshan Group and the majority shareholder of its two parent companies, Shanghai Dingxin Investment Co Ltd and Zhejiang Qingshan Enterprise Management Co Ltd. Investigative research found that Xiang Guangda is identified as the founder and Chairman of the Board of Tsing Shang Group and was named as one of the Top Ten Philanthropists in Wenzhou.<sup>280</sup> No confirmed government ties were found in relation to Xiang through public domain research.

### 24.3. State Ownership of Facilities or Assets

Focused high level research was conducted into Tsingshan Group and its major subsidiaries, mainly through their corporate websites, to identify major facilities / assets. These are listed below, along with the percentage of state ownership, as it relates to the specific company:

<sup>279</sup> [http://www.tssgroup.com.cn/yl\\_v.aspx](http://www.tssgroup.com.cn/yl_v.aspx)

<sup>280</sup> <http://www.lwnews.net/system/2015/03/03/011925892.shtml>

Company Name	Asset / Facility	Percentage Owned by the State
Zhejiang Tsingshan Iron & Steel Co Ltd (浙江青山钢铁有限公司)	Steel Smelting Plant of Zhejiang Tsingshan Iron & Steel(浙江青山钢铁炼钢厂) <sup>281</sup>	None

25.

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<sup>281</sup> <http://www.gtzc.net.cn/news/201410/info1414031848.html>

## 26. YONGXING SPECIAL STEEL

Comprehensive research was conducted to obtain details of the state ownership of this Steel Producer, as detailed below. This information is largely obtained from the SAIC records retrieved for Yongxing Special Steel, except where supplementary research and public records are indicated.

### 26.1. Overview of Corporate Development

Relevant public records were retrieved that identify ownership of Yongxing Special Steel, but we did not locate any records in relation to historical changes of ownership over the past 10 years. Further online research located a record of ownership changes in the 2015 IPO Prospectus of Yongxing Special Steel<sup>282</sup>, below is a chronological overview of the changing ownership of the Steel Producer.

- Sep 2000: Transfer of ownership from Jiuli Group Co Ltd (久立集团股份有限公司) (88.68%) and Huzhou Financial Development Company (湖州财政开发公司) (11.32%) to Jiuli Industry Co Ltd (久立实业有限公司) (95%), Jiuli Group Co Ltd (4.43%), and Huzhou Financial Development Company (0.57%).
- 22 Nov 2001: Transfer of ownership from Jiuli Industry Co Ltd (久立实业有限公司) (95%), Jiuli Group Co Ltd (4.43%), and Huzhou Financial Development Company (0.57%) to Jiuli Group Co Ltd (88.68%) and Huzhou Financial Development Company (11.32%).
- Dec 2002: Transfer of ownership from Jiuli Group Co Ltd (88.68%) and Huzhou Financial Development Company (0.57%) to Gao Xingjiang (高兴江) (55.68%), Zhou Guirong (周桂荣) (4.5%), Chen Peiliang (陈培良) (4%), Yang Hui (杨辉) (4%), Li Dechun (李德春) (3.5%), Qiu Jianrong (邱建荣) (3.5%), Gu Jianqiang (顾建强) (3.5%), Jiuli Group Co Ltd (10%), and Huzhou Financial Development Company (11.32%).
- 23 Mar 2006: Transfer of ownership from Gao Xingjiang (高兴江) (55.68%), Zhou Guirong (周桂荣) (4.5%), Chen Peiliang (陈培良) (4%), Yang Hui (杨辉) (4%), Li Dechun (李德春) (3.5%), Qiu Jianrong (邱建荣) (3.5%), Gu Jianqiang (顾建强) (3.5%), Jiuli Group Co Ltd (10%), and Huzhou Financial Development Company (11.32%) to Gao Xingjiang (高兴江) (56.65%), Zhou Guirong (周桂荣) (4.5%), Yang Hui (杨辉) (4%), Li Dechun (李德春) (3.5%), Qiu Jianrong (邱建荣) (3.5%), Gu Jianqiang (顾建强) (3.5%), Jiuli Group Co Ltd (10%), Huzhou Financial Development Company (11.32%), and Yao Zhanqin (姚占琴) (3.03%).
- Dec 2006: Transfer of ownership from Gao Xingjiang (高兴江) (56.65%), Zhou Guirong (周桂荣) (4.5%), Yang Hui (杨辉) (4%), Li Dechun (李德春) (3.5%), Qiu Jianrong (邱建荣) (3.5%), Gu Jianqiang (顾建强) (3.5%), Jiuli Group Co Ltd (10%), Huzhou Financial Development Company (11.32%), and Yao Zhanqin (姚占琴) (3.03%) to Gao Xingjiang (高兴江) (66.65%), Zhou Guirong (周桂荣) (4.5%), Yang Hui (杨辉) (4%), Li Dechun (李德春) (3.5%), Qiu Jianrong (邱建荣) (3.5%), Gu Jianqiang (顾建强) (3.5%), Huzhou Financial Development Company (11.32%), and Yao Zhanqin (姚占琴) (3.03%).
- Mar 2007: Transfer of ownership from Gao Xingjiang (高兴江) (66.65%), Zhou Guirong (周桂荣) (4.5%), Yang Hui (杨辉) (4%), Li Dechun (李德春) (3.5%), Qiu Jianrong (邱建荣) (3.5%), Gu Jianqiang (顾建强) (3.5%), Huzhou Financial Development Company (11.32%), and Yao Zhanqin (姚占琴) (3.03%) to Gao Xingjiang (高兴江) (77.97%), Zhou Guirong (周桂荣) (4.5%), Yang Hui (杨辉) (4%), Li Dechun (李德春) (3.5%), Qiu Jianrong (邱建荣) (3.5%), Gu Jianqiang (顾建强) (3.5%), and Yao Zhanqin (姚占琴) (3.03%).
- 28 Jun 2007: Transfer of ownership from Gao Xingjiang (高兴江) (77.97%), Zhou Guirong (周桂荣) (4.5%), Yang Hui (杨辉) (4%), Li Dechun (李德春) (3.5%), Qiu Jianrong (邱建荣) (3.5%), Gu Jianqiang (顾建强) (3.5%), and Yao Zhanqin (姚占琴) (3.03%) to Gao Xingjiang (高兴江) (68.45%), Zhou Guirong (周桂荣) (4.5%), Yang Hui (杨辉) (4%), Li Dechun (李德春) (2%), Qiu Jianrong (邱建荣) (3.5%), Gu Jianqiang (顾

<sup>282</sup> <http://www.cninfo.com.cn/finalpage/2015-05-04/1200958277.PDF>

建强) (3.5%), Yao Zhanqin (姚占琴) (3.03%), Yang Jinmao (杨金毛) (5.82%), Fang Jianping (方建平) (3%), Wang Guangyu (王广宇) (0.7%), and Gu Jiping (顾寄平) (1.5%).

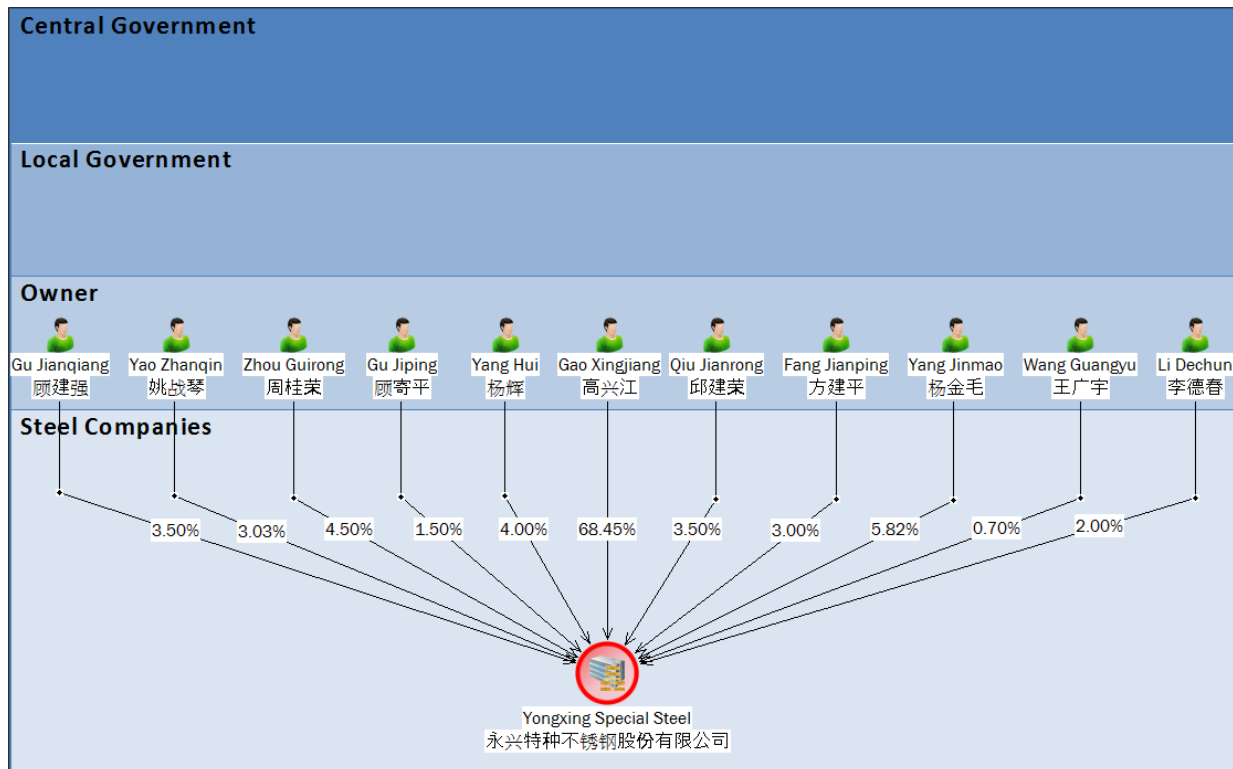
However, there were two additional changes in the IPO Prospectus of Yongxing Special Steel that appear to be inconsistent with the current ownership information presented in the corporate record from the local AIC:

- 24 May 2010: Transfer of ownership from Wang Guangyu (王广宇) (0.7%) to Huijin Lifang (汇金立方) (0.7%).
- 3 November 2014: Transfer of ownership from Huijin Lifang (汇金立方) (0.7%) to Gao Xingjiang (高兴江) (0.7%).

These two changes would indicate that Wang Guangyu should no longer be one of the shareholders of Yongxing Special Steel and that Gao Xingjiang should currently have a shareholding of 69.15%.

## 26.2. Organization / Ownership Chart

Further to review and analysis of available public records, a chart was prepared depicting both the ownership and organization of Yongxing Special Steel, highlighting proportion of state control.



A focused review of the official website of Yongxing Special Steel identified two subsidiaries involved in the import and export industry, and metal regeneration industry.<sup>283</sup> However, we did not identify any steel production subsidiaries of Yongxing Special Steel.

Further investigative research and analysis found that:

<sup>283</sup> [http://www.yongxingbxg.com/comcontent\\_detail/&i=11&comContentId=11.html](http://www.yongxingbxg.com/comcontent_detail/&i=11&comContentId=11.html)

- According to corporate records, Gao Xingjiang is the majority shareholder and legal representative of Yongxing Special Steel. Investigative research found that Gao Xingjiang was born in November 1963 and served in the PLA Navy from 1981 to 1987, then became an employee of Jiuli Group where he spent 12 years in various roles. In 2000, he was named the Chairman and General Manager of Jiuli Special Steel (the predecessor of Yongxing Special Steel); in 2007, he was named the Chairman and General Manager of Yongxing Special Steel. In addition to positions he held in Yongxing Special Steel and its affiliated companies, Gao Xingjiang had also been the Chairman and Executive Director of Huzhou Wanjia Real Estate Development Co Ltd (湖州万佳房地产开发有限公司) from 2005 to 2012, and is currently an 80% shareholder of this company. Gao Xingjiang is a member of the Standing Committee of Huzhou Municipal the 7<sup>th</sup> National People’s Congress.<sup>284</sup>

### 26.3. State Ownership of Facilities or Assets

Focused high level research was conducted into Yongxing Special Steel and its major subsidiaries, mainly through their corporate websites, to identify major facilities / assets. These are listed below, along with the percentage of state ownership, as it relates to the specific company:

Company Name	Asset / Facility	Percentage Owned by the State
Yongxing Special Steel	<ul style="list-style-type: none"> <li>• Steel Smelting Mill (炼钢厂)<sup>285</sup></li> <li>• Rolling Mill (连轧厂)<sup>286</sup></li> </ul>	0%

<sup>284</sup> <http://www.cninfo.com.cn/finalpage/2015-05-04/1200958277.PDF>

<sup>285</sup> <http://www.baike.com/wiki/%E6%B0%B8%E5%85%B4%E7%89%B9%E7%A7%8D%E4%B8%8D%E9%94%88%E9%92%A2%E8%82%A1%E4%BB%BD%E6%9C%89%E9%99%90%E5%85%AC%E5%8F%B8>

<sup>286</sup> Ibid

## 27. TPCO

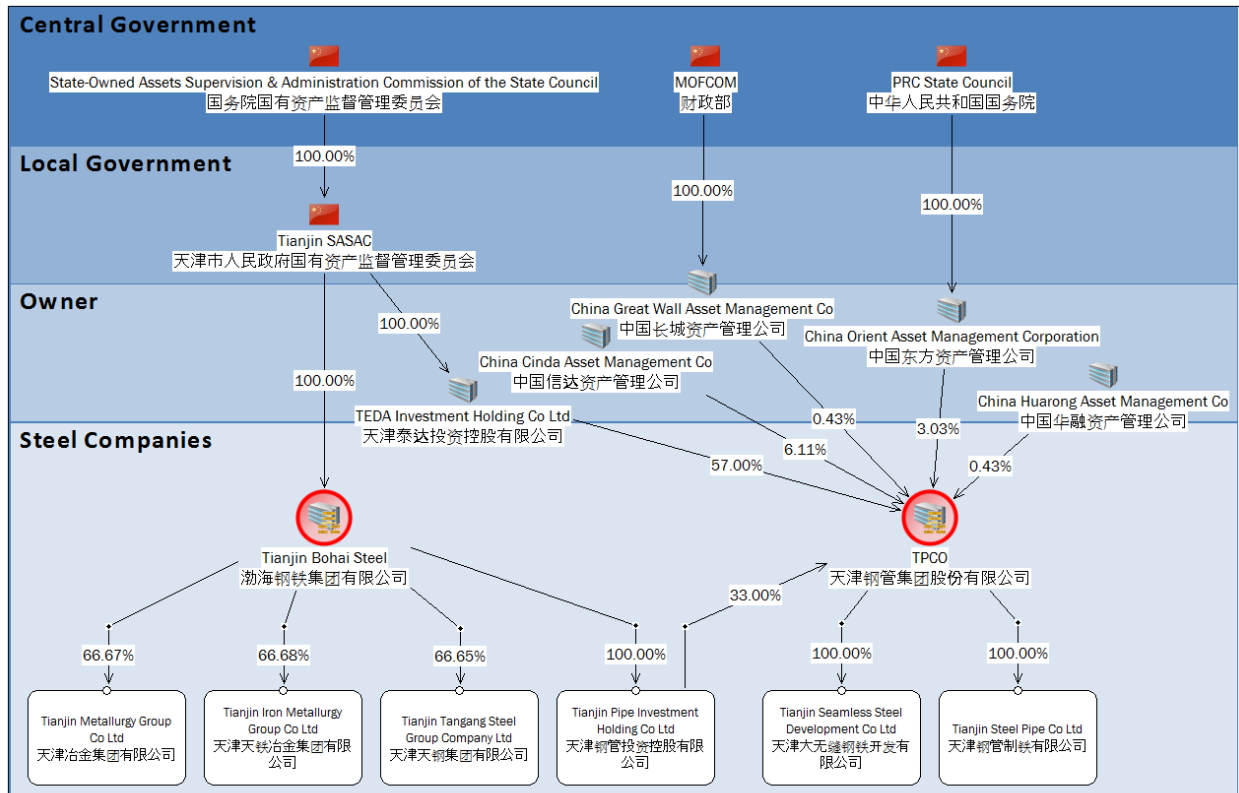
Comprehensive research was conducted to obtain details of the state ownership of this Steel Producer, as detailed below. This information is largely obtained from the SAIC records retrieved for TPCO, except where supplementary research and public records are indicated.

### 27.1. Overview of Corporate Development

Relevant public records were retrieved that identify ownership of TPCO over the past 10 years. A review of the company's 2014 annual return found that, in December 2007, Bohai Industry Investment Fund Management Co Ltd (渤海产业投资基金管理有限公司) transferred 300 million shares to Tianjin Pipe Investment Holding Co Ltd (天津钢管投资控股有限公司).<sup>287</sup> The company has been 57% owned by TEDA Investment Holding Co Ltd (天津泰达投资控股有限公司) since incorporation on 12 November 1993.

### 27.2. Organization / Ownership Chart

Further to review and analysis of available public records, a chart was prepared depicting both the ownership and organization of TPCO, highlighting proportion of state control.



In addition to the two steel production subsidiaries captured in the chart above, a focused review of available public records identified a further 13 subsidiaries involved in materials production, logistics, steel processing, engineering technology, financial investment. There are an additional six subsidiaries registered overseas involved in manufacturing, sales, and trading.<sup>288</sup>

<sup>287</sup> <http://www.chinamoney.com.cn/fe/Info/11374232>

<sup>288</sup> Ibid



## 27.3. State Ownership of Facilities or Assets

Focused high level research was conducted into TPCO and its major subsidiaries, mainly through their corporate websites, to identify major facilities / assets. These are listed below, along with the percentage of state ownership, as it relates to the specific company:

Company Name	Asset / Facility	Percentage Owned by the State
TPCO	<ul style="list-style-type: none"> <li data-bbox="612 409 994 555">• Tianjin Pipe (Group) Corporation No. 1 Steel-making Plant (天津钢管集团股份有限公司第一炼钢厂)<sup>289</sup></li> <li data-bbox="612 566 994 712">• Tianjin Pipe (Group) Corporation No. 2 Steel-making Plant (天津钢管集团股份有限公司第二炼钢厂)<sup>290</sup></li> <li data-bbox="612 723 994 869">• Tianjin Pipe (Group) Corporation 168 Pipe Plant (天津钢管集团股份有限公司 168 钢管厂)<sup>291</sup></li> <li data-bbox="612 880 994 1025">• Tianjin Pipe (Group) Corporation 460 Pipe Plant (天津钢管集团股份有限公司 460 钢管厂)<sup>292</sup></li> </ul>	93.46%

<sup>289</sup> <http://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=11&cad=rja&uact=8&ved=0CB0QFjAAOApqFQoTCLsJulv00scCFcOigAoduVsKnA&url=http%3A%2F%2Fwww.chinabond.com.cn%2FInfo%2F3849158&ei=9ejjVtUJsPFggS5t6ngCQ&usg=AFQjCNGbS5qdzwiOFIXh2p7qHGTJaZReNw&sig2=zirJe-BcOeUTXDJGbf9DUg>

<sup>290</sup> Ibid

<sup>291</sup> Ibid

<sup>292</sup> Ibid

# **Report on Market Research into the Peoples Republic of China Steel Industry Part 3**



**Final Report  
30 June 2016**

**Prepared by the Steel Industry Coalition:  
American Iron & Steel Institute (AISI)  
Steel Manufacturers Association (SMA)  
Specialty Steel Industry of North America (SSINA)  
The Committee on Pipe and Tube Imports (CPTI)  
American Institute of Steel Construction (AISC)**

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# 1. GLOSSARY

Abbreviation/Term	Full Name
<b>Main Subjects</b>	
Hebei Steel Group	Hebei Iron & Steel Group Co Ltd (河北钢铁集团有限公司)
Baosteel Group	Baosteel Group Corporation (宝钢集团有限公司)
Shagang Group	Jiangsu Shagang Group Co Ltd (江苏沙钢集团有限公司)
Ansteel Group	Ansteel Group Corporation (鞍钢集团公司)
WISCO	Wuhan Iron and Steel (Group) Corporation (武汉钢铁(集团)公司)
Shougang Group	Shougang Corporation (首钢总公司)
Shandong Steel Group	Shandong Iron & Steel Group Co Ltd (山东钢铁集团有限公司)
Magang Group	Magang (Group) Holding Co Ltd (马钢(集团)控股有限公司)
Tianjin Bohai Steel	Bohai Steel Group Co Ltd (渤海钢铁集团有限公司)
Benxi Steel	Benxi Steel Group Corporation (本溪钢铁(集团)有限责任公司)
Valin Steel Group	Valin Iron & Steel Group Co Ltd (湖南华菱钢铁集团有限责任公司)
Jianlong Steel Group	Beijing Jianlong Heavy Industry Group Co (北京建龙重工集团有限公司)
Fangda Steel	Fangda Special Steel Technology Co Ltd (江西方大钢铁集团有限公司)
Rizhao Steel	Rizhao Steel Holding Group Co Ltd (日照钢铁控股集团有限公司)
Anyang Steel	Anyang Iron & Steel Group Co Ltd (安阳钢铁集团有限责任公司)
Taiyuan Steel	Taiyuan Iron & Steel (Group) Co Ltd (太原钢铁(集团)有限公司)
Baotou Steel	Baotou Iron & Steel (Group) Co Ltd (包头钢铁(集团)有限责任公司)
Hebei Jingye Group	Hebei Jingye Group (河北敬业集团有限责任公司)
Jiuquan Steel	Jiuquan Iron & Steel (Group) Co Ltd (酒泉钢铁(集团)有限责任公司)
Zongheng Steel	Zongheng Iron & Steel Group Co Ltd (河北纵横钢铁集团有限公司)
Dongbei Group	Dongbei Special Steel Group Co Ltd (东北特殊钢集团有限责任公司)
Tsingshan Group	Tsingshan Holding Group (青山控股集团有限公司)
Yongxing Special Steel	Yongxing Special Stainless Steel Co Ltd (永兴特种不锈钢股份有限公司)
TPCO	Tianjin Pipe (Group) Corporation (天津钢管集团股份有限公司)

<b>Sources</b>	
Source A	Official from SASAC
Source B	Official from SASAC
Source C	Senior figure from subject company
Source D	Journalist
Source E	Retired official
Source F	Senior engineer from subject company
Source G	Official from DRC
Source H	Senior figure from subject company
Source I	Official from CPC
Source J	Retired senior figure from subject company
Source K	Retired official
Source L	Analyst
Source M	Senior figure from subject company
Source N	Senior figure from subject company
Source O	Senior figure from subject company
Source P	Retired official from DRC
Source Q	Senior figure from subject company
Source R	Senior figure from subject company
Source S	Senior figure from subject company
Source T	Employee from subject company
Source U	Official from SASAC
Source V	Official from CISA
Source W	Former subject company employee
Source X	Former senior figure from subject company
Source Y	Current senior figure from subject company

Source Z	Official from Inner Mongolia
Source AA	Professor from think tank
Source AB	Retired official from DRC
<b>Other Entities / Organizations Referenced in the Report (listed alphabetically, by abbreviation)</b>	
CCDI	Central Commission for Discipline Inspection (中纪委)
CNPC	China National Petroleum Corporation
CPC	Chinese Communist Party
DRC	Development Research Center of the State Council (国务院发展研究中心)
MIIT	Ministry of Industry and Information Technology (工业和信息化部)
NDRC	National Development and Reform Commission (国家发改委)
SASAC	State-Owned Assets Supervision & Administration Commission of the State Council (国务院国有资产监督管理委员会)
SEEIQB	Shanghai Entry-Exit Inspection and Quarantine Bureau (上海出入境检验检疫局)
SMDRC	Shanghai Municipal Development & Reform Commission (上海市发展和改革委员会)
<b>Commonly Used Terms</b>	
RMB	Chinese Renminbi

## 2. EXECUTIVE SUMMARY

Comprehensive research was conducted to obtain available information and intelligence regarding the Chinese steel industry, in this part specifically focused on state involvement in management of the steel industry. This is a summary of key findings.

### **General Commentary re State Involvement**

- **Officials in management positions:** Central SOEs are essentially at the same level as a Ministry; the President, Party Secretary and General Manager are ranked at the same level as a Vice Minister, and senior government officials and top management figures in a Central SOE are transferrable. It is relatively common for senior officials to be assigned to manage Central SOEs. In local SOEs, senior managers are at the same level as a local government ministry or department official; transfers happen often between government officials and the board member or top management of the steel companies. In contrast, government officials are not allowed and seldom involved in the operation and management of private steel companies.
- **Activities of officials in management positions:** Political figures pay close attention to the operation of steel companies with which they are associated, since SOE performance is used as an index to judge their performance. These officials often used political means to support the development of steel SOEs, including promoting the approval of big projects, facilitating bank loans, and helping the company to secure orders for example. Individual officials are not, however, normally directly involved in the operational or strategic planning of steel SOEs. They have no power to directly affect operations unless through some kind of collusive relationships with the senior management of the company.
- **Impact / Influence of government on steel entities operations:** For Central SOEs, the state exerts its influence on operations mainly through industry policies and regulations, giving direct guidance only in emergency situations. Some sources commented that political influence on the operations of SOEs has decreased, and this may continue with the further advancement of SOE reform. For local SOEs, local governments pay close attention to their development and operations, but do not directly mandate day-to-day activities. This support includes provision of subsidies to promote the growth and development of the steel companies, given that local government targets are often tied to local steel SOEs' performance. While the central government has set out policies to tackle two major industry issues, namely reducing overcapacity and implementing measures to reduce pollution, local officials often resist this guidance.

### **Five Selected Steel Producers**

- **Baosteel Group:** Many senior management positions of this Central SOE are held by political figures. For example, the General Manager, Chen Derong, was formerly the deputy governor of Zhejiang province. It is reported that his appointment in August 2014 had political motivations; while Baosteel Group would benefit from Chen's official connections as well as his previous experience, Chen was also expected to help promote Zhejiang Provincial Government's strategic plan for the local steel industry. In addition, SASAC provided goals to Baosteel Group in April 2015, thereby influencing the company to meet certain political objectives including SOE reform, reduced overcapacity, and improved sustainability and competitiveness. Several sources commented that the strategy and development direction of Baosteel Group have been set and facilitated by state authorities, and that its operations are monitored closely.
- **Baotou Steel:** Some senior management positions at this Local SOE are held by political figures. For example the chairman Zhou Bingli is also a Deputy to the National People's Congress, and Xin Shangkui is currently

both Chairman of Supervisor Committee of Baotou Steel and Deputy Inspector of Inner Mongolia SASAC. These two men have attended several recent Baotou Steel meetings focused on high level strategic planning of the company. Zhou Bingli was reportedly appointed to replace a former Chairman who did not want to conduct the capacity expansion plan favored by the municipal government. The steel industry is important to sustain smooth economic growth in the area, and the municipal government reportedly blocked a potential acquisition of Baotou Steel by Baosteel Group because the latter would not expand capacity. However, there are also allegations that local government officials and internal staff may have personally benefitted from some expansion projects.

- **Ansteel Group:** Many senior management positions of this Central SOE are held by political figures. Zhang Guangning was a Party Secretary of Guangzhou city before being assigned to be the President and Party Secretary of Ansteel Group. This appointment was said to be a demotion, after he was alleged to be engaged in corruption during the preparation of the 2010 Asian Games hosted in Guangzhou. In September 2013, SASAC appointed a new director Xu Dunwu to provide more support to Zhang in the restructuring of Ansteel Group. Government officials are reported to participate in the company's board meetings. As an important SOE, SASAC and State Council assert their influence on Ansteel Group through regulations and different policies; its development plan is outlined by government bodies, which also have to approve any important decision. The State Council supported the integration of Ansteel Group and Panzhihua Steel in 2010, but the authorities were not prepared to be too involved in the management of its subsequent financial problems.
- **Hebei Steel Group:** Some senior management positions of this Local SOE are held by political figures. Executives of Hebei Steel Group are appointed by Hebei SASAC, although it is reportedly rare for government officials to be transferred from a government department. In December 2013, the local authorities decided to remove the former chairman due to allegations of corruption, selecting a new head of the company. The provincial government was behind the establishment of Hebei Steel Group in order to combine resources and improve capabilities of local companies. It has also supported the company with securing credit lines, land and financial subsidies, technical upgrades and tax exemptions. However, neither Hebei SASAC nor Hebei Provincial Government are involved in the operations of Hebei Steel Group, but only provide guidance. The government is supportive of a plan to reduce overcapacity problems by exporting steel, facilitating a recent steel project in South Africa.
- **Rizhao Steel:** No senior management positions are held by political figures, as would be expected in a private steel company. However, we identified several executives of Rizhao Steel previously holding positions in SOEs or banks, which are controlled by the state or local government. Despite being a private company, Rizhao Steel was initially forced to comply with a 2009 steel industry strategy set out by the Shandong Provincial Government, to combine 70% its production capacity with Shandong Steel within five years. However, a 2013 report indicated that this restructuring deal did not materialize. Though private, Rizhao Steel received government support at its incorporation and development; the Chairman, Du Shuanghua, is said to be adept at handling political relationships with some excellent connections and the company's success appears closely linked to local government support.



## 3. OVERVIEW OF STATE INVOLVEMENT IN THE PRC STEEL INDUSTRY

Discreet interviews and supplementary research were conducted to obtain details of state involvement in management of the Chinese steel industry as detailed below.

### 3.1 Officials in Management Positions

#### **Typical Management Roles**

Research and inquiries were conducted to understand which management roles in PRC steel companies have a significant presence of political figures (including leading party members and other government officials).

#### Central SOEs

Comments were provided by Sources A, B and C in relation to the management roles of central-government owned steel companies (“Central SOEs”). These Central SOEs include Baosteel Group, Ansteel Group and WISCO, which were established under the guidance of the State Council, with SASAC having ultimate control.

The State Council and SASAC are involved in the development and management of the Central SOEs on a macro level rather than day-to-day operations. The sources pointed out that, administratively, the Central SOEs are essentially at the same level as a Ministry. Accordingly the President, Party Secretary and General Manager of a Central SOE are ranked at the same level as a Vice Minister, and the Deputy Party Secretary and Deputy General Manager are equal to a Department Head under a Ministry. With this ranking system, senior government officials and top management figures in a Central SOE could be transferred between different ministries and Central SOE.

Appointment of top management roles at a Central SOE are decided either by the Organization Department of the CPC Central Committee, which controls major staffing decisions in the CPC, or by SASAC. The State Council also provides opinions in selecting top management. In the case of Baosteel Group, Ansteel Group and WISCO, the top management is decided by the Organization Department of the CPC Central Committee. SASAC and the State Council could offer their recommendations; however, the Organization Department of the CPC Central Committee makes the final decision.

It is relatively common for senior officials to be assigned to manage Central SOEs; all senior roles are usually held by political figures. Typically, there are two circumstances in which a senior official is assigned to manage a Central SOE. One situation is the official having the qualifications and relevant industry background that suits the position. The other circumstance is the official encountering problems in his government role and being “demoted” to the SOE position.

According to Source V, the management figures of state-owned steel companies are appointed by the government, mainly by SASAC, as the government is the major shareholder. However, he further noted that government officials are not allowed to hold roles in steel companies simultaneously.

## Local SOEs

Local level SOEs include Hebei Steel Group, Shougang Group, Shandong Steel Group, Magang Group, Tianjin Bohai Steel, Benxi Steel, Valin Steel Group, Anyang Steel, Taiyuan Steel, Baotou Steel, Jiuquan Steel, Dongbei Group, and TPCO.

According to Sources H and J, local state-owned steel companies have been administered, supervised and supported by the local government and SASAC. Local government officials pay close attention to the operation of local steel companies, as the profit of state-owned steel companies is monitored as a local government performance benchmark. Moreover, these steel companies contribute substantially to local tax revenue and employment. Traditionally, the performance of local SOEs has been used as an index to judge the performance of local officials.

Similar to the administrative ranking with Central SOEs, senior managers at local steel SOEs are at the same level of a local government ministry or department official. The board members and top management of the local state-owned steel companies, though working in a business entity, are essentially treated as government officials, and they are supervised and appointed by the Organizational Department of the Standing Committee of the Provincial CPC, with suggestions and advice from the Standing Committee of the Provincial CPC, and the local SASAC branch, as well as board members and senior management of other steel SOEs.

The two sources further said that because the board members, party secretary, and top management personnel, such as general manager and first deputy general manager, of the local steel SOEs have official government titles, transfers happen often between government officials (often under local SASAC and DRC) and the board members or top management of steel SOEs. Officials that are transferred to the steel SOEs have often worked previously for other state-owned companies.

The President and the Party Secretary of steel SOEs is often the same person. Source B, Source E, and Source I said that normally, the board members, party secretary, general manager, first deputy general manager, and the chairman of the Supervision Committee of steel companies are given official titles. The appointment of those positions is approved at the internal meeting of the Standing Committee of Provincial CPC, and announced by its organization department. The local SASAC would make suggestions about the candidates before an appointment is made.

The same three sources in addition to Source J commented that changes of board members, party secretary, general manager, first deputy general manager and the chairman of the Supervision Committee occur regularly. Decisions are driven by a number of factors, including planned promotions, sound business performance of an official, or corruption issues at the SOE. Close connections with top local government officials is a key element for a potential candidate who aims to join the top management team at a steel SOE.

## Private Companies

Private steel companies include Shagang Group, Jianlong Steel Group, Fangda Steel, Rizhao Steel, Hebei Jinge Group, Zongheng Steel, Tsingshan Group, and Yongxing Special Steel.

Sources interviewed, including Source A and Source B, pointed out that government officials are not allowed and seldom involved in the operation and management of private steel companies. If any official becomes personally involved in the operation of private steel companies, it has been mainly for personal benefit or agenda. Private steel companies that obtain business success through support from a government official would often suffer a downturn in business soon after this official loses his or her power in the government.

The hiring of top management at private steel companies is usually not politically driven. Typically top management roles come from the following:

- Recruitment of senior managers from SOEs, usually including more technical candidates such as Chief Engineer;
- Hiring retired senior managers officially working at SOEs;
- Promotion from within; and
- Internal referral.

### **Examples of Political Figures' Roles**

Research and inquiries were conducted to obtain examples of the roles held by political figures in major PRC steel companies, including their names, positions, how and why they were instated, in reference to the selected Steel Producers.

#### Example 1 – Chen Derong – General Manager of Baosteel Group, a Central SOE

According to Sources A and D, Chen Derong (陈德荣) (“Chen”), who was appointed General Manager of Baosteel Group in August 2014, was the Party Secretary of Wenzhou and the deputy governor of Zhejiang province. Prior to his tenure with the government, Chen worked at Hangzhou Steel Group for a long period of time in a variety of different positions.<sup>1</sup> It is generally believed that Chen was transferred to this position because he stood out among all the candidates due to his tremendous experience in the steel industry and proven ability at dealing with different government bodies. Source D added that he had heard Chen is very close to Xi Jinping, and hence was assigned to this position at Baosteel Group.

Typically, Central SOEs are comfortable with this type of appointment because the former senior officials normally have very strong connections at the Ministry level. This in turn is governed by the State Council under the Chinese Government hierarchy, and could facilitate and obtain favorable treatment for the company.

Additional information about Chen is provided in Section 5 of this report.

#### Example 2 – Jin Wei – President and the Party Secretary of Shougang Group, a Central SOE

Source E advised that Jin Wei (靳伟) became the Party Secretary and the President of Shougang Group in December 2013, while the former President Wang Haiqing was transferred to be the deputy General Secretary of the standing committee of Beijing People’s Congress. Prior to this appointment, Jin Wei was the Director of Beijing Municipal Commission of Economy and Information Technology (北京市经济和信息化委员会). SASAC and Beijing high level officials expected Jin Wei to ensure stable business operations for the steel producer under the challenging market circumstances.

Source F commented that before Jin Wei’s started work at Beijing Municipal Commission of Economy and Information Technology in mid-2011, he had already worked at a number of positions in Shougang Group for more than 15 years. His appointment as the President and Party Secretary of Shougang Group was therefore not that surprising. The source further commented that Jin Wei might be the best and most suitable person for this position as he knows Shougang Group extremely well. Another important reason for this appointment was that Jin Wei had

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<sup>1</sup> <http://finance.sina.com.cn/chanjing/rsbd/20140801/232919891208.shtml>

developed solid relationships with some senior officials in Beijing; this should help to stabilize Shougang as Jin Wei may get support from the top more easily.

### Example 3 - Feng Jie – the former President of Jiuquan Steel Group, a local SOE

Feng Jie (冯杰) (“Feng”), the former President of Jiuquan Steel Group, was removed from this position in early May 2015 by the Organization Department of the Standing Committee of Gansu CPC due to his alleged involvement with corruption issues.<sup>2</sup>

Sources G and H commented that Feng worked between SOEs and various government bodies for many years, including roles at Jiuquan Steel Group, Gansu DRC, the Environment Protection Department of Gansu government and Baiyin Nonferrous Metals Group. He was appointed as the President and the deputy Party Secretary of Jiuquan Steel Group in mid-2011. However, in April 2015, Feng was detained and remains under investigation for bribery and embezzlement.

Both Sources H and I stated that Feng’s alleged corrupt activities had been reported by various people over the previous few years to the provincial branch of CCDI, but nothing had been done. The current investigation was directly guided by the central CCDI. (NB The central CCDI governs the local CCDI, though they can be viewed as one body but with different branches.) To date, the business operations of Jiuquan Steel Group have not been greatly affected, although several senior managers close to Feng are concerned that they will also be investigated.

Source I considered that Feng may have been promoted rapidly through roles in state owned companies and government bodies due to his close relationship with Lu Hao, the former Party Secretary of Gansu. He further opined that although many people reported Feng’s corrupt activities, no investigation was previously initiated because of this protection. Given the government led anti-corruption campaign in the past few years, Lu Hao went into retirement (with suggestions that he was forced to step down) and Feng can no longer enjoy any safety net; he became more susceptible to being investigated.

## 3.2 Activities of Officials in Steel Producers

### **Activities of Political Figures**

Research and inquiries were conducted to obtain details of the usual involvement of political figures in major PRC steel companies’ operations, including in relation to decision making, target setting, facilitating state support etc. as well as any other roles.

### Typical Roles of Officials in Steel SOEs

Sources B, D, E and H noted that because the performance of steel SOEs is used as an index to judge the performance of senior government officials, these political figures pay close attention to the operation of steel companies with which they are associated. The sources further commented that these officials often used political means to support the development of steel SOEs, including promoting the approval of big projects for the SOEs, facilitating bank loans, and helping the company secure orders for example. Individual officials do not, however, normally get directly involved in the operational or strategic planning (at the micro-level) of steel SOEs, and they have no power to directly affect the operations of steel SOEs unless through some kind of collusive, i.e. inappropriately close, relationships with the senior management of the company.

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<sup>2</sup> <http://news.qq.com/a/20150510/021197.htm>  
<http://politics.people.com.cn/n/2015/0507/c70731-26965388.html>

## Potential Collusive Activities

Sources J, K and L commented that because of the close connections between the board members and the senior management of the steel SOEs, some officials do affect the operations of steel SOEs adversely through colluding with these management personnel. This may include embezzlement of company funds or taking kickbacks from the companies that sold assets to steel SOE for example.

Sources E, K and M further noted that because the local SASAC and government decide on the appointment of the board members, the Party Secretary and the top management positions at steel SOEs, the board members / top management of these companies sometimes paid bribes to the top officials in SASAC and the organization department of the standing commission of the provincial CPC. They formed strong relationships based on mutual benefit. The officials could also affect the appointment of middle management of steel SOEs, for example helping their friends or relatives to get jobs in the companies.

## **Examples of Political Figures' Activities**

Research and inquiries were conducted to obtain examples or anecdotes relating to the activities of political figures.

### Example 1: Fangda Steel

Source D, Source L and Source H commented that the success of Fangda Steel was heavily influenced by the close relationship between Fang Wei, President of the Fangda Group, and two officials - Li Tian'ou (李天鸥), former director of Jiangxi SASAC, and Su Rong (苏荣), the former Party Secretary of Jiangxi.

Source D said that Fangda Steel acquired a number of steel and mining companies in Jiangxi province with the facilitation of Li Tian'ou and Su Rong. In return, Fang Wei paid generous bribes to Li Tian'ou and Su Rong. Negotiation on some of the acquisitions was quite one-sided. Owners of the acquired companies were told by local officials that the intended acquisitions by Fangda Steel and its parent Fangda group should be treated as a political mandate, as higher level political figures "supported" the deals and hence they must happen.

Source L noted that Fangda Steel soon reversed its loss-making position after the acquisition of several companies. With its strong political connections in Jiangxi, Fangda Group obtained several high quality assets at extremely low prices, which were then injected to Fangda Steel. Since Li Tian'ou and Su Rong were removed and detained for corruption charges,<sup>3</sup> Fangda Steel has faced various problems, including inability to obtain bank loans and failure in its business restructuring (which often involved acquiring additional assets).

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<sup>3</sup> <http://www.ibtimes.com/former-chinese-party-official-su-rong-face-prosecution-corruption-1817294>

## Example 2: Taiyuan Group

Source P and Source Q advised that Chen Chuanping (陈川平), the former President of Taiyuan Group and the former deputy governor of Shanxi province, was extremely close to Ling Zhengce (令政策). Ling and his siblings are the subject of current CCDI investigation for corruption. In addition his brother, former CCPCC deputy chairman Ling Jihua (令计划), was alleged of planning the murder of Xi Jinping.<sup>4</sup> Chen Chuanping's promotion benefitted from his close relationship with the Ling siblings, as they all originated from Pinglu county. When Ling Zhengce was the Director of Shanxi DRC, Chen Chuanping was the President of Taiyuan Group. During Chen's tenure, Taiyuan Group started a few large scale projects, and Ling Zhengce gave approval to these with limited review and inspection. He also used his influence to persuade the National DRC to approve these projects. It is generally believed that Chen Chuanping and Ling Zhengce embezzled a substantial amount of money from these few projects.

Source Q further said that after Chen Chuanping was promoted to Shanxi province governor, he still often visited Taiyuan Group to attend various events, and helped the company resolve various problems. He heard that Chen Chuanping had received a large amount of money from Taiyuan Group, which he gave to the Ling siblings.

## 3.3 Impact / Influence of Government on Steel Entities' Operations

### **State Control of the Steel Producers**

Research and inquiries were conducted to assess the extent to which the state directs, controls or influences major steel companies' operations.

### Central SOEs

Source A, Source B, and Source L commented that the state exerts its influence on the operations of Central SOEs mainly through industry policies and regulations, giving direct guidance only in emergency situations.

Source A further added that Chinese leaders follow the development and operations of Central SOEs closely, and almost all the leadership visited steel companies during their tenure. For example Hu Jintao visited Ansteel Group in late 2008, and Xi Jinping has visited many local steel SOEs since becoming president in 2012. Generally Chinese leaders are not involved directly in the operations of steel SOEs or in decision-making activities such as target setting and the appointment of senior managers; these tasks are executed by SASAC but through appointed officials.

The Chinese leaders influence the Central SOEs through various industry policies, according to comments by Sources J, K and L. For example, the State Council released new policies in 2014 to encourage restructuring and M&As in the steel industry. In addition, the State Council and the Environmental Bureau jointly released a policy several years ago pushing steel SOEs to comply with tighter environment protection standards, which forced them to upgrade their production facilities and equipment. It should be noted that while SASAC, the State Council, the NDRC and other bodies in central government jointly govern the Central SOEs on a macro level, individual senior officials usually do not have enough power to influence the operations or management of the Central SOEs directly.

Source J and Source N also commented that political influence on the operations of SOEs has decreased, and this may continue with the further advancement of SOE reform. They stated that SASAC and the State Council have been pushing the Central SOEs to establish their own company board (described in a section below), which has been regarded by the State Council to be a very important step in SOE reform. Furthermore, SASAC may further experiment

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<sup>4</sup> <http://www.scmp.com/topics/ling-jihua>

in allowing the boards of Central SOEs to hire senior management and establish metrics, instead of specifying their goals and targets.<sup>5</sup> It appears that the central government is starting to weaken its political influence over the management and operations of the Central SOEs.

Given that President Xi Jinping's anti-graft efforts remain an important area of focus in the PRC, government officials have launched investigation of a number of senior managers at Central SOE steel companies. In May 2015, CCDI opened an investigation on Baosteel Group Vice President Cui Jian for serious disciplinary violations.<sup>6</sup> More recently, in August 2015, CCDI opened an investigation into former Chairman of WISCO, Deng Qilin, for a similar offense. Deng has been serving as the secretary general of China Iron and Steel Association, a major industry organization in the steel industry. We note that WISCO's deputy general manager, Sun Wendong, is already under investigation for bribery since April 2015.<sup>7</sup> Since the anti-corruption crackdown seems to be ongoing, it is expected that more senior management in Central SOEs may become the subject of CCDI investigations.

### Local SOEs

Source B, Source K, Source E, Source H Source Q, and Source L stated that local governments pay close attention to the development and operations of steel SOEs, but do not direct the companies regarding their day-to-day activities. Instead, the local governments direct and influence the operations of the steel SOEs more from the angle of a strategic partner. For example, they may provide support including financial subsidies, tax deduction, bank loan facilitation, big order facilitation, injecting mineral resources or land assets to the companies, and helping the local steel SOEs secure approval for major projects from central government bodies. Source L further commented that under the current poor market conditions, government subsidies to steel SOEs are relatively important to their survival and development.

Source B and Source E noted that given the importance of the steel industry to the local economy, local governments sometimes list the business targets of steel SOEs as one of their objectives. As a result, all the local government bodies would give corresponding support or priority to the steel SOEs on various matters.

The central government sets out policies and targets to impact the behavior of local level steel SOEs. Two of the most urgent issues in the Chinese steel industry are reducing overcapacity and implementing measures to reduce pollution. In 2014, the Ministry of Industry and Information Technology set a goal to reduce steel output by 28.7 million tons. Since a significant amount of the overcapacity and source of pollution is in Hebei, the *Wall Street Journal* reported in July 2014 that the Hebei provincial government has followed guidelines from the central government and stepped up its effort to shutdown many local furnaces.<sup>8</sup> However, the policies are often not effective enough to change the behavior of the local level steel SOEs. Local officials often resist the central government guidance; since the shutdown slashes jobs and tax income, they do not enforce requirements for the local SOEs to curb production. In relation to the situation in Hebei, Chinese leaders are pushing local officials to make more effort to change the steel industry. The *Wall Street Journal* further reported that a Hebei Party Secretary was criticized in a Mao-era self-criticism session for not focusing on the "quality" of economic development. Whether the central government effort is effective remains to be seen.<sup>9</sup>

Source U stated that Jiangxi province only has three steel companies under its jurisdiction, including one SOE and two private steel companies. The source said that the government does not influence the actual operations of steel companies, but mainly provides guidance on their development. For example, Jiangxi province is expected to relocate most of the steel production plant to areas near the river. However, this does not mean that the government will force

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<sup>5</sup> <http://www.ft.com/intl/cms/s/0/07928638-0c24-11e4-a096-00144feabdc0.html#axzz3enc1TIWP>

<sup>6</sup> <http://www.reuters.com/article/2015/03/31/china-corruption-baoshan-steel-idUSL3NOWX2R020150331>

<sup>7</sup> <http://www.reuters.com/article/2015/08/30/us-china-corruption-wuhan-steel-idUSKCN0QZ06620150830>

<sup>8</sup> <http://www.wsj.com/articles/in-china-beijing-fights-losing-battle-to-rein-in-factory-production-1405477804>

<sup>9</sup> [http://news.xinhuanet.com/fortune/2014-10/15/c\\_127099623.htm](http://news.xinhuanet.com/fortune/2014-10/15/c_127099623.htm)



steel companies to close down their current manufacturing plant. The local governments mainly encourage the expansion of production capacity to be located in newly developed areas, and will try to persuade the steel companies to relocate by offering them new land plots.

Due to the depressed state of the market, outdated production capacity will have to be eliminated. Meanwhile, in order to maintain total capacity levels, steel companies will have to develop new steel products. As for bank loans, this source said that local governments will not be able to solve funding problems for steel companies. The local government only acts as a bridge between banks and steel companies, but is not directly involved in providing funds to steel companies. Due to the state restriction on the steel production capacity and difficulties in the steel market, local governments do not support banks in issuing loans to steel companies.

Source U said that senior executives (Vice General Manager and higher) of state-owned steel companies are assigned by SASAC, which typically is the only or major shareholder. Governments also control the assigning of middle management at steel companies. The source further commented that it is not possible that a government official holds government and management roles in steel companies simultaneously. It is also rare in recent years that a government official is transferred to management in local steel companies.

### Board Control

At the current time, SASAC influences local SOE steel companies through the appointment of members of the Board of Directors and Board of Supervisors. This also applies to central SOEs such as Baosteel Group.

### **Board of Directors**

The Shanghai government has established a number of protocols for selecting Board of Directors. According to the *Guideline for the Enterprise Board of Shanghai SOE (trial)* (上海市市管国有企业董事会建设指导意见 (试行)) issued by Organization Department of Shanghai Municipal CPC Committee and SASAC Shanghai Municipal Government division in 2009, a number of authorized government departments are involved in the election of the board of directors.

For wholly stated-owned enterprises, there are seven to eleven board directors, the majority of which are external directors.<sup>10</sup> Apart from directors also holding management roles, other directors are appointed by authorized investment organizations, such as the SASAC Shanghai Municipal Government division. In companies of which the state is a controlling shareholder, the other directors are recommended by shareholders and elected during shareholder meetings.<sup>11</sup>

In addition, SASAC Shanghai and Organization Department of Shanghai Municipal CPC Committee also issued a *Guideline for External Directors of Shanghai SOEs (trial)* (上海市市管国有企业外部董事管理办法 (试行)) in 2009. Authorized investment government organizations, such as Shanghai SASAC, are entitled to appoint external directors. They provide the numbers of external directors, as well as their requirements. The candidates are also qualified by the Shanghai SOE Directors & Supervisors Qualification Cognizance Committee (上海市管国有企业董事、监事专业资格认定委员会);

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<sup>10</sup> [https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=4&ved=0CDkQFjADahUKEwjS0tL9003GAhXlI2QKHb9wD-l&url=http%3A%2F%2Fwww.shgzw.gov.cn%2Fgb%2Fgzw%2Fxxgk%2Fgkml%2Fywgz%2Fnode194%2Fnode210%2Fuserobject1ai61073%2F00000000.doc&ei=APiuVdLSGsirOgS\\_4b2QDg&usg=AFQjCNFHM7hqrRfwl91eKOVt8s\\_ey3B\\_kQ](https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=4&ved=0CDkQFjADahUKEwjS0tL9003GAhXlI2QKHb9wD-l&url=http%3A%2F%2Fwww.shgzw.gov.cn%2Fgb%2Fgzw%2Fxxgk%2Fgkml%2Fywgz%2Fnode194%2Fnode210%2Fuserobject1ai61073%2F00000000.doc&ei=APiuVdLSGsirOgS_4b2QDg&usg=AFQjCNFHM7hqrRfwl91eKOVt8s_ey3B_kQ)

<sup>11</sup> [https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=4&ved=0CDkQFjADahUKEwjS0tL9003GAhXlI2QKHb9wD-l&url=http%3A%2F%2Fwww.shgzw.gov.cn%2Fgb%2Fgzw%2Fxxgk%2Fgkml%2Fywgz%2Fnode194%2Fnode210%2Fuserobject1ai61073%2F00000000.doc&ei=APiuVdLSGsirOgS\\_4b2QDg&usg=AFQjCNFHM7hqrRfwl91eKOVt8s\\_ey3B\\_kQ](https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=4&ved=0CDkQFjADahUKEwjS0tL9003GAhXlI2QKHb9wD-l&url=http%3A%2F%2Fwww.shgzw.gov.cn%2Fgb%2Fgzw%2Fxxgk%2Fgkml%2Fywgz%2Fnode194%2Fnode210%2Fuserobject1ai61073%2F00000000.doc&ei=APiuVdLSGsirOgS_4b2QDg&usg=AFQjCNFHM7hqrRfwl91eKOVt8s_ey3B_kQ)



The general selection process is detailed below:<sup>12</sup>

1. Authorized investment government organizations communicate with SOEs about the appointment of external directors, including the responsibility, rights, and obligations and so on;
2. Authorized investment government organizations communicate with the current companies or higher level supervision departments to conduct checks on the external director candidates;
3. Based on their evaluation, authorized investment government organizations make a decision about the external board of directors;
4. The appointment of external board directors is announced to certain people or organizations (confidential) for five working days. Prior to the announcement, external directors shall confirm that they have no connections that influence their duties at the SOE;
5. Authorized investment government organizations sign an offer for the external directors, with a specific appointment period; and
6. Authorized investment government organizations send official letters to SOEs to confirm the appointment or recommendations of external directors.

Although the process of selecting a board of directors is laid out, the SOE board does not have comprehensive rights and obligations, and is unable to represent the interests of authorized investment entities. The SOE board exists in name only, according to a cache from a special commentary report dated 26 June 2014 from *Economic Information Daily* (经济参考网).<sup>13</sup> Specifically, a board of directors is not granted with the authority over talent recruitment and compensation system for example. In addition, SASAC also issued several detailed guidelines on general company management policies, profit distribution, annual budget plan, and enterprise strategy planning and investment strategies. The board of directors therefore does not apply comprehensive board governance in SOEs.

The report author interviewed several industry insiders and government officials, including Peng Jianguo (彭建国), the Vice Director of the Research Center of SASAC and Zhu Boshan (祝波善), and the General Manager of Shanghai Tianqiang Corporate Management Consulting Co Ltd (上海天强企业咨询公司). Peng said that “*the policies about implementing board of directors for SOEs is still in the trial stage, and indicate that a lot of work has not been fully implemented.*” Zhu Boshan commented that the board of directors, CPC party committee, supervision committee, and managers of SOEs are mainly appointed by the highest level of SASAC, and they report to SASAC separately. The checks and balances policies within SOEs are not well established.<sup>14</sup>

Below are comments cited from a few books in relation to the state control of SOEs:

- *China's State-owned Enterprises: Nature, Performance and Reform*, Hong Sheng, Zhao Nong, World Scientific Publishing Co. Pte. Ltd., 2003<sup>15</sup>

*“The Guiding Opinions of the State-owned Assets Supervision and Administration Commission of the State Council on the Construction of Board of Directors in Wholly State-owned Companies (Trial) issued in 2004 proposed a system of external directors in the board. The external directors were engaged by SASAC, and their remuneration decided by SASAC and paid by the companies where they worked. In the initial pilot period, the number of external directors in each company is no smaller than 2.*”

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<sup>12</sup> [https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=OCB8QFjAAahUKEwi56-yk7e3GAhUJUogKHQOVBRs&url=http%3A%2F%2Fwww.shgzw.gov.cn%2Fgzw%2Fdetail2.jsp%3Fmain\\_colid%3D22%26top\\_id%3D2%26main\\_artid%3D10393&ei=rhWvVbncM4mkoQSDqpbYAQ&usg=AFQjCNH6TXi-WtjEiR-OiX-qBQjHlkWJVQ](https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=OCB8QFjAAahUKEwi56-yk7e3GAhUJUogKHQOVBRs&url=http%3A%2F%2Fwww.shgzw.gov.cn%2Fgzw%2Fdetail2.jsp%3Fmain_colid%3D22%26top_id%3D2%26main_artid%3D10393&ei=rhWvVbncM4mkoQSDqpbYAQ&usg=AFQjCNH6TXi-WtjEiR-OiX-qBQjHlkWJVQ)

<sup>13</sup> [http://www.jjckb.cn/2014-06/26/content\\_510261.htm](http://www.jjckb.cn/2014-06/26/content_510261.htm)

<sup>14</sup> [http://www.jjckb.cn/2014-06/26/content\\_510261.htm](http://www.jjckb.cn/2014-06/26/content_510261.htm)

<sup>15</sup> <https://books.google.com/books?id=jP8qj7DrDlkC&pg=PA334&lpg=PA334&dq=SASAC,+external+board+of+directors&source=bl&ots=YZi8MSuHXU&sig=gdzjdlLd5PE2pyuCiQ9tgz7EN8&hl=en&sa=X&ved=OCB8Q6AEwAGoVChMIuzsijugxIVCKWich21rQLg#v=onepage&q=SASAC%2C%20external%20board%20of%20directors&f=false>

*“In 2009, the Administrative measure for the Full-time External Directors of Pilot Central SOEs for the work on the Board of Directors (for Trial Implementation) was issued for the administration of external directors. According to the requirements of SASAC, in pilot-state-owned companies for the board of directors, external directors can account for more than a half of the board, and SASAC can authorize the board to assess the management. However, when SASAC may collude with SOE manager, the execution and independence of external directors needs to be put under test.*

*For SOEs, the board exercises ownership on behalf of the management. Some board members can directly or indirectly benefit from the company by exercising their powers. If there is no effective supervision and restraint over the board, the board and the management can collude. Obviously, government control over the board is not enough.”*

- *The Glass Ceiling in Chinese and Indian Boardrooms*, Alice de Jonge, Elsevier, 2015<sup>16</sup>

*“The standardised board reform began with the introduction of a pilot program in June 2004, in which seven specially selected central SOEs participated. By the end of 2011, 42 of the ten 121 SASAC-controlled SOEs had undergone this reform (Galvez, 2012). At the heart of the standardised board is the introduction of SASAC-nominated external directors onto the central SOEs’ boards of directors. The standardised board has 7-13 directors, with the majority being external directors. The SASAC has also set up detailed rules regarding both the desirable mix of skills amongst the external directors and the inclusion of foreign external directors for companies with substantial business operations overseas. The standardised board should also establish several board sub-committees, including a nomination committee (which should comprise a majority of external directors), including a nomination committee (which should comprise a majority of external directors), a remuneration and evaluation committee and an audit committee (both of which must be wholly comprised of external directors) (SASAC, 2009). The SASAC guidelines also require a clear separation between the roles of CEO or general manager and board chairman.”*

- *Promoting Enterprise-Led Innovation in China*, Chunlin Zhang, Douglas Zhijia Zeng, William Peter Mako, and James Seward, The International Bank of Reconstruction and Development / The World Bank. <sup>17</sup>

*“The motivation for the experiment was that, without functioning board government in its SOEs, central SASAC would be forced to centralize business decision making to protect the state’s ownership interests.”*

## **Board of Supervisors**

China has a two tier board system. The board of supervisors supervises the financial performance and behavior of the company, and the board of directors is aligned with the interest of shareholders.<sup>18</sup> Interim Regulations on the boards of supervisors in State-owned Enterprises (国有企业监事会暂行条例) issued by State Council on 15 March 2000 describes the function and formation of the board of supervisors of major large SOEs.<sup>19</sup>

Article 2 of the regulation outlines how the board is selected. It stated that *“The list of enterprises to which the State Council dispatches boards of supervisors shall be recommended by the administrative organ for boards of supervisors in SOEs and submitted to the State Council for determination.”*

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<sup>16</sup> <https://books.google.com/books?id=g9wsBgAAQBAJ&pg=PA22&dq=SASAC,+external+board+of+directors&hl=en&sa=X&ved=0CC4Q6AEwAWoVChMlx9GIII3uxglVhpqUCh2xgQ8P#v=onepage&q=SASAC%2C%20external%20board%20of%20directors&f=false>

<sup>17</sup> <https://books.google.com/books?id=0sbwXYe4hkOC&pg=PA33&dq=SASAC,+external+board+of+directors&hl=en&sa=X&ved=0CDQ6AEwAmoVChMlx9GIII3uxglVhpqUCh2xgQ8P#v=onepage&q=SASAC%2C%20external%20board%20of%20directors&f=false>

<sup>18</sup> <http://www2.deloitte.com/cn/en/pages/risk/solutions/cg-supervisory-committee-and-shareholders.html>

<sup>19</sup> <http://www.lawinfochina.com/display.aspx?lib=law&id=14571&CGid=>

Article 3 of the regulation describes the responsibility of the board. It stated that *“The boards of supervisors shall, with financial supervision as the focus and in accordance with relevant laws, administrative regulations and relevant provisions of the Ministry of Finance, supervise the financial activities of the enterprises and the operational and management activities of the persons responsible for the enterprises in order to ensure that the State-owned assets and the rights and interests implicit therein shall not be encroached upon.”* To avoid conflict of interest, a supervisor therefore *“shall not participate in or interfere with the business decision making, operations and management activities of the ‘enterprises.’”* Article 6 states the boards of supervisors *“shall carry out regular inspections of the enterprises one to two times a year, and may carry out irregular inspections of the enterprises on specific matters in case of actual needs.”*

Article 7 states that the boards of supervisors may conduct supervision and inspection in the following ways:

- (1) *“Hearing reports given by the persons responsible for the enterprises on the financial and asset status as well as operations and management, holding meetings on the items subject to supervision and inspection in the enterprises;*
- (2) *Reviewing such financial and accounting data as financial and accounting reports, accounting vouchers, account books and other data pertaining to the operational and management activities of the enterprises;*
- (3) *Checking the financial and asset status in the enterprises, soliciting information and opinions from the employees, and when necessary, requesting the persons responsible for the enterprises to make explanations.*
- (4) *Conducting investigations and inquiries about the financial status, operations and management of the enterprises through the relevant departments of finance, industry and commerce, taxation, audit and customs and banks.*
- (5) *The chairmen of the boards of supervisors may, based on the actual needs of supervision and inspection, attend or entrust other members of the boards of supervisors to attend, as non-voting delegates, relevant meetings of the enterprises.”*

### **Examples of Impact on Steel Producers’ Operations**

Research and inquiries were conducted to obtain examples of steel companies’ operations or performance being impacted by government management.

#### Example 1 – Appointment of a new director at Ansteel Group

According to a press release from September 2013, SASAC appointed a new director Xu Dunwu (许质武) to replace a current director who was reassigned to another role.<sup>20</sup> The outgoing director stated that he respected the decision of the State Council, SASAC, and Organization Department of the CPC Central Committee. Xu, the incoming director, also stated that he would closely follow CPC’s orders.

It is reported that the appointment was made to provide more support to Ansteel Group Chairman Zhang Guangning.<sup>21</sup> Xu Dunwu was to aide Zhang in the restructuring of Ansteel Group. Xu had previously worked at another large SOE, Norinco Group, as the assistant of the Norinco’s General Manager, and has vast knowledge in industrial and engineering management, so he was seen as a suitable candidate.<sup>22</sup> Since Xu was appointed, he has been reported as attending many meetings and making frequent visits to other SOEs. It also appears that Xu is making some effort to crack down on corruption at Ansteel Group.<sup>23</sup>

<sup>20</sup> [http://www.chinasie.org.cn/news\\_info.aspx?id=168751&lei01=12](http://www.chinasie.org.cn/news_info.aspx?id=168751&lei01=12)

<sup>21</sup> <http://bbs.money.163.com/bbs/agu/343701786.html>

<sup>22</sup> [http://app.finance.china.com.cn/stock/data/view\\_supervisors.php?symbol=000898&id=30192335](http://app.finance.china.com.cn/stock/data/view_supervisors.php?symbol=000898&id=30192335)

<sup>23</sup> <http://szbxbg.com/NewsView.asp?ID=58>; <http://www.aiweibang.com/yuedu/18525740.html>

<http://www.jhhuayi.com/chuanmei/zhongyangchuanmei/6131.html>; [http://www.ccdi.gov.cn/yw/201506/t20150611\\_57724.html](http://www.ccdi.gov.cn/yw/201506/t20150611_57724.html)  
<http://video.mxwz.com/view.aspx?spid=3211>

### Example 2 – Establishment of Shandong Steel Group

According to Sources D and L, the establishment of Shandong Steel Group through a merger of smaller companies was essentially a government decision. The Shandong government pushed the process forwards; following the acquisition of several companies, it played a crucial role since the companies did not want to be merged. Source O explained that Shandong government had facilitated over RMB 200 billion of loan credit for the M&As relating to Shandong Steel Group. Shandong SASAC held regular meetings from 2008 to 2012 with state-owned banks to facilitate loans for Shandong Steel Group. ICBC, China Agricultural Bank, and China Construction Bank granted large loans (total over RMB 100 billion) to Shandong Steel. This provided a strong incentive towards encouraging the establishment of the company.

## 4. BAOSTEEL GROUP

Discreet interviews and supplementary research were conducted to obtain details of state involvement in management and operations of Baosteel Group as detailed below.

### 4.1 Management Chart

Relevant public records were retrieved and focused research conducted to identify key management positions held by political figures at Baosteel Group. The below table shows the current / former political or official roles held by senior figures in the management lineup:<sup>24</sup>

Name	Position in Baosteel	Current / Previous Role in Government Department or Government Related Organization
Xu Lejiang (徐乐江)	<ul style="list-style-type: none"> <li>Chairman</li> <li>Secretary of CPC Committee</li> <li>Standing Member of CPC Committee</li> </ul>	<ul style="list-style-type: none"> <li>Vice Chairman of China Iron &amp; Steel Association (中国钢铁工业协会)<sup>25</sup></li> <li>Deputy to National People's Congress (全国人大代表)<sup>26</sup></li> </ul>
Chen Derong (陈德荣)	<ul style="list-style-type: none"> <li>Director</li> <li>General Manager</li> <li>Member of CPC Committee</li> <li>General Manager</li> </ul>	<ul style="list-style-type: none"> <li>Former Vice-Governor and Standing Member of CPC Committee of People's Government Zhejiang Province</li> </ul>
Wang Xiaoqi (王晓齐)	<ul style="list-style-type: none"> <li>External Director</li> </ul>	<ul style="list-style-type: none"> <li>Former Vice Chairman of *CISA<sup>27</sup></li> </ul>
Bei Kewei (贝克伟)	<ul style="list-style-type: none"> <li>External Director</li> </ul>	Not found
Wang Fucheng (王福成)	<ul style="list-style-type: none"> <li>External Director</li> </ul>	Not found
Lin Jianqing (林建清)	<ul style="list-style-type: none"> <li>External Director</li> </ul>	Not found
Zhu Yiming (朱义明)	<ul style="list-style-type: none"> <li>Employee Director</li> </ul>	Not found
Zhao Kun (赵昆)	<ul style="list-style-type: none"> <li>Vice General Manager</li> <li>Member of CPC Committee</li> </ul>	Not found
Liu Zhanying (刘占英)	<ul style="list-style-type: none"> <li>Secretary of the Commission for Discipline Inspection of the CPC</li> <li>Member of CPC Committee</li> </ul>	<ul style="list-style-type: none"> <li>Former Deputy Director of First Division, First Inspection Department, Ministry of Supervision (国家监察部第一监察司一处)</li> <li>Former Director of First Division and Second Division, First Inspection Department, the Commission for Discipline Inspection of the Central Committee of the CPC (中央纪委第一监察室一处、二处)</li> </ul>

<sup>24</sup> <http://www.baosteel.com/group/channels/1716.html>

<sup>25</sup> <http://www.chinaisa.org.cn/gxportal/DispatchAction.do?efFormEName=ECTM40&key=CmkLNaphUjMcy1ViVjFRMANnBmYBZQM0Bz1SYIEAzcBEg5BDxRSYgcWDOhUQ1Ez>

<sup>26</sup> <http://finance.sina.com.cn/roll/20120306/005811518951.shtml>

<sup>27</sup> <http://www.baosteel.com/group/02about/ShowArticle.asp?ArticleID=6966>

	<ul style="list-style-type: none"> <li>Chairman of Board of Supervisors<sup>28</sup></li> </ul>	<ul style="list-style-type: none"> <li>Former Inspector (Deputy Director Level) and Inspection Official of First Inspection Division, the Commission for Discipline Inspection of the Central Committee of the CPC (中央纪委第一监察室副局级检查员、监察专员)</li> <li>Former Director (Deputy Director Level), Second Discipline Inspection Division, Central Enterprise Discipline Inspection Committee (中央企业纪律检查工作委员会纪检监察二室副局级室主任)</li> <li>Former Secretary of Discipline Inspection Office, CEDIC (中央企业工委机关纪委书记)</li> <li>Former Vice Secretary of CPC Committee, CEDIC (中央企业工委机关党委副书记)</li> <li>Former Deputy Secretary of CPC Committee Office Under SASAC and Former Secretary of Discipline Inspection Office Under SASAC (国务院国有资产监督管理委员会直属机关党委副书记兼直属机关纪委书记)<sup>29</sup></li> </ul>
Fu Zhongzhe (伏中哲)	<ul style="list-style-type: none"> <li>Deputy Secretary of CPC Committee</li> <li>Member of CPC Committee</li> </ul>	Not found
Dai Zhihao (戴志浩)	<ul style="list-style-type: none"> <li>Member of CPC Committee</li> </ul>	Not found
Zhao Xia (赵峡)	<ul style="list-style-type: none"> <li>Vice General Manager</li> <li>Member of CPC Committee</li> </ul>	<ul style="list-style-type: none"> <li>Deputy of Xinjiang to the 11<sup>th</sup> National People's Congress (第十一届全国人民代表大会新疆地区代表)</li> <li>Deputy to National People's Congress (全国人大代表)<sup>30</sup></li> </ul>
Zhou Zhuping (周竹平)	<ul style="list-style-type: none"> <li>Vice General Manager</li> </ul>	<ul style="list-style-type: none"> <li>Deputy Director of Standing Committee of People's Congress of Baoshan District (宝山区人大常委会副主任 (不驻会) )<sup>31</sup></li> </ul>
Zhao Zhouli (赵周礼)	<ul style="list-style-type: none"> <li>Vice General Manager</li> </ul>	Not found
Chen Ying (陈纓)	<ul style="list-style-type: none"> <li>Vice General Manager / Board Secretary</li> </ul>	Not found
Guo Bing (郭斌)	<ul style="list-style-type: none"> <li>Supervisor<sup>32</sup></li> </ul>	Not found
Wu Kunzong (吴琨宗)	<ul style="list-style-type: none"> <li>Supervisor<sup>33</sup></li> </ul>	Not found
Lin An (林鞍)	<ul style="list-style-type: none"> <li>Supervisor<sup>34</sup></li> </ul>	Not found
Zhang Pijun (张丕军)	<ul style="list-style-type: none"> <li>Supervisor<sup>35</sup></li> </ul>	Not found

<sup>28</sup> <http://www.baosteel.com/group/Article/ShowArticle.asp?ArticleID=4432>

<sup>29</sup> <http://www.baosteel.com/group/Article/ShowArticle.asp?ArticleID=4435>

<sup>30</sup> <http://www.npc.gov.cn/delegate/viewDelegate.action?dbid=112645>

<sup>31</sup> <http://baike.baidu.com/view/5524787.htm>

<sup>32</sup> <http://www.baosteel.com/group/Article/ShowArticle.asp?ArticleID=4432>

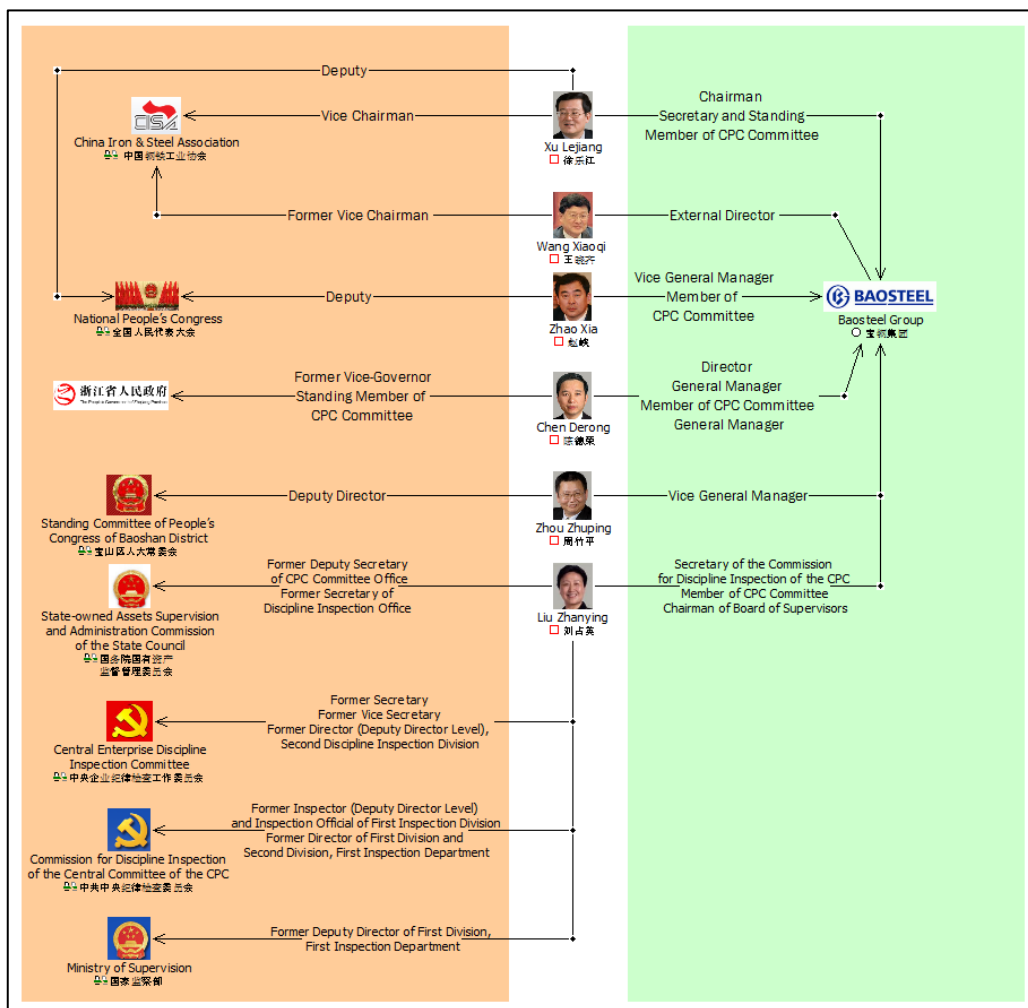
<sup>33</sup> <http://www.baosteel.com/group/Article/ShowArticle.asp?ArticleID=4434>

<sup>34</sup> <http://www.baosteel.com/group/Article/ShowArticle.asp?ArticleID=4412>

<sup>35</sup> <http://www.baosteel.com/group/Article/ShowArticle.asp?ArticleID=4411>

\*CISA -- CISA is a nationwide association for steel industry in China. It provides intelligence support for its member companies. In addition, CISA is also engaged by government departments to carry out research, inspection and statistics work about steel industry.<sup>36</sup> According to discreet inquiries with Source V, CISA is not an official government organization, but plays an important role in China's steel industry. CISA is said to act as a "think tank" for government departments, and its management is mostly retired government officials. If the Chinese government would like to issue regulations or policies in relation to the steel industry, the relevant government department will discuss this with CISA. Sometimes CISA would be appointed to draft the regulations or policies. Alternatively, CISA sometimes acts for the steel companies if they have any queries directed towards the government. In this situation, CISA would establish a communication channel between steel companies and the relevant government department.

The below chart shows the current / former political or official roles held by the most senior management figures at Baosteel Group:



## 4.2 Roles and Activities of Officials

### Role of Political Figures

<sup>36</sup> <http://www.chinainasa.org.cn/gxportal/DispatchAction.do?efFormName=Ectm40&key=A2BdYg1mVDVRMAcwVjEMbVYyBGRWMIbMx2gENwJdTOLGAhHCBNSYgEQUXQCFYyO>



Research was conducted to show the extent to which the management lineup is dominated by political figures. This includes narrative description of some of the roles held by these figures, which may indicate their involvement in decision making, target setting, facilitating state support etc. or other roles.

Chen Derong

Chen Derong (陈德荣) (“Chen”) was formerly the Vice Governor and Standing Member of CPC Committee of Zhejiang Government prior to joining Baosteel Group. The appointment of Chen broke the tradition that an executive manager at a Central SOE is typically promoted from within the SOE.<sup>37</sup> Chen had experience in the steel industry with Hangzhou Steel Group (杭州钢铁集团) prior to becoming an official, however, so it is not that Chen is without experience in the industry. Below is the career history of Chen:<sup>38</sup>

<i>Period</i>	<i>Position</i>	<i>Company/Organization</i>
2014–	General Manager	Baosteel Group Corporation
2010–2014	Vice-Governor/ Standing Member of CPC Committee	People's Government Zhejiang Province
2010–2014	Secretary, CPC	City Committee Zhejiang Province, Wenzhou City
2007–2010	Secretary, CPC	City Committee Zhejiang Province, Jiaxing City
2003–2008	Deputy	10th NPC
2002–2007	Mayor	People's Government Zhejiang Province, Jiaxing City
2002–2002	Acting Mayor	People's Government Zhejiang Province, Jiaxing City
2002–2007	Deputy Secretary	CPC, City Committee Zhejiang Province, Jiaxing City
1998–2002	Executive Vice-Mayor	People's Government Zhejiang Province, Jiaxing City
1998–2002	Member, CPC	City Committee, Standing Committee Zhejiang Province, Jiaxing City
1998–1998	Vice-Mayor	People's Government Zhejiang Province, Jiaxing City
Prior to 1998	Vice President (Started from R&D Department Assistance then promoted to management roles in steel plant before being Vice President)	Hangzhou Steel

In addition to his experience, online references indicated that the appointment of Chen also had political motivations. Chen’s appointment as the General Manger of Baosteel Group was likely related to Zhejiang Provincial Government’s strategic plan for the steel industry. On 1 March 2009, Baosteel Group entered into an agreement with Hangzhou Steel

<sup>37</sup> [http://news.ifeng.com/a/20140802/41414200\\_0.shtml](http://news.ifeng.com/a/20140802/41414200_0.shtml)  
<sup>38</sup> [http://www.chinavitae.com/biography/Chen\\_Derong/career](http://www.chinavitae.com/biography/Chen_Derong/career)



Group (杭州钢铁集团) to restructure the local private steel company Ningbo Steel Co Ltd (宁波钢铁有限公司). Baosteel Group subsequently became the top shareholder of Ningbo Steel. This restructuring was said to be the largest cross-jurisdictional restructuring deal carried out by Baosteel Group. However, after the restructuring, the financial performance of Ningbo Steel was below Baosteel Group's expectation, and it tried to negotiate with Zhejiang Provincial Government to secure development support for Ningbo Steel. The negotiation did not lead to any mutual agreement, and Baosteel Group was considering walking away from its acquisition of Ningbo Steel. At the same time, Zhejiang Provincial Government was planning to relocate Hangzhou Steel, although this relocation also progressed very slowly. To change those dynamics, Chen was appointed to the post at Baosteel Group; it was reportedly intended that Chen's familiarity with Hangzhou Steel could speed up the relocation, and his industry and government knowledge would aid negotiations with Zhejiang government.<sup>39</sup> This development caught the senior executives at Baosteel Group off guard, as reported by journalist Zhao Pu (赵普) from *Huaxia Daily* (华夏日报). He noted that Baosteel Group executives were not expecting the appointment of a new General Manager, and when the announcement was made on 30 July 2014, they appeared to be unready to be interviewed by the press.<sup>40</sup>

The political power struggle in the party may have also played a role in Chen's appointment. Baosteel Group is traditionally considered to be largely influenced by Jiang Zemin, a former President of China. Online references indicated that the appointment of Chen could have been a move related to current President Xi Jinping trying to reduce Jiang Zemin's influence. According to the website of CCDI Shanghai branch on 31 March 2015, it was announced that Cui Jian (崔健), the former Vice General Manager of Baosteel Group, was under investigation due to "serious discipline violation".<sup>41</sup> Cui Jian was a trusted colleague and subordinate of He Wenbo (何文波), who was said to have a relationship with Wu Bangguo (吴邦国). Wu was a chairman of the National People's Congress from 2003 to 2013, and was a key member of Jiang Zemin's "*Shanghai Faction*".<sup>42</sup> Chen was announced as a replacement for He Wenbo, given that Chen was a former subordinate of Xi Jinping.<sup>43</sup>

#### Shanghai Municipal Development & Reform Commission

Shanghai Municipal Development & Reform Commission (上海市发展和改革委员会) tried to control the price of steel sold by Baosteel Group during the 2008 Sichuan earthquake relief period. During this period, a number of cities required a large amount of steel for rebuilding after earthquake. In order to maintain the stability of the market, NDRC required steel companies to maintain their steel prices at the same level as that prior to the earthquake on 11 May 2008.

Baosteel Group tried to find ways to sell steel at a higher price, however. Online reports indicated that Baosteel Group informally increased its steel prices from RMB 200 per MT to 600 per MT, and informed their distributors and clients about the increase verbally.<sup>44</sup> Meanwhile, the official, lower price was published on their website. It was reported that on 4 June 2008, in order to ensure that Baosteel Group comply with the requirements of NDRC, SMDRC dispatched a price supervision and inspection team to Baosteel Group to conduct monitoring and inspection. At the same time, SMDRC sent an urgent note and instruction to the company to remind them that the price of several raw steel materials should be the same as on 11 May 2008.

Aside from maintaining the price, steel companies were also required to supply steel products to Sichuan for reconstruction after the 2008 Earthquake.<sup>45</sup> An official told the media that maintaining prices at this crucial time would be a social responsibility of large SOEs, noting they have room to sacrifice some of their profits.<sup>46</sup>

<sup>39</sup> [http://news.ifeng.com/a/20140802/41414200\\_0.shtml](http://news.ifeng.com/a/20140802/41414200_0.shtml)

<sup>40</sup> <http://www.chinatimes.cc/pages/moreInfo1.htm?id=136839>

<sup>41</sup> <http://www.shjjc.gov.cn/2015jw/n2233/u1ai52249.html>

<sup>42</sup> <http://www.scmp.com/news/china/article/1747108/retired-leader-wu-bangguo-makes-rare-public-appearance>

<sup>43</sup> <http://www.secretchina.com/news/14/12/29/564086.html%E6%B5%99%E6%B1%9F%E6%97%A7%E9%83%A8%E9%9B%86%E4%BD%93%E5%86%92%E5%8D%87%20%E4%B9%A0%E8%BF%91%E5%B9%B3%E2%80%9C%E8%87%AA%E5%B7%B1%E4%BA%BA%E2%80%9D%E5%B8%83%E5%B1%80%E6%9B%9D%E5%85%89%E5%9B%BE>

<sup>44</sup> <http://www.jthtly.com/2488355.html>

<sup>45</sup> <http://business.sohu.com/20080605/n257304670.shtml>

<sup>46</sup> <http://www.jthtly.com/2488355.html>

## Activities of Political Figures

Research was conducted to identify examples of Baosteel's key political figures' roles in its operations or activities.

### Example 1 – Strategic Direction

According to a press release dated 22 April 2015 on Baosteel Group's website, a number of government officials attended a meeting to establish the 4<sup>th</sup> generation of Board of Directors. It was attended by Gao Yan (高岩), the Deputy Director from SASAC Corporate Leadership Management 1<sup>st</sup> branch (国务院国资委企业领导人员管理一局), and officials from Central 13<sup>th</sup> Inspection Group (中央第十三巡视组). Four external directors were appointed by SASAC.<sup>47</sup>

The meeting also provided strategic direction to Baosteel Group, which stressed five important goals for the Board to follow ahead:<sup>48</sup>

1. Continue to be a part of SOE reform and lead by example;
2. Continue reshaping the business, including shredding unprofitable business and introducing measures to improve competitiveness;
3. Direct the company to have more innovation in technology and its business model;
4. Provide leadership and guidance to management, appropriately hire senior management and motivate them; and
5. Further improve the effectiveness and influence of the board.

These goals were provided by SASAC, indicating the extent to which the government influences the strategy of the company to meet their political objectives, including SOE reform, reducing overcapacity, and improving sustainability and competitiveness of the overall steel industry.

### Example 2 – Shanghai Local government Influence

Ai Baojun (艾宝俊), the current Vice City Mayor of Shanghai, is reported to have some influence on Baosteel Group, especially with regards to exporting. From 1998 to 2000, Ai worked in various roles at Baosteel Group; his most senior post was Deputy GM from 1994 to 2000.<sup>49</sup> In 2008, Ai became the vice mayor of Shanghai, and in 2013, he was named the Director of the Shanghai Free-trade Zone Management Committee to further the development of the government's initiative to test out a new model for the economy.

As Ai tried to gain more business for the Free-trade Zone, he used his influence to provide Baosteel Group with fewer administrative processes for import and export. According to the website of Shanghai Entry-Exit Inspection and Quarantine Bureau (上海出入境检验检疫局), a report dated 12 July 2012 disclosed that Ai praised SEEIQB on their service related to Baosteel Group. SEEIQB had reduced the administrative steps concerning import and export for Baosteel Group. For example, the seamless pipe products from Baosteel Group did not require inspection prior to export, making it easier for the company to sell to US and Europe.

Steel products generally require inspection prior to export. However, it is possible that with preferential treatment, the products from Baosteel Group are always qualified and do not violate any regulations. It is reported that Baosteel

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<sup>47</sup> <http://www.baosteel.com/baosteelpc/topnews/ShowArticle.asp?ArticleID=100761>

<sup>48</sup> <http://www.baosteel.com/baosteelpc/topnews/ShowArticle.asp?ArticleID=100761>

<sup>49</sup> [http://www.chinavivae.com/biography/Ai\\_Baojun/career](http://www.chinavivae.com/biography/Ai_Baojun/career)

Group's products were not required to submit documentations or be inspected during the export process, thus gaining efficiency. As Ai has his own targets to meet, he might still provide support for the operations of Baosteel Group, given that he was a former manager there, in order to reach his objectives.

## 4.3 Impact / Influence of Government on Operations and Performance

### State Control of Operations

Although Baosteel group is a Central SOE, as the largest steel company located in Shanghai, officials from both Beijing and the local Shanghai government try to assert influence on the company.<sup>50</sup> This was noted by Source A, Source N, and Source AB.

As noted above, the appointment of top management roles, such as President, Party Secretary, General Manager, and Directors, are decided by the Organization Department of the CPC Central Committee, with SASAC and the State Council offering their suggestion and advice on the candidates. SASAC makes appointment decisions on the independent directors.

Source A, Source N, and Source AB all commented that the strategy and development direction of Baosteel Group have been set and facilitated by the SASAC, the MIIT and the NDRC. For example when Baosteel Group was previously chosen to lead the M&A of steel industry companies, the NDRC, the State Council and SASAC supported Baosteel Group to acquire and integrate other steel companies, such as the acquisition of Xinjiang Bayi Steel.

Source A and Source N added that Baosteel Group has always been monitored closely. For example, the State Council and the NDRC have been very strict in relation to its elimination of outdated steel production facilities. Baosteel Group was found by the Audit Office of the State Council in late 2012 to have many problems regarding this policy. For example, its subsidiary Bayi Steel failed to eliminate outdated production capacity of 800,000 tons. In addition, between 2006 and 2010, its subsidiary Ningbo Steel launched new steel production capacity of over 6 million tons without receiving approval. Recently, the State Council launched another round of checks on steel SOEs regarding the status of their elimination of outdated facilities, and Baosteel Group was prioritized on that list.

With regard to Shanghai government's influence, Source N said that the NDRC normally issues macro guidance for the steel industry in its five-year plan. Based on this and the specific situation of the steel companies in Shanghai, the Shanghai government would then develop a corresponding plan for the local steel industry. For example, Shanghai Economic and Information Technology Commission made a '*12<sup>th</sup> five-year plan of Shanghai Steel Industry*' in 2012, which stressed the importance of relocating Baosteel's capacity during the industry restructuring/upgrading of Shanghai (上海产业结构升级). It pointed out that relevant government bodies need to provide support for the relocation of Baosteel's capacity.

One of the government's biggest challenges is to reshape the steel industry and create a sustainable business environment for domestic steel companies.<sup>51</sup> For example, in July 2012, the Shanghai government signed an agreement with Baosteel Group to adjust and reduce the production capacity in Shanghai (see example 2 below).<sup>52</sup> This agreement would encourage Baosteel Group to move some of its capacity out of Shanghai gradually; by 2017 near 7 million tons of steel capacity should be moved out of Shanghai. Both the local Shanghai government and the central government would work together to push forward this effort. Shanghai Mayor Han Zheng and the Shanghai

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<sup>50</sup> <http://soundofhope.org/node/616653>

<sup>51</sup> <http://www.yicai.com/news/2014/09/4018554.html>

<sup>52</sup> [http://www.financialnews.com.cn/sygdtp/201207/t20120705\\_11050.html](http://www.financialnews.com.cn/sygdtp/201207/t20120705_11050.html)

DRC deputy director Zhou Ya have said in many Shanghai government internal meetings that relevant authorities need to support the process as the relocation of Baosteel Group's capacity is a national task.

## **Examples of Impact on Operations**

### Example 1 – Political Achievement in relation to Zhanjiang Steel Project

Baosteel Zhanjiang Iron & Steel Co Ltd (宝钢湛江钢铁有限公司) is a subsidiary of Baosteel Group. The concept of building a steel company based in Zhanjiang started from 1978. Government officials from Guangdong Province and Baosteel Group worked together create the entity. The whole process took ten years, as the entity was finally approved by NDRC in 2012.

A number of online references posted a picture of Zhanjiang Municipal Government Mayor Wang Bingzhang (王中丙) “kissing” the approved contract from NDRC on 24 May 2012. Wang Zhongbing was reportedly very excited, and told journalists that the steel dream of Zhanjiang City had finally been realized. To obtain the approved contract from NDRC, several government officials from Zhanjiang Municipal Government and Guangdong Provincial Government were said to have made great efforts. An anonymous government official from Zhanjiang Development Reform Commission (湛江发改委) told journalists that he was unable to recall how many times he visited Beijing for Zhanjiang Steel Project in 2012. On 24 May 2012, Xu Shaohua (徐少华), the Vice-Governor and Standing Member of CPC Committee of Guangdong Provincial Government, and Liu Xiaohua (刘小花), the Secretary of Zhanjiang Municipal Government, visited various departments and offices of NDRC to make presentations about the steel project. Wang Zhongbing and the Vice Chairman of CPPCC Zhanjiang, Ma Guoqing (马国庆), spent the whole day at NRDC. Wang Zhongbing had spent a long time working on this project since 2007, when he was at Guangdong Development Reform Commission (广东省发改委).<sup>53</sup>

A media report authored by a Guo Xin (郭鑫) and post on the website of Rednet.cn (红网) on 30 May 2012, indicated that the success of Zhanjiang Steel Project is highly related to the political achievements of the government officials.<sup>54</sup> The report said that Zhanjiang Steel Project will raise Zhanjiang's GDP to the next level. However, the joy shown by the government officials was linked to their personal political achievement, rather than the development for the local city. Zhanjiang government spent 34 years to obtain this project, and the report expressed concern whether the steel entity is suitable for the currently economic development of Zhanjiang City. Specifically the report noted that the steel industry already has excess its capacity in China, and it is unclear how much additional economic benefit the project can bring. Moreover, steel production will bring pollution that runs contrary to the economic development plan of Guangdong Province. The end of the report indicated that regardless of the amount of steel output, successful operation of the steel entity will be treated as a political achievement for current political leaders in Zhanjiang City and Guangdong Province. The report noted that local government officials are spending tremendous effort to secure contracts for the steel entity.

### Example 2 – Restructuring / Relocation of Operation

In 2012, the local Shanghai government signed an agreement with the Baosteel Group to restructure some of the company's steel operations.<sup>55</sup> The restructuring included reduction of capacity, adjustment in products, and even discussion of relocation of facility and production capacity to other provinces. A media report from June 2012 stated that the capacity may be moved to Jiangsu, Fujian, Guangdong, Jiejiang, and Xijiang provinces.<sup>56</sup> This capacity referred to stainless steel, specialty steel, and regular steel. As for the facility that may be relocated, the media report

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<sup>53</sup> <http://finance.ifeng.com/news/region/20120528/6526696.shtml>

<sup>54</sup> <http://hlj.rednet.cn/c/2012/05/30/2630292.htm>

<sup>55</sup> <http://www.yicai.com/news/2012/07/1870425.html>

<sup>56</sup> [http://www.tsgfgt.com/News\\_info.asp?ID=441](http://www.tsgfgt.com/News_info.asp?ID=441)

stated that multiple internal sources indicated that a facility for stainless steel would likely be moved out in the future. That facility was said to produce 1.5 MT of stainless steel each year, and this capacity may be split and relocated to Fujian and Ningbo.

Source N said that in September 2012, Baosteel Group closed Luojing Steel Factory (宝钢罗泾钢厂). Baosteel Group had invested over RMB 13 billion in this facility, but it was in production for only five years. The source said that this factory was closed because the Shanghai government was pushing industry reform to move heavy industries out of the city. In addition the factory had actually been loss making since it began production, The capacity was relocated to Xinjiang Bayi Steel and Baosteel's subsidiary in Zhanjiang, Guangdong province.

Source AB said that the Shanghai government decided to support the relocation mainly because of the downturn of the steel industry in the last five years, as well as the pressure for improving environmental protection efforts. He further said, concurring with the media report, that Baosteel Group would keep its capacity for top quality steel in Shanghai, such as the steel for cars, special steel for civil aviation, precision equipment, and the nuclear industry, while moving the general steel production to other provinces.

In addition, a COREX smelter in Shanghai was intended to move to Xinjiang in 2013. The aforementioned media report cited comments from Shanghai government that Shanghai should evolve from a manufacturing center to a service center, hence officials were tightly controlling steel production capacity in the municipality.

## 5. BAOTOU STEEL

Discreet interviews and supplementary research were conducted to obtain details of state involvement in management and operations of Baotou Steel as detailed below.

### 5.1 Management Chart

Relevant public records were retrieved and focused research conducted to identify key management positions held by political figures at Baotou Steel. The below table shows the current / former political or official roles held by senior figures in the management lineup:

Name	Position in Baotou Steel	Current / Previous Role in Government Department or Government Related Organization
Zhou Bingli (周秉利)	<ul style="list-style-type: none"> <li>Chairman</li> <li>Secretary of CPC Committee</li> </ul>	<ul style="list-style-type: none"> <li>Deputy to the National People's Congress<sup>57</sup></li> <li>Vice Chairman of CISA<sup>58</sup></li> </ul>
Gao Ao (高翱)	<ul style="list-style-type: none"> <li>Vice Chairman</li> </ul>	<ul style="list-style-type: none"> <li>Not found</li> </ul>
Li Chunlong (李春龙)	<ul style="list-style-type: none"> <li>Director</li> <li>Vice Secretary of CPC Committee</li> <li>General Manager</li> </ul>	<ul style="list-style-type: none"> <li>Deputy to the 12<sup>th</sup> National People's Congress<sup>59</sup></li> <li>Deputy Director of The Chinese Society of Rare Earths (中国稀土学会)<sup>60</sup></li> </ul>
Wang Shengping (王胜平)	<ul style="list-style-type: none"> <li>Director</li> <li>Vice General Manager</li> </ul>	<ul style="list-style-type: none"> <li>Not found</li> </ul>
Li Jingui (李金贵)	<ul style="list-style-type: none"> <li>Director</li> </ul>	<ul style="list-style-type: none"> <li>Not found</li> </ul>
Liu Shuanyi (刘双翼)	<ul style="list-style-type: none"> <li>Director</li> </ul>	<ul style="list-style-type: none"> <li>Former Office Director of Inner Mongolia SASAC<sup>61</sup></li> </ul>
Zhao Hui (赵晖)	<ul style="list-style-type: none"> <li>Director</li> </ul>	<ul style="list-style-type: none"> <li>Not found</li> </ul>
Zhang Zhong (张忠)	<ul style="list-style-type: none"> <li>Director</li> </ul>	<ul style="list-style-type: none"> <li>Former Deputy Director of Inner Mongolia Research Institute of Metallurgy (内蒙古自治区冶金研究院)<sup>62</sup></li> </ul>
Xu Bo (徐波)	<ul style="list-style-type: none"> <li>Director</li> </ul>	<ul style="list-style-type: none"> <li>Not found</li> </ul>
Yang Zhigang (杨志刚)	<ul style="list-style-type: none"> <li>Director</li> </ul>	<ul style="list-style-type: none"> <li>Not found</li> </ul>
Wang Zhensheng (王振声)	<ul style="list-style-type: none"> <li>Director</li> </ul>	<ul style="list-style-type: none"> <li>Not found</li> </ul>
Zhou Jidong (周继东)	<ul style="list-style-type: none"> <li>Director</li> </ul>	<ul style="list-style-type: none"> <li>Not found</li> </ul>
Li Yingke (李应科)	<ul style="list-style-type: none"> <li>Employee Director</li> </ul>	<ul style="list-style-type: none"> <li>Not found</li> </ul>

<sup>57</sup> <http://kq-sport.com/news/127.html>

<sup>58</sup> <http://www.chinaisa.org.cn/gxportal/DispatchAction.do?efFormEname=ECTM40&key=UTIPMAFqBWQFZFRjVDMHZgFICWkCZIRIVWVSZIMyBTECEVkwXUZTYwQVUxRSRQJg>

<sup>59</sup> <http://www.btsteel.com/%5C/ProductShow.asp?ID=333&ClassID=8>

<sup>60</sup> <http://www.cs-re.org.cn/rareearth/learnintroduce/council/>

<sup>61</sup> <http://www.nmeggzw.gov.cn/xxgk/show/1840.aspx>

<sup>62</sup> [http://app.finance.china.com.cn/stock/data/view\\_executive.php?symbol=600111&id=46317](http://app.finance.china.com.cn/stock/data/view_executive.php?symbol=600111&id=46317)

Meng Zhiquan (孟志泉)	<ul style="list-style-type: none"> <li>Vice Secretary of CPC Committee</li> </ul>	<ul style="list-style-type: none"> <li>Not found</li> </ul>
Jia Zhenguo (贾振国)	<ul style="list-style-type: none"> <li>Vice Secretary of CPC Committee</li> </ul>	<ul style="list-style-type: none"> <li>Not found</li> </ul>
Li Degang (李德刚)	<ul style="list-style-type: none"> <li>Vice General Manager</li> </ul>	<ul style="list-style-type: none"> <li>Not found</li> </ul>
Zhao Dianqing (赵殿清)	<ul style="list-style-type: none"> <li>Vice General Manager</li> </ul>	<ul style="list-style-type: none"> <li>Not found</li> </ul>
Pan Ying (潘瑛)	<ul style="list-style-type: none"> <li>Vice General Manager</li> </ul>	<ul style="list-style-type: none"> <li>Not found</li> </ul>
Meng Fanying (孟繁英)	<ul style="list-style-type: none"> <li>General Engineer</li> </ul>	<ul style="list-style-type: none"> <li>Not found</li> </ul>
Liu Zhihong (刘志宏)	<ul style="list-style-type: none"> <li>General Economist</li> </ul>	<ul style="list-style-type: none"> <li>Former Deputy Chief of Quality Inspection Station set up by Ministry of Mining and Metallurgy (1994 to 1998) (冶金部驻包钢工程质量监督站 副站长 (1994 to 1998))<sup>63</sup></li> </ul>
Bai Yutan (白玉檀)	<ul style="list-style-type: none"> <li>General Accountant</li> </ul>	<ul style="list-style-type: none"> <li>Former Director of Auditing Department of Economic Responsibility of Management in Government and Enterprises, Audit Office of Inner Mongolia Autonomous Region (自治区审计厅企事业领导人经济责任审计处处长)</li> <li>Former Director of Social Insurance Auditing Office, Audit Office of Inner Mongolia Autonomous Region (自治区审计厅社会保障审计处处长)<sup>64</sup></li> </ul>
Yue Jianqiu (岳建秋)	<ul style="list-style-type: none"> <li>General Manager Assistant</li> </ul>	<ul style="list-style-type: none"> <li>Not found</li> </ul>
Xie Yaohua (解耀华)	<ul style="list-style-type: none"> <li>General Manager Assistant</li> </ul>	<ul style="list-style-type: none"> <li>Not found</li> </ul>
Xin Shankui (辛尚奎)	<ul style="list-style-type: none"> <li>Chairman of Board of Supervisors</li> </ul>	<ul style="list-style-type: none"> <li>Former Deputy Director, Former Director and Former Office Manager of General Department of Economic and Trade Commission Department, Inner Mongolia Autonomous Region (内蒙古自治区经贸委综合处)</li> <li>Former Deputy Director and Former Director of Foreign Trade and Economic Cooperation, Inner Mongolia Autonomous Region (对外经济贸易处)</li> <li>Former Director of CPC Committee Office of Inner Mongolia SASAC</li> <li>Former Director of Performance Assessment and Statistics Department (业绩考核与统计评价处) of Inner Mongolia SASAC</li> </ul>

<sup>63</sup> [http://wy.jingjichanye.cn/x/j/e\\_7.html](http://wy.jingjichanye.cn/x/j/e_7.html)

<sup>64</sup> [http://vip.stock.finance.sina.com.cn/corp/view/vCl\\_CorpManagerInfo.php?stockid=600010&Name=%B0%D7%D3%F1%CC%B4](http://vip.stock.finance.sina.com.cn/corp/view/vCl_CorpManagerInfo.php?stockid=600010&Name=%B0%D7%D3%F1%CC%B4)

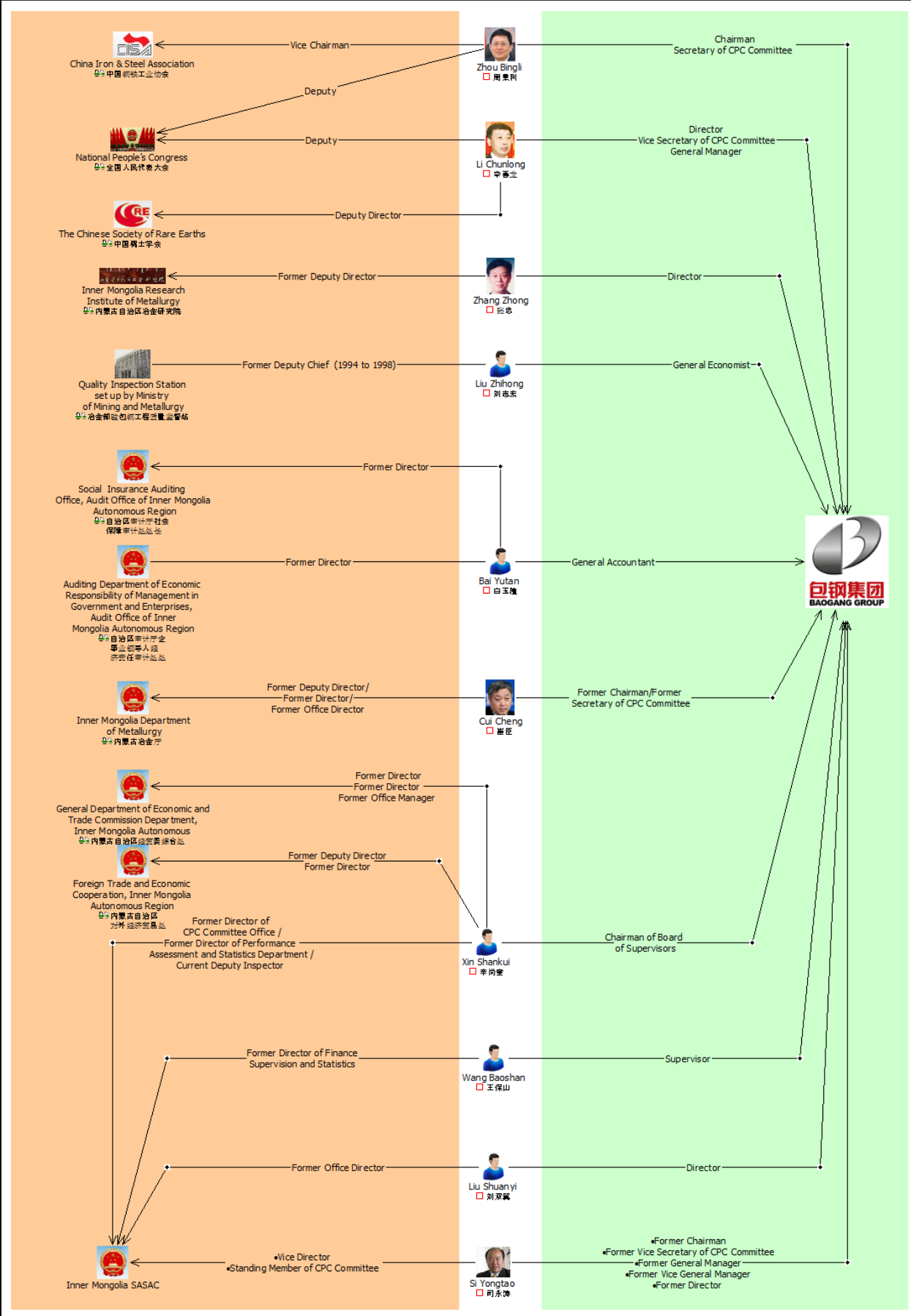
		<ul style="list-style-type: none"> <li>• Current Deputy Inspector for Inner Mongolia SASAC (自治区政府国有资产监督管理委员会副巡视员)</li> </ul>
Wang Baoshan (王保山)	<ul style="list-style-type: none"> <li>• Supervisor</li> </ul>	<ul style="list-style-type: none"> <li>• Former Director of Finance Supervision and Statistics under Inner Mongolia SASAC</li> </ul>
Sun Yan (孙彦)	<ul style="list-style-type: none"> <li>• Supervisor</li> </ul>	<ul style="list-style-type: none"> <li>• Not found</li> </ul>
Zhou Chunyan (周纯燕)	<ul style="list-style-type: none"> <li>• Supervisor</li> </ul>	<ul style="list-style-type: none"> <li>• Not found</li> </ul>
Liang Shuang (梁爽)	<ul style="list-style-type: none"> <li>• Supervisor</li> </ul>	<ul style="list-style-type: none"> <li>• Not found</li> </ul>
Jing Jianxun (景建勋)	Secretary of Discipline Inspection Office (纪委书记)	<ul style="list-style-type: none"> <li>• Not found</li> </ul>
Cui Cheng (崔臣)	<ul style="list-style-type: none"> <li>• Former Chairman<sup>65</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Former Deputy Director, Former Director and Former Office Director of Inner Mongolia Department of Metallurgy (内蒙古冶金厅(冶金机械厅)副处长、处长、办公室主任)<sup>66</sup></li> </ul>

The below chart shows the current / former political or official roles held by the most senior management figures at Baotou Steel:

<sup>65</sup> <http://www.irmcn.net/IRSubSite/SubSiteNewsList?nodeid=9&stockcode=600010>

<sup>66</sup> <http://www.irmcn.net/IRSubSite/SubSiteNewsList?nodeid=9&stockcode=600010>





## 5.2 Roles and Activities of Officials

### Role of Political Figures

Research was conducted to show the extent to which the management lineup is dominated by political figures. This includes narrative description of some of the roles held by these figures, which may indicate their involvement in decision making, target setting, facilitating state support etc. or other roles.

#### Xin Shangkui

According to the website of Inner Mongolia SASAC, Xin Shangkui (辛尚奎) (“Xin”) is currently the Deputy Inspector of Inner Mongolia SASAC and also the supervisor for Baotou Steel. Xin was born in August 1955 and is a CPC member. Prior to his current role, Xin has held several government positions.<sup>67</sup>

<i>Period</i>	<i>Position</i>	<i>Company/Organization</i>
<i>Not found</i>	Former Deputy Director, Former Director and Former Office Manager	Economic and Trade Commission, Inner Mongolia Autonomous Region (内蒙古自治区经贸委综合处)
<i>Not found</i>	Former Deputy Director and Former Director of Foreign Trade and Economic Cooperation	Inner Mongolia Autonomous Region (对外经济贸易处)
<i>Not found</i>	Former Director of CPC Committee Office	Inner Mongolia SASAC
<i>Not found</i>	Former Director of Performance Assessment and Statistics Department (业绩考核与统计评价处)	Inner Mongolia SASAC

According to the website of Baotou Steel on 28 March 2013, Xin was elected as the Chairman of Supervisor Committee of Baotou Steel on 27 March 2013.<sup>68</sup>

#### Wang Baoshan

As indicated on the website of Inner Mongolia SASAC on 15 January 2011, Wang Baoshan is listed as the Director of Finance Supervision and Statistics (财务监督与统计评价处处长).<sup>69</sup> On 17 August 2012, Wang Baoshan’s tenure was renewed.<sup>70</sup> Prior to March 2014, Wang Baoshan was a director for Inner Mongolia State-owned Assets Operation Co Ltd (内蒙古国有资产运营有限公司).<sup>71</sup>

Wang Baoshan was found to have participated in the board meeting of Baotou Steel as a supervisor of the company as early as April 2013.<sup>72</sup> It is unclear whether Wang Baoshan still maintains his position in Inner Mongolia SASAC.

<sup>67</sup> <http://www.nmggzw.gov.cn/wld/show/24.aspx>

<sup>68</sup> <http://www.btsteel.com/%5C/shownews.asp?ID=4982>

<sup>69</sup> <http://www.nmggzw.gov.cn/xxgk/show/1840.aspx>

<sup>70</sup> [http://www.als.gov.cn/luanjingtan/zwgk/dsj/1\\_14535/default.shtml](http://www.als.gov.cn/luanjingtan/zwgk/dsj/1_14535/default.shtml)

<sup>71</sup> <http://www.nmggzw.gov.cn/rsrm/show/2567.aspx>

<sup>72</sup> <http://cmepc.com.cn/html/nizaijianxiangmu/201304/11-70600.html>

## Liu Shuanyi

Liu Shuanyi was appointed as a Director of Baotou Steel on 30 December 2013, based on the information posted on the website of Inner Mongolia SASAC.<sup>73</sup>

Further research on the website on Inner Mongolia SASAC learnt that Liu Shunyi was listed as Office Director of CPC Committee Office (党委办公室主任) of Inner Mongolia SASAC, from a public announcement dated 20 June 2011.<sup>74</sup> Liu Shunyi was concurrently the Office Director of Political Affair Leadership Team (自治区国资委关于调整政务公开工作领导小组 by 内蒙古人民政府国有资产监督干礼委员会办公室) since 15 January 2011, based on the public announcement dated 29 October 2013.<sup>75</sup> It is unclear whether Liu Shunyi still maintains those government positions in SASAC.

## **Activities of Political Figures**

Research was conducted to identify examples of Baotou Steel's key political figures' roles in its operations or activities.

### High level meetings

Xin Shangkui and Wang Baoshan were found to have attended several meetings of Baotou Steel. Information about these meetings is limited, but they appear to be for high level strategic planning of the company:

- On 2 September 2014, Baotou Steel had a meeting about the production planning for that month. Xin participated in the meeting. In this meeting, Baotou Steel reported on the production situation from January to August 2014, provided production analysis and comparison, and discussed steel product market status and prices.<sup>76</sup>
- On 19 May 2015, Xin participated in an auction management meeting of Baotou Steel.<sup>77</sup>
- On 12 February 2015, Xin and Wang Baoshan participated in the first 2015 meeting of the First Board of Directors. Over ten executives from Baotou Steel attended this meeting. In the meeting, proposals including Baotou Steel 2015 Production and Operation Plan (包钢(集团)公司 2015 年生产经营计划), Baotou Steel 2015 Cost and Budget Proposal (包钢(集团)公司 2015 年成本利润预算方案), Baotou Steel 2014 Infrastructure Construction, Technology Improvement, Safety and Environment Protection Project Investment Plan Status and Budget for 2015 (包钢(集团)公司 2014 年基建、技改、安全环保项目投资计划完成情况及 2015 年投资预算), Baotou Steel Performance Assessment Method 2015 (包钢(集团)公司 2015 年综合绩效考评办法), and The 2015 Performance Assessment (包钢(集团)公司所属控股公司 2015 年度经营业绩考核实施办法) were passed.<sup>78</sup>
- On 27 April 2015, Xin and Wang Baoshan participated in the 2015 second meeting of the First Board of Director. Other than Xin and Wang Baoshan, Chairman Zhou Bingli and several directors of Baotou Steel attended this meeting. Two proposals were passed in the meeting.<sup>79</sup>

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<sup>73</sup> <http://www.nmggzw.gov.cn/rsrm/show/2196.aspx>

<sup>74</sup> <http://www.nmggzw.gov.cn/gzyw/show-1327.aspx>

<sup>75</sup> <http://www.nmggzw.gov.cn/xxgk/show/1840.aspx>

<sup>76</sup> <http://www.nmggzw.gov.cn/gzyw/show-3317.aspx>

<sup>77</sup> <http://huhehaote.baogaosu.com/xinwen/%E5%8F%82%E5%8A%A0%E5%8C%85%E9%92%A2%E9%9B%86%E5%9B%A2%E6%8B%9B%E6%8A%95%E6%A0%87%E7%AE%A1%E7%90%86%E5%B7%A5%E4%BD%9C%E4%BC%9A%E8%AE%AE/33264161/>

<sup>78</sup> <http://www.btsteel.com/shownews.asp?ID=7487>

<sup>79</sup> <http://www.nmggzw.gov.cn/info/show.aspx?id=5103&cid=55&pid=21&infotype=0>

### Support for Expansion Planning

According to several online references, on 3 June 2006, the Organization Department of CPC Committee of Mongolia Municipal Government and SASAC Inner Mongolia announced that Si Yongtao (司永涛) was appointed as the Chairman and Vice Secretary of CPC Committee of Baotou Steel, and Cui Cheng (崔臣) was named as the Secretary of CPC Committee and Vice Chairman. However, less than two years later, Si Yongtao was transferred to the role of Vice Director of SASAC of Inner Mongolia Autonomous Region, while Cui Cheng became the Vice Director of Inner Mongolia Autonomous Region Commission of Economy and Information Technology. Zhou Bingli (周秉利) replaced Si Yongtao as the Chairman of Baotou Steel.

Online media reports indicated that the Si Yongtao and Cui Cheng were replaced because they did not want to conduct the capacity expansion strategy at Baotou Steel, and so were replaced by someone who does want to carry out the plan.<sup>80</sup> Furthermore, an industry insider told journalists that the Government of Inner Mongolia Autonomous Region's strategy planned to expand Baotou Steel. At the end of 2010, Baotou Steel issued a report "*Baotou's 12<sup>th</sup> Five-Year Plan Guidelines*" (包钢“十二五”规划纲要). According to the Guideline, Baotou Steel was expecting to reach the capacity of 18.5 million MT. In 2011, the capacity of Baotou Steel was approximately 13 million MT. In order to reach the goal, Baotou Steel was said to be building a new production line with capacity of 5 million MT.

However, this capacity expansion contradicted the national policy that no more steel projects would be approved due to over-capacity concerns. Baosteel Group attempted to acquire Baotou Steel but failed, mainly because Baosteel Group did not promise to expand the capacity of Baotou Steel.<sup>81</sup>

## 5.3 Impact / Influence of Government on Operations and Performance

### **State Control of Operations**

Baotou Steel is under the supervision of the Inner Mongolia Municipal Government and local Baotou Municipal Government, which treats the steel industry as an important pillar to support the local economy and generate jobs. In the 2015 Baotou government work report, the steel industry is one of the industries mentioned as being important to sustain smooth economic growth.<sup>82</sup> The government is strongly focused on industry reform and eliminating old technologies, and attempts to monitor and control development of the industry by designating a business district for the steel industry. The work report also specifically stated that the local government encourages Baotou Steel and other SOEs to raise capital from the public.

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<sup>80</sup> <http://www.btsteel.com/%5C/Shownews.asp?ID=7487&BigClass=%D0%C2%CE%C5%D6%D0%D0%C4>

<sup>81</sup> <http://money.163.com/11/0713/14/78RML0B100253B0H.html#from=relevant>

<sup>82</sup> [http://www.nmg.xinhuanet.com/nmgwq/bt/twxwlibrary/2015-01/21/c\\_1114077036\\_2.htm](http://www.nmg.xinhuanet.com/nmgwq/bt/twxwlibrary/2015-01/21/c_1114077036_2.htm)

## Examples of Impact on Operations

### Example 1 – Local government influencing on an acquisition from Central SOE

According to online references, Baosteel Group failed to acquire Baotou Steel because of interference from the Inner Mongolia Municipal Government (内蒙古自治区政府). Baosteel Group had negotiated for the acquisition with Baotou Steel since 2007. Terms of the deal from Baosteel Group were that it required holding a controlling stake in Baotou Steel after the acquisition. However, this term was not supported by Inner Mongolia Municipal Government, as they were reportedly afraid to lose control of an important part of the local economy.<sup>83</sup> The government's concern even surfaced in the public domain. In April 2010, a senior management figure from Baosteel Group responded to a journalist that the failed acquisition was due to interference by the Inner Mongolia Municipal Government.<sup>84</sup>

It should be noted that several media reports from 2015 indicated that the acquisition negotiations between Baotou Steel and Baosteel Group have reopened, although there are no details about its progress.<sup>85</sup>

### Example 2 – Environmental subsidy

In July 2015, Baotou Steel announced that the local Baotou government approved an environmental subsidy of RMB 221 million.<sup>86</sup> No other details were included in the announcement. We assess that this subsidy is aimed at helping Baotou Steel eliminate old technology and replace it with cleaner and sustainable technology, as stated in the Baotou government work report. There were also reports that the environment surrounding Baotou Steel facilities have been polluted, including the underground water, with the health of some families living near the plant adversely affected.<sup>87</sup> The subsidy could also be used to fix those problems.

### Example 3 – Local government influencing on project decision

Source W said that Baotou Steel formerly had a project with total investment of over RMB 30 billion. He said that Hu Chunhua (胡春华), the former Secretary of CPC Commission of Inner Mongolia Autonomous Region, was involved in overseeing this project. The source, without revealing the time period, said that though the government is trying to control steel production capacity, Baotou Steel insisted on investing in the steel project. He commented that anyone with knowledge of the project knew that it would likely fail, given the poor state of the steel market. He noted, however, that Hu Chunhua insisted on processing the RMB 30 billion project not because of generating political achievement, but more likely because government officials and internal staff at Baotou Steel aimed to obtain personal benefit from the project. Source W added that it was very obvious that the project would not make money; he noted that the more steel products Baotou Steel produces, the more losses the company would have to endure.

The source did not elaborate on the details of this project, and was unable to provide any evidence or details to confirm that government officials like Hu Chunhua were involved in corrupt activities with officials from Baotou Steel. We note that online searches found that in 2012, Baotou Steel invested RMB 30 billion to establish Baotou Steel Rare Earths Steel Plate Co Ltd (包钢稀土钢板材公司).<sup>88</sup> In November 2014, Baotou Steel Plate commenced production, by manufacturing high-end steel plate for automobiles. Baotou Steel is expected to be the major supplier of high-end steel plates ahead.<sup>89</sup>

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<sup>83</sup> <http://info.momo.hc360.com/2011/04/25094764043.shtml>

<sup>84</sup> [http://www.aliyun.com/zixun/content/2\\_6\\_179244.html](http://www.aliyun.com/zixun/content/2_6_179244.html)

<sup>85</sup> <http://webcache.googleusercontent.com/search?q=cache:Rues6TJZm6AJ:hbwxjxc.com/tuanduijianshe/10823920.html+&cd=10&hl=en&ct=clnk&gl=us>

<sup>86</sup> <http://stock.10jqka.com.cn/20150702/c574318195.shtml>

<sup>87</sup> <http://www.lingximedia.com/3571/>

<sup>88</sup> [http://www.apc.com/site/press\\_center/index.cfm/china1/e58c85e992a2e79a84e696b0e88a82e883bde2809ce5bc95e6938ee2809de696bde88090e5beb7e794b5e6b094e4b8bae58c85e992a2e696b0e4bd93e7b3bbite7b3bbe7bb9fe68f90e4be9be794b5e58a9be4bf9de99a9c/](http://www.apc.com/site/press_center/index.cfm/china1/e58c85e992a2e79a84e696b0e88a82e883bde2809ce5bc95e6938ee2809de696bde88090e5beb7e794b5e6b094e4b8bae58c85e992a2e696b0e4bd93e7b3bbite7b3bbe7bb9fe68f90e4be9be794b5e58a9be4bf9de99a9c/)

<sup>89</sup> <http://www.btradio.com.cn/view.asp?/=40737>

Further inquiries were made with Sources Y and Z, and they had different opinions to that outlined above. They said that Hu Chunhua paid attention to this project and inquired about it when he visited Baotou Steel, though he was not personally involved. Hu Chunhua is the Head of the Party in Inner Mongolia and in charge of all the CPC work in Inner Mongolia, while the industry and economic development was normally the responsibility under one of the seven deputy governors of Inner Mongolia. These sources stated that the project mentioned above was launched in accordance with the steel industry development of the 12th 5-year plan of the State Council and the development situation of Baotou Steel, rather than a decision made by Hu Chunhua.

Source Y further said that the idea and plan of the project was formed within Baotou Steel, and approval was granted by the provincial government's relevant bodies such as Inner Mongolia SASAC and the NDRC. The source pointed out that Hu Chunhua might have encouraged the project, but he was not involved. Currently the project is mainly promoted by Baotou Steel, with supervision and support from the Inner Mongolia SASAC, Inner Mongolia DRC, the Economic and Information Technology Commission, and other relevant governing bodies.

It should be noted that Hu Chunhua is seen as a strong candidate to join the next Politburo, the country's top decision making committee. However, Source AA commented that while Xi Jinping spoke highly of Hu Chunhua with regards to his role in the anti-corruption campaign in Guangdong before his tenure in Inner Mongolia, Xi believes that Hu Chunhua is not sufficiently capable and too soft when handling some situations. These characteristics may be hurting Hu Chunhua's chance to advance his political career. Furthermore, Hu Chunhua remains close to Hu Jintao as the former President thought highly of him and promoted him accordingly, so Xi has some reservations.

## 6. ANSTEEL GROUP

Discreet interviews and supplementary research were conducted to obtain details of state involvement in management and operations of Ansteel Group as detailed below.

### 6.1 Management Chart

Relevant public records were retrieved and focused research conducted to identify key management positions held by political figures at Ansteel Group. The below table shows the current / former political or official roles held by senior figures in the management lineup:<sup>90</sup>

According to the company website of Ansteel Group, Ansteel Group was established by combining Anshan Steel Group Co Ltd and Panzhihua Iron & Steel (Group) Co Ltd (攀枝花鋼鐵(集團)有限公司) (“Panzhuihua Steel”), in May 2010.<sup>91</sup>

Name	Position in Ansteel Group	Current / Previous Role in Government Department or Government Related Organization
Zhang Guangning (张广宁)	<ul style="list-style-type: none"> <li>• Chairman</li> <li>• Secretary of CPC Committee</li> </ul>	<ul style="list-style-type: none"> <li>• Former member of the CPC Leadership Group and Mayor of Guangzhou Municipal Government (广州市政府副市长、党组成员)</li> <li>• Former Standing Committee Member of Guangzhou Municipal CPC Committee (广州市委常委)</li> <li>• Former Executive Vice Mayor and Member of the CPC Leadership Group of Guangzhou Municipal Government (广州市政府常务副市长、党组成员)</li> <li>• Former Chief and Acting CPC Committee Secretary of Guangzhou Province Nansha Development Area Construction Headquarter (广州南沙开发区建设指挥部总指挥、临时党委书记)</li> <li>• Former Mayor of Guangzhou City (广州市市长)</li> <li>• Former Standing Member of CPC Committee of Guangdong Province (中共广东省委常委)</li> <li>• Former Secretary of Guangzhou Municipal CPC Committee (广州市委书记)</li> <li>• Deputy to the 10<sup>th</sup> National People’s Congress (第十届全国人大代表)</li> <li>• Former Deputy to the Guangzhou People’s Congress</li> <li>• Former Deputy to the Guangdong People’s Congress</li> <li>• Former Deputy to Guangzhou Municipal Party Congress (广州市党代会)</li> <li>• Former Member of Guangzhou Municipal CPC Committee (广州市市委委员)</li> </ul>

<sup>90</sup> <http://www.ansteel.cn/a/jituangaoguan/>

<sup>91</sup> <http://www.ansteel.cn/a/about/jituanjianjie/>

Na Xizhi (那希志)	<ul style="list-style-type: none"> <li>External Director<sup>92</sup></li> </ul>	<ul style="list-style-type: none"> <li>Former Director of Northeast Electric Power Bureau (东北电业管理局生技处处长)<sup>93</sup></li> </ul>
Yang Haibin (杨海滨)	<ul style="list-style-type: none"> <li>External Director<sup>94</sup></li> </ul>	<ul style="list-style-type: none"> <li>Former Deputy Section Chief of Industrial Communication Section, Economy Department, Planning Economy Commission of Tibet Autonomous Region (西藏自治区计经委经济局工交科副科长)</li> <li>Former Deputy Director of Economy Department, Planning Economy Commission of Tibet Autonomous Region (西藏自治区计经委经济局副局长)</li> <li>Former Vice Secretary of the CPC Leadership Group and Deputy Director of Industrial Power Department, Tibet Autonomous Region (西藏自治区工业电力厅副厅长、党组副书记)</li> <li>Former Secretary of the CPC Leadership Group and Director of Industrial Power Department, Tibet Autonomous Region (西藏自治区工业电力厅厅长、党组书记)</li> <li>Former Secretary of the Leading CPC Leadership Group and Director (General Manager), Industrial Power Bureau (Power company), Tibet Autonomous Region (西藏自治区工业电力局 (电力公司) 党组书记、局长 (总经理) )</li> <li>Former Vice Chairman of Tibet Autonomous Region (西藏自治区副主席)<sup>95</sup></li> </ul>
Zhang Changfu (张长富)	<ul style="list-style-type: none"> <li>External Director</li> </ul>	<ul style="list-style-type: none"> <li>Former Deputy Team Leader of Discipline Inspection Team and Former Vice Director/Director of Inspection Bureau, CCDI at Ministry of Metallurgical Industry (中纪委驻冶金工业部纪检组、监察局副局长、局长)</li> <li>Former Office Director and Former Chief of Agency Service Bureau of Industrial Department of Ministry of Metallurgical Industry (国家冶金工业局办公室主任兼机关服务局局长)</li> <li>Former Vice Director of Agency Service Management Bureau (Retired Cadres Management Bureau) of State Economic and Trade Commission (国家经贸委机关服务管理局 (离退休干部管理局) 副局长)</li> <li>Former Director, CPC Committee Secretary and Member of Agency Service Management Bureau of State Economic and Trade Commission (国资委</li> </ul>

<sup>92</sup> <http://finance.sina.com.cn/chanjing/rsbd/20150527/201522282103.shtml>

<sup>93</sup> <http://www.baike.com/wiki/%25E9%2582%25A3%25E5%25B8%258C%25E5%25BF%2597>

<sup>94</sup> <http://finance.sina.com.cn/chanjing/rsbd/20150527/201522282103.shtml>

<sup>95</sup> <http://baike.baidu.com/subview/491430/6640832.htm>



		<p>机关服务管理局（离退休干部管理局）局长、党委书记、国资委党委委员</p> <ul style="list-style-type: none"> <li>• Former Chairman of CISA (中国钢铁工业协会副会长)</li> <li>• Former Vice Secretary General of CISA (中国钢铁工业协会秘书长)</li> <li>• Former Vice Secretary of CPC Committee of CISA (中国钢铁工业协会党委副书记)<sup>96</sup></li> </ul>
Tang Fuping (唐复平)	<ul style="list-style-type: none"> <li>• Director</li> <li>• General Manager</li> <li>• Vice Secretary of CPC Committee</li> </ul>	<ul style="list-style-type: none"> <li>• Not found</li> </ul>
Yin Li (尹利)	<ul style="list-style-type: none"> <li>• Employee Director</li> <li>• Vice Secretary of CPC Committee</li> <li>• Chairman of Labour Union</li> </ul>	<ul style="list-style-type: none"> <li>• Not found</li> </ul>
Yao Lin (姚林)	<ul style="list-style-type: none"> <li>• Vice General Manager</li> <li>• Standing Member of CPC Committee</li> </ul>	<ul style="list-style-type: none"> <li>• Not found</li> </ul>
Yu Wanyuan (于万源)	<ul style="list-style-type: none"> <li>• Standing Member of CPC Committee</li> <li>• Vice General Manager</li> <li>• General Accountant</li> </ul>	<ul style="list-style-type: none"> <li>• Not found</li> </ul>
Chen Ping (陈平)	<ul style="list-style-type: none"> <li>• Vice General Manager</li> </ul>	<ul style="list-style-type: none"> <li>• Former Deputy to the National Progress of Anshan City<sup>97</sup></li> </ul>
Yu Zisu (余自甦)	<ul style="list-style-type: none"> <li>• Standing Member of CPC Committee</li> <li>• Vice General Manager</li> </ul>	<ul style="list-style-type: none"> <li>• Not found</li> </ul>
Bai Jingpu (白静瀑)	<ul style="list-style-type: none"> <li>• Vice General Manager</li> </ul>	<ul style="list-style-type: none"> <li>• Not found</li> </ul>
Xu Zhiwu (许质武)	<ul style="list-style-type: none"> <li>• Standing Member of CPC Committee</li> <li>• Secretary of Discipline Inspection Office</li> </ul>	<ul style="list-style-type: none"> <li>• Not found</li> </ul>
Dai Deming (戴德明)	<ul style="list-style-type: none"> <li>• External Director<sup>98</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Not found</li> </ul>
Fang Zhong (范仲)	<ul style="list-style-type: none"> <li>• External Director<sup>99</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Not found</li> </ul>

<sup>96</sup> [http://vip.stock.finance.sina.com.cn/corp/view/vCI\\_CorpManagerInfo.php?stockid=601800&Name=%D5%C5%B3%A4%B8%BB](http://vip.stock.finance.sina.com.cn/corp/view/vCI_CorpManagerInfo.php?stockid=601800&Name=%D5%C5%B3%A4%B8%BB)

<sup>97</sup> <http://www.asmrw.net/danganmx.asp?mrid=1921>

<sup>98</sup> <http://www.ansteel.cn/a/news/xinwenzixun/2014/0317/1800.html>

<sup>99</sup> <http://www.ansteel.cn/a/news/xinwenzixun/2014/0317/1800.html>

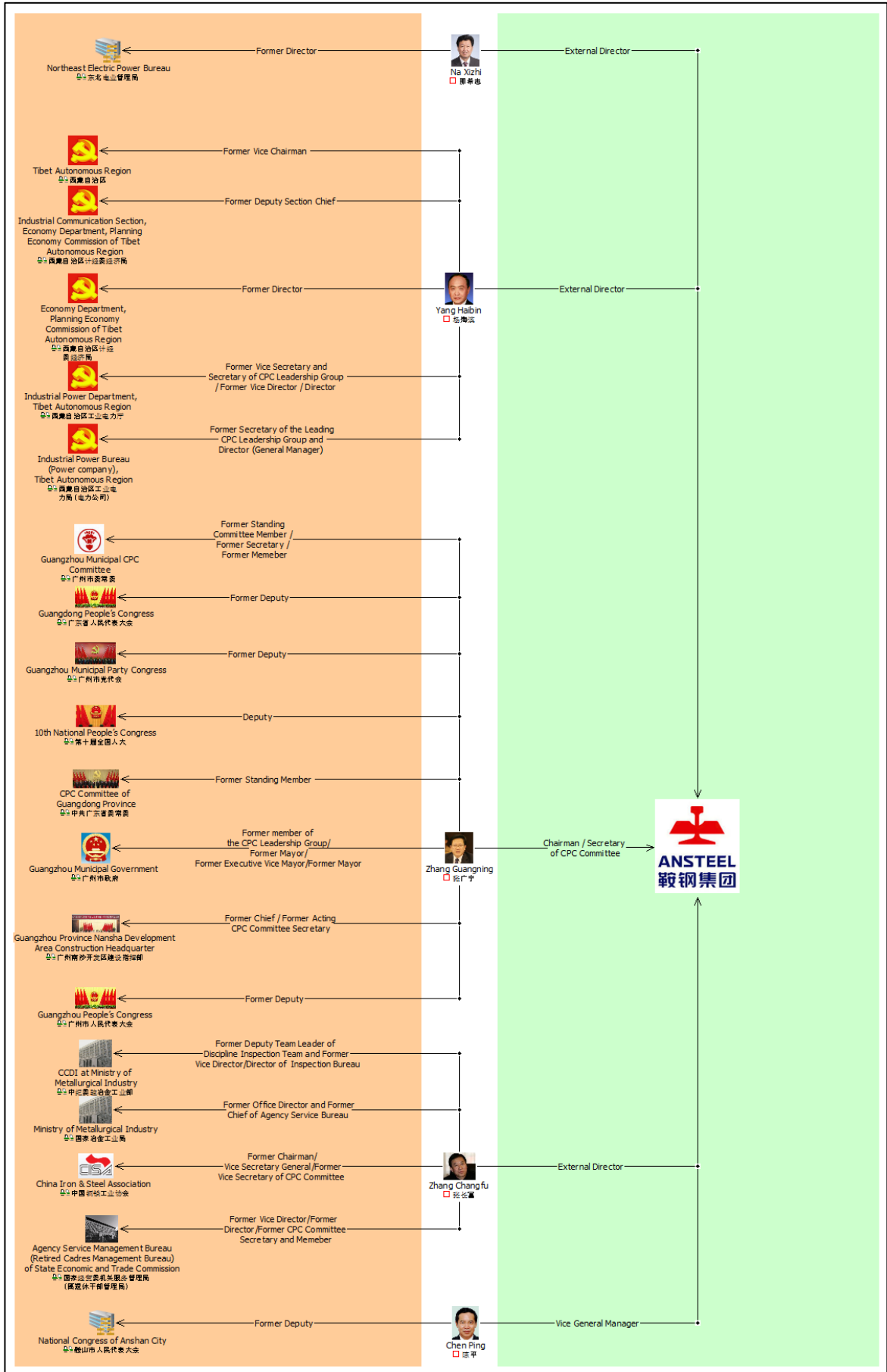
- Management of Anshan Steel

Name	Position in Anshan Steel	Current / Previous Role in Government Department or Government Related Organization
Wang Yidong (王义栋)	<ul style="list-style-type: none"> <li>Vice Secretary of CPC Committee</li> </ul>	<ul style="list-style-type: none"> <li>Not found</li> </ul>
Lin Daqing (林大庆)	<ul style="list-style-type: none"> <li>Vice Secretary of CPC Committee</li> <li>Secretary of Discipline Inspection Committee</li> <li>Chairman of Labor Union</li> </ul>	<ul style="list-style-type: none"> <li>Not found</li> </ul>
Li Zhongwu (李忠武)	<ul style="list-style-type: none"> <li>Standing Member of CPC Committee</li> <li>Vice General Manager</li> </ul>	<ul style="list-style-type: none"> <li>Not found</li> </ul>
Shao Anlin (邵安林)	<ul style="list-style-type: none"> <li>Standing Member of CPC Committee</li> </ul>	<ul style="list-style-type: none"> <li>Team Leader of Leadership for “Medium and Long Term Development Plan for China Iron Ore Industry (中国铁矿业中长期发展规划领导小组组长)</li> <li>Chairman of Chairman Group of China Mining Association (中国矿业联合会主席团主席)</li> <li>Director of China Metallurgy and Mining Development Center (中国冶金矿业发展研究中心主任)</li> <li>Chairman of Iron Ore and Direct Reduced Iron Standardization Technology National Administration Committee (全国铁矿石与直接还原铁标准化技术委员会主任委员)<sup>100</sup></li> </ul>
Liu Jie (刘杰)	<ul style="list-style-type: none"> <li>Standing Member of CPC Committee</li> </ul>	<ul style="list-style-type: none"> <li>Not found</li> </ul>
Zhang Guangning (张广宁)	<ul style="list-style-type: none"> <li>Director</li> </ul>	<ul style="list-style-type: none"> <li>Former member of the CPC Leadership Group and Mayor of Guangzhou Municipal Government (广州市政府副市长、党组成员)</li> <li>Former Standing Committee Member of Guangzhou Municipal CPC Committee (广州市委常委)</li> <li>Former Executive Vice Mayor and Member of the CPC Leadership Group of Guangzhou Municipal Government (广州市政府常务副市长、党组成员)</li> <li>Former Chief and Acting CPC Committee Secretary of Guangzhou Province Nansha Development Area Construction Headquarter (广州南沙开发区建设指挥部总指挥、临时党委书记)</li> <li>Former Vice Secretary of the Commission for Discipline Inspection of Guangzhou City (广州市委副书记)</li> </ul>

<sup>100</sup> <http://baike.baidu.com/view/10431102.htm>

		<ul style="list-style-type: none"> <li>• Former Mayor of Guangzhou City (广州市市长)</li> <li>• Former Standing Member of CPC Committee of Guangdong Province (中共广东省委常委)</li> <li>• Former Secretary of Guangzhou Municipal CPC Committee (广州市委书记)</li> <li>• Deputy to the 10<sup>th</sup> National People's Congress (第十届全国人大代表)</li> <li>• Former Deputy to the Guangzhou People's Congress</li> <li>• Former Deputy to the Guangdong People's Congress</li> <li>• Former Deputy to Guangzhou Municipal Party Congress (广州市党代会)</li> <li>• Former Member of Guangzhou Municipal CPC Committee (广州市市委委员)</li> </ul>
Tang Fuping (唐复平)	• Director	• Not found
Yin Li (尹利)	• Director	• Not found
Dai Deming (戴德明)	• Director	• Not found

The below chart shows the current / former political or official roles held by the most senior management figures at Ansteel Group:



## 6.2 Roles and Activities of Officials

### Role of Political Figures

Research was conducted to show the extent to which the management lineup is dominated by political figures. This includes narrative description of some of the roles held by these figures, which may indicate their involvement in decision making, target setting, facilitating state support etc. or other roles.

#### Example 1 - Zhang Guangning (张广宁) – President of Ansteel Group

Zhang was a Party Secretary of Guangzhou city, before being assigned to be the President and Party Secretary of Ansteel Group. Source B commented that the appointment of Zhang as the President and Party Secretary of Ansteel Group appeared to be a same-level transfer, but was actually a demotion. Zhang was alleged to be engaged in corruption during the preparation of the 2010 Asian Games hosted in Guangzhou. It was said that Zhang had received a large bribe from a property developer, and in return the developer received a number of favours. This allegation was made to the CCDI by other discontented property developers.

Zhang’s career development is listed as follows:

<i>Period</i>	<i>Former Government Position<sup>101</sup></i>
2010–2011	Secretary, CPC, City Committee Guangdong Province, Guangzhou City
2003–2010	Mayor, People's Government Guangdong Province, Guangzhou City
2003–2008	Deputy, 10th NPC
2003–2005	Student, CPC, Central Committee, Central Party School
2002–2003	Deputy Secretary, CPC, City Committee Guangdong Province, Guangzhou City
2002–2003	Acting Mayor, People's Government Guangdong Province, Guangzhou City
2000–2002	Executive Vice-Mayor, People's Government Guangdong Province, Guangzhou City
1996–2000	Vice-Mayor, People's Government Guangdong Province, Guangzhou City

#### Example 2 – Appointment of a new director at Ansteel Group

As indicated above, according to a press release from September 2013, SASAC appointed a new director Xu Dunwu (许质武) to replace a current director who was reassigned to another role.<sup>102</sup> This appointment was reportedly made to provide more support to Zhang in the restructuring of Ansteel Group.

### Activities of Political Figures

Research was conducted to identify examples of Ansteel Group’s key political figures’ roles in its operations or activities.

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<sup>101</sup> [http://www.chinavitae.com/biography/Zhang\\_Guangning%7C1930](http://www.chinavitae.com/biography/Zhang_Guangning%7C1930)

<sup>102</sup> [http://www.chinasie.org.cn/news\\_info.aspx?id=168751&lei01=12](http://www.chinasie.org.cn/news_info.aspx?id=168751&lei01=12)

## Government Officials Participated in Board Meeting

On 1 June 2015, Ansteel Group launched the 10<sup>th</sup> board meeting. Several government officials participated the meeting, including:<sup>103</sup>

- Ye Yan (叶岩), Deputy Inspector of Cadre 5<sup>th</sup> Bureau, Organization Department of the CPC Central Committee (中央组织部干部五局副巡视员)
- Liu Yuan (刘源), Deputy Chief of Cadre 5<sup>th</sup> Bureau, Organization Department of the CPC Central Committee (中央组织部干部五局副局长)
- Xiao Zonghui (肖宗辉), Deputy Director of Enterprise Cadre 1<sup>st</sup> Bureau, SASAC (国务院国资委企干一局副局长)
- Li Xiaoming (李晓明), Director of Enterprise Restructure Bureau, SASAC (国务院国资委企业改组局局长)
- Wang Jianxiong (王建雄), Director of Office of Board of Supervisors for SOE, SASAC (国务院国资委国有企业监事会办事处主任)

In the meeting, it was announced that two external directors including Na Xizhi (那希志) and Yang Haibin (杨海滨) were appointed to be the external directors of Ansteel Group by SASAC.<sup>104</sup>

## 6.3 Impact / Influence of Government on Operations and Performance

### **State Control of Operations**

Ansteel Group is under the supervision of SASAC and State Council. They assert their influence on Ansteel Group through regulations and different policies.

Source A, Source D, Source J, Source N, Source R and Source AB all said that as an important part of the economy, state steel companies have always attracted attention from senior officials in central and local governments. Ansteel Group, as an important central SOE, has been visited by almost all the senior officials during their tenure. For example, former president Hu Jintao visited Ansteel Group in late 2008, and current premier Li Keqiang often made a visit in the past when he was still working a lower level official under Liaoning government. Generally speaking, these senior officials are not involved in the operation of Ansteel Group, and their visit was just regular political activity. The development plan and strategy of Ansteel Group, including general development target, are outlined by the NDRC, the SASAC and the MIIT. No single individual could significantly influence the operation of Ansteel Group. Source R pointed out that any important decision, such as the acquisition of an overseas asset, is not made by one political figure, but needs to be approved by several government bodies.

Source A and Source R further said that Ansteel Group's development direction is normally outlined by the State Council and the MIIT, and based on this direction a detailed plan or strategy would be then made by Ansteel Group, which includes annual target and output goals. Ansteel Group's plan would need to be submitted to the State Council for review and approval. For example, Ansteel Group submitted plans to set up a steel factory in Indonesia, which was earlier outlined by the State Council in its national steel industry development plan for solving the overcapacity issue. The same source also mentioned that the State Council, the NDRC and SASAC have released many plans urging the state steel companies to eliminate their outdated production facilities and proceed with technical upgrade. Ansteel Group made corresponding plans on this area.

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<sup>103</sup> [http://www.csteelnews.com/qypd/qyzy/201506/t20150602\\_284786.html](http://www.csteelnews.com/qypd/qyzy/201506/t20150602_284786.html)

<sup>104</sup> <http://www.btcbxg.com/html/13/947.htm>

Ansteel Group is under more scrutiny than some other steel producers as it is one of several Central SOEs that racked up large losses, reaching RMB 4.2 billion in fiscal year 2012.<sup>105</sup> Source R said that SASAC regularly organized meetings with Ansteel Group to discuss the business operation and the development strategy, with the most frequent topic being the reduction of Ansteel Group's huge loss. Ansteel Group has asked for State Council and SASAC to provide support through policy and regulation, in addition to financial assistance as it has faced a high cost of capital with their bank financing. Ansteel Group's cost of capital is reportedly several times higher than other Central SOEs.

However, SASAC was not prepared to be too involved in the management of Ansteel Group's financial problems, as they said it was inappropriate to provide any assistance to influence the banks in lowering the capital cost of Ansteel Group. The most that SASAC could do was provide monetary support from the state-owned asset revenue reserve (国有资产收益金). At the same time, SASAC established a "growth maintaining team" to solve growth problems for Central SOEs, and spent a week in May 2013 conducting research and aid identified solutions.<sup>106</sup> SASAC reiterated that the team was not present to provide instruction on how Ansteel Group should operate, but only as coordinator and communicator with other relevant parties and support based on the Central SOEs strategy.

As to the appointment of senior management, similar to Baosteel Group, the appointment of the top management roles are decided by the Organization Department of the CPC Central Committee, with SASAC and the State Council offering their suggestions and advice on the candidates. SASAC makes decisions on the independent directors.

## **Examples of Impact on Operations**

### Example 1 – Policy-driven merger

The integration of Ansteel Group and Panzhihua Steel was driven by policies such as the "Chinese Steel Industry Policy" in 2005 and the "Steel Industry Adjustment and Restructuring Plan" in 2009 released by the State Council.

Source R said that the integration of Ansteel Group and Panzhihua Steel was fairly smooth because it was an order from the State Council, and the officials in Sichuan government also provided much support. The same source further said that government plan had a great impact on the development of steel companies. Chengdu Steel, a subsidiary of Panzhihua Steel, will shut down 1.8 MT of production as part of the plan in which 36 MT of steel production will be eliminated in 2015. This plan was initiated to fulfill the goals set in the "Energy Saving and Environment Protection 2015 Plan of Sichuan Province".

According to online references, Baosteel Group was initially designated by SASAC as the company to restructure Panzhihua Steel. A senior SASAC official told a journalist from *China Times* (华夏时报) on 14 November 2008 that SASAC finally made the decision to have Ansteel Group execute restructuring on Panzhihua Steel.<sup>107</sup>

### Example 2 – Merger of Ansteel Group and Benxi Steel

In August 2005, Ansteel Group and Benxi Steel merged, forming a new entity called Anben Steel Group.<sup>108</sup> However, as of 2011, Ansteel Group and Benxi Steel are only sharing the company name Anben Steel, but were not cooperating in research and development, strategies, sales, human resources etc. According to an online report on 13 January 2010, the merger and restructuring of Ansteel Group and Benxi Steel failed. In this report, journalist commented as follows after having spoken to several industrial resources:<sup>109</sup>

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<sup>105</sup> <http://www.eeo.com.cn/2013/0518/244221.shtml>

<sup>106</sup> <http://www.sasac.gov.cn/n1180/n1566/n259730/n264168/15281438.html>

<sup>107</sup> <http://finance.sina.com.cn/roll/20081122/01155539461.shtml>

<sup>108</sup> [http://chinaneast.xinhuanet.com/2005-08/16/content\\_4896126.htm](http://chinaneast.xinhuanet.com/2005-08/16/content_4896126.htm)

<sup>109</sup> [http://www.time-weekly.com/html/20100113/6796\\_1.html](http://www.time-weekly.com/html/20100113/6796_1.html)

- Zhang Tianwei (张天维), Deputy Chief of Economic Research Institution of Liaoning Academy of Social Sciences (辽宁省社会科学院经济研究所副所长),<sup>110</sup> said that Ansteel Group is a SOE and Benxi Steel is a provincial SOE. They represented interests of different parties. Without the strong support from both national and the local government, the merger and restructuring of the two companies would be very difficult.
- Xu Xiangchun (徐向春), a director of the website “*My Steel Website*”<sup>111</sup> suggested that the failure was not due to the market. He said that it failed because the government failed to coordinate arrangements for taxes, finance, human resources, etc., as the ownership of Ansteel Group and Benxi Steel are different.<sup>112</sup> In this report, it was said that Benxi Steel complained about the compensation of the merger, and the local government received little benefit from the merged entity. On the other side, Ansteel Group was not willing to pay more restructuring capital, as it did not fully acquire Benxi Steel. It was a merger in name only and there is little integration between the two companies.<sup>113</sup>
- Other comments indicated that Benxi Steel and Ansteel Group disagreed on the tax payment and leadership arrangements. Liaoning SASAC required that after the merger Benxi Steel would pay taxes to Liaoning SASAC, and Liaoning SASAC should have equity in Benxi Steel. In addition, Liaoning Provincial Government requested to assign a government official from the Liaoning Provincial Government to lead the executives of the combined Ansteel Group and Benxi steel entity. However, the proposal was not passed.<sup>114</sup>
- Ma Zhongxian (马忠显) said that the difficulty reflected the differences between the SOE policies and government policies, as there are conflicting interest between a local and national SOE. Zhang Tianwei indicated that both companies have traces of a “*planned economy*”; the entities have emerged from government economic planning and do not follow the market reality of private companies, and this crippled the merger between the two companies.<sup>115</sup>

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<sup>110</sup> [http://www.time-weekly.com/html/20100113/6796\\_1.html](http://www.time-weekly.com/html/20100113/6796_1.html)

<sup>111</sup> English translation of 我的钢铁网

<sup>112</sup> [http://www.time-weekly.com/html/20100113/6796\\_1.html](http://www.time-weekly.com/html/20100113/6796_1.html)

<sup>113</sup> [http://www.time-weekly.com/html/20100113/6796\\_1.html](http://www.time-weekly.com/html/20100113/6796_1.html)

<sup>114</sup> [http://www.time-weekly.com/html/20100113/6796\\_1.html](http://www.time-weekly.com/html/20100113/6796_1.html)

<sup>115</sup> [http://www.time-weekly.com/html/20100113/6796\\_1.html](http://www.time-weekly.com/html/20100113/6796_1.html)



## 7. HEBEI STEEL GROUP

Discreet interviews and supplementary research were conducted to obtain details of state involvement in management and operations of Hebei Steel Group as detailed below.

### 7.1 Management Chart

Relevant public records were retrieved and focused research conducted to identify key management positions held by political figures at Hebei Steel Group. The below table shows the current / former political or official roles held by senior figures in the management lineup:<sup>116</sup>

Name	Position in Hebei Steel	Current / Previous Role in Government Department or Government Related Organization
Yu Yong (于勇)	<ul style="list-style-type: none"> <li>Chairman</li> <li>Secretary of CPC Committee</li> </ul>	<ul style="list-style-type: none"> <li>Not found</li> </ul>
Peng Zhaofeng (彭兆丰)	<ul style="list-style-type: none"> <li>General Manager</li> <li>Vice Chairman</li> <li>Standing Member of CPC Committee</li> </ul>	<ul style="list-style-type: none"> <li>Not found</li> </ul>
Kong Ping (孔平)	<ul style="list-style-type: none"> <li>Vice Secretary of CPC Committee</li> <li>Director</li> <li>Vice General Manager</li> </ul>	<ul style="list-style-type: none"> <li>Not found</li> </ul>
Li Guiyang (李贵阳)	<ul style="list-style-type: none"> <li>Vice Chairman</li> <li>Standing Member of CPC Committee</li> </ul>	<ul style="list-style-type: none"> <li>Not found</li> </ul>
Xing Qiang (邢强)	<ul style="list-style-type: none"> <li>Vice Secretary of CPC Committee</li> <li>Vice Secretary of the Commission of Commission for Discipline Inspection</li> <li>Chairman of Board of Supervisors</li> </ul>	<ul style="list-style-type: none"> <li>Former Director of Second Division of Enterprise Leader Management Department, Hebei SASAC (省政府国资委企业领导人员管理二处处长)<sup>117</sup></li> </ul>
Zhang Hai (张海)	<ul style="list-style-type: none"> <li>Vice General Manager</li> <li>Director</li> </ul>	<ul style="list-style-type: none"> <li>Not found</li> </ul>
Wang Hongren (王洪仁)	<ul style="list-style-type: none"> <li>Vice General Manager</li> <li>Standing Member of CPC Committee</li> </ul>	<ul style="list-style-type: none"> <li>Not found</li> </ul>
Qi Yuezhang (齐跃章)	<ul style="list-style-type: none"> <li>Standing Member of CPC Committee</li> <li>Chairman of Labor Union</li> </ul>	<ul style="list-style-type: none"> <li>Not found</li> </ul>
Wang Xindong (王新东)	<ul style="list-style-type: none"> <li>Vice General Manager</li> </ul>	<ul style="list-style-type: none"> <li>Not found</li> </ul>
Liu Zhensuo (刘贞锁)	<ul style="list-style-type: none"> <li>General Accountant</li> <li>Director</li> </ul>	<ul style="list-style-type: none"> <li>Not found</li> </ul>
Wang Zhumin (王竹民)	<ul style="list-style-type: none"> <li>Vice General Manager</li> </ul>	<ul style="list-style-type: none"> <li>Deputy to the People's Congress of Chengde City<sup>118</sup></li> </ul>
Chi Guiyou	<ul style="list-style-type: none"> <li>Vice General Manager</li> </ul>	<ul style="list-style-type: none"> <li>Not found</li> </ul>

<sup>116</sup> <http://www.hebtgf.com/index.php?id=135>

<sup>117</sup> <http://mingren.maigoo.com/12953.html>

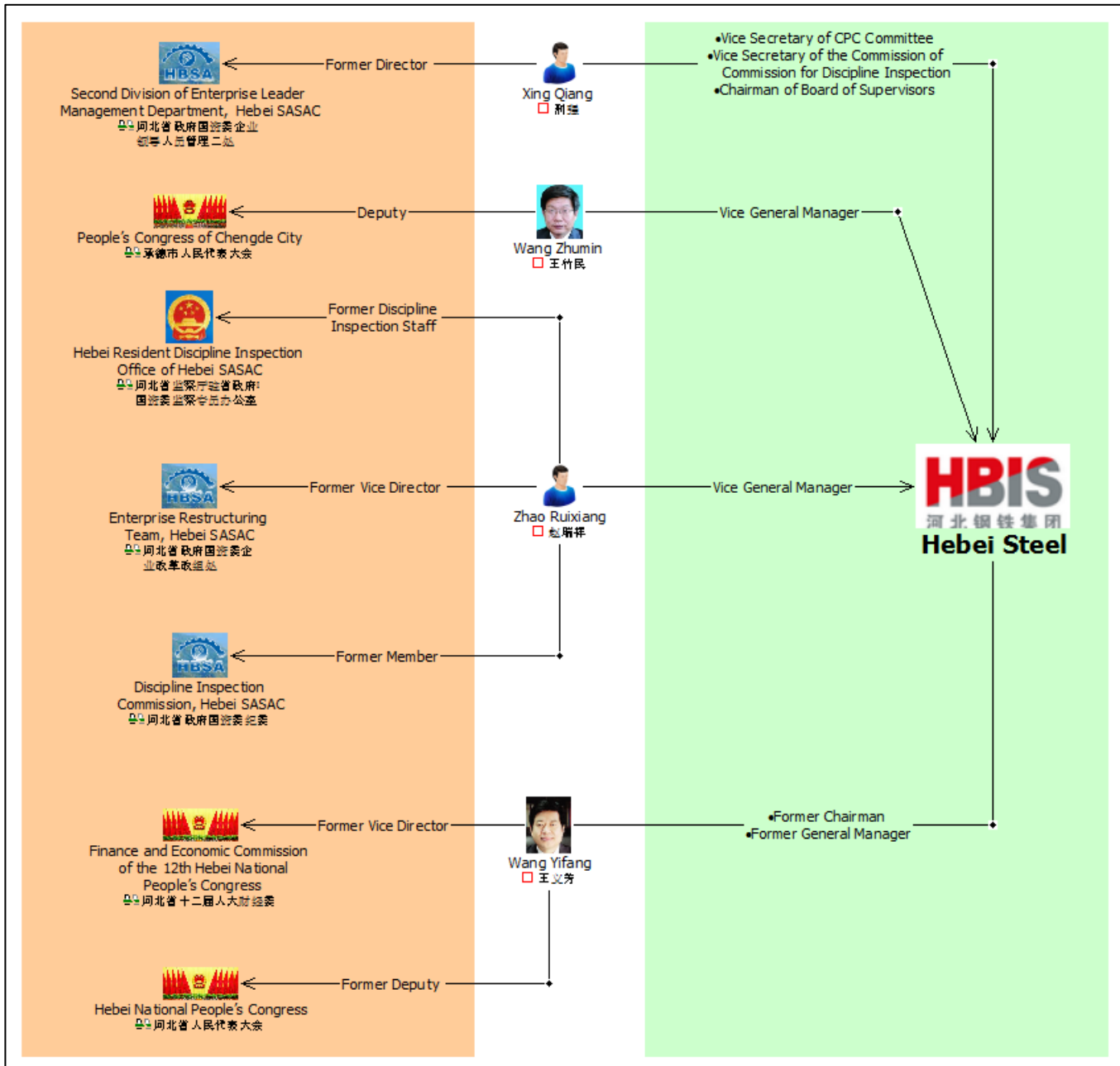
<sup>118</sup> [http://www.chengde.gov.cn/cdrd/2015-01/28/content\\_75986.htm](http://www.chengde.gov.cn/cdrd/2015-01/28/content_75986.htm)

(迟桂友)		
Li Yiping (李怡平)	<ul style="list-style-type: none"> <li>Special Officer (专务)</li> </ul>	<ul style="list-style-type: none"> <li>Not found</li> </ul>
Wang Yifang (王义芳)	<ul style="list-style-type: none"> <li>Former Chairman</li> <li>Former General Manager</li> </ul>	<ul style="list-style-type: none"> <li>Former Vice Director of Finance and Economic Commission of the 12<sup>th</sup> Hebei National People's Congress (河北省十二届人大财经委副主任)</li> <li>Former Deputy to Hebei National People's Congress (河北省人大代表)<sup>119</sup></li> </ul>
Liu Zhiqiang (刘志强)	<ul style="list-style-type: none"> <li>Employee Supervisor</li> </ul>	<ul style="list-style-type: none"> <li>Not found</li> </ul>
Hu Zhigang (胡志刚)	<ul style="list-style-type: none"> <li>Supervisor</li> </ul>	<ul style="list-style-type: none"> <li>Not found</li> </ul>
Zhao Ruixiang (赵瑞祥)	<ul style="list-style-type: none"> <li>Vice General Manager</li> </ul>	<ul style="list-style-type: none"> <li>Former Vice Director of Enterprise Restructuring Team, Hebei SASAC (河北省政府国资委企业改革改组处副处长)</li> <li>Former Member of Discipline Inspection Commission, Hebei SASAC (河北省政府国资委纪委)</li> <li>Former Discipline Inspection Staff of Hebei SASAC Resident Discipline Inspection Office (河北省监察厅驻省政府国资委监察专员办公室正处级纪检监察员)<sup>120</sup></li> </ul>
Liu Yibing (刘亦兵)	<ul style="list-style-type: none"> <li>Vice General Manager</li> </ul>	<ul style="list-style-type: none"> <li>Not found</li> </ul>
Li Buhai (李卜海)	<ul style="list-style-type: none"> <li>Secretary of Board</li> </ul>	<ul style="list-style-type: none"> <li>Not found</li> </ul>
Chang Guangshen (常广申)	<ul style="list-style-type: none"> <li>Chief Financial Officer</li> </ul>	<ul style="list-style-type: none"> <li>Not found</li> </ul>

The below chart shows the current / former political or official roles held by the most senior management figures at Hebei Steel Group:

<sup>119</sup> <http://money.163.com/14/0327/16/90BUH1C1002524S0.html>

<sup>120</sup> <http://www.hebgf.com/news.php?id=1491>



## 7.2 Roles and Activities of Officials

### Role of Political Figures

Research was conducted to show the extent to which the management lineup is dominated by political figures. This includes narrative description of some of the roles held by these figures, which may indicate their involvement in decision making, target setting, facilitating state support etc. or other roles.

According to Source S, executives of Hebei Steel are appointed by Hebei SASAC. The source added that Hebei SASAC or Hebei Provincial Government was not involved in the operations of steel companies, but only provide guidance. This source commented that it is very rare for those government officials to be transferred from government department to Hebei Steel. Even when some government officials transferred to work in steel companies, these figures are not really involved in the actual steel business, as they have no relevant experiences. They work at supporting departments, such as marketing or communication department.

According to “*Hebei Provincial Government’s Guideline Regarding Pushing the Mergers and Restructuring of Enterprises*” (河北省人民政府关于促进企业兼并重组的实施意见) (冀政[2011]79 号) issued on 15 December 2011 on the website of Hebei Provincial Government, the announcement revealed the details of regulations on SOE restructuring in Hebei Province, covering industries including steel, mining, cement, textiles, food, solar energy etc.

In the announcement, a list of government officials was formed to be a Leadership Team for Enterprises Restructuring and Merger in Hebei Province (省企业兼并重组工作领导小组成员名单) for restructuring SOEs, which included government officials:

<i>Role</i>	<i>Name</i>	<i>Government Position</i>
Team Leader	Zhang Jiehui (张杰辉)	Vice Governor of Hebei Provincial Government
Deputy Team Leader	Yu Wankui (于万魁)	Deputy-Secretary - General Hebei Provincial Government (河北省政府副秘书长)
Deputy Team Leader	Wang Chang (王昌)	Director of Industry and Information Technology Department of Hebei Province (河北省工业和信息化厅长)
Team Member	Chen Yongjiu (陈永久)	Director of Development and Information Technology Department of Hebei Province (省发展和信息化厅厅长)
	Lian Xiaoyong (连小勇)	Deputy Director-General of Hebei Science Technology Bureau (河北省科技厅副厅长)
	Zou Ping (邹平)	Deputy Chief of Industry and Information Technology Department of Hebei Province (河北省工业和信息化厅副厅长)
	Guo Xiutang (郭秀堂)	Deputy Director-General of Department of Finance of Hebei Province (河北省财政厅副厅长)
	Wang Huanqiang (王焕强)	Deputy Director-General of Human Resources and Social Security Department of Hebei Province (河北省人力资源和社会保障厅副厅长)
	Zhang Weiliang (张维亮)	Deputy Director-General of Land and Resources of Hebei Province (河北省国土资源厅副厅长)
	Yang Zhiming (杨智明)	Deputy Director-General of Department of Land and Resources of Hebei Province (河北省环境保护厅副厅长)
	Wang Meiyong (王梅英)	Deputy Director-General of Department of Commerce of Jiangsu Province (河北省商务厅副厅长)
	Han Zhiyuan (韩志远)	Deputy Director of Hebei SASAC (河北省国资委副主任)
	Wang Ru (王儒)	Deputy Director-General of Hebei Local Taxation Bureau (河北省地税局副局长)
	Jin Hongjun (金洪钧)	Deputy Director-General of Hebei Administration for Industry and Commerce (河北省工商局副局长)
Zhang Bingming (张炳明)	Deputy Director-General of Administration of Quality and Technology Supervision of Hebei Province (河北省质监局副局长)	

	Chen Qiang (陈强)	Deputy Director-General of Hebei Provincial Safety Production Supervision Authority (河北省安全监管局副局长)
	Zhou Yunkai (周运凯)	Deputy Director-General of Hebei Provincial Bureau of Statistics (河北省统计局副局长)
	Shi Yulin (石玉林)	Deputy Director-General of the Legislative Affairs Office of the Hebei Provincial People's Government (河北省法制办副主任)
	Gan Zhongda (甘中达)	Deputy Director-General of The Financial Office of Hebei Province (河北省金融办副主任)
	Qi Jianbo (齐建波)	General Accountant of Hebei Provincial Office, SAT (省国税局总会计师)
	Shao Yanjing (邵延进)	Deputy Chief of Shijiazhuang Sub-branch of People's Bank of China (中国人民银行石家庄中心支行副行长)
	Li Zhaojun (李招军)	Deputy Director-General of China Banking Regulatory Commission Hebei Branch (河北银监局副局长)
	Guo Runwei (郭润伟)	Director of China Securities Regulatory Commission Hebei Branch (河北证监局局长)

### Activities of Political Figures

Research was conducted to identify examples of Hebei Steel Group's key political figures' roles in its operations or activities.

#### Example 1 – Appointment of executives

In December 2013, during the Hebei Steel Group Leader Conference (河北钢铁集团领导干部大会), it was announced that Yu Yong (于勇) would become the Chairman and Secretary of CPC Committee; and Peng Zhaofeng would be the General Manager, Director, Vice Chairman and Standing Member of CPC Committee. Wang Yifang (王义芳) was removed from his role as the Chairman, Director, Secretary and Standing member of CPC Committee of Hebei Steel. Deputy Governor Zhang Jiehui (张杰辉) said at the conference that the changes of the executives of Hebei Steel was a big decision and was discussed within Hebei Provincial Government.<sup>121</sup>

According to media reports, Wang had earlier submitted his resignation as the company's chairman due to "work change".<sup>122</sup> Wang was linked to allegations of embezzlement and mismanagement. After becoming the chairman, Yu Yong told senior executives that company resources had been embezzled, without specifically pointing finger to anyone.<sup>123</sup> He further said that this had been an ongoing problem for a long time.

Source K confirmed the media report that Wang was removed from the President position of Hebei Steel Group at the end of 2013 because of corruption issues. He further said that Wang's brother and a few other relatives of some unknown officials had embezzled over RMB 400 million worth of iron ore from the mines of Hebei Steel Group over a few years. Source B also mentioned this matter, although note that no official investigation has been launched into Wang Yifang.

<sup>121</sup> <http://renshi.people.com.cn/n/2013/1212/c139617-23818577.html>

<sup>122</sup> <http://www.scmp.com/business/china-business/article/1379317/hebei-steelmakers-chairman-leaves-under-cloud>

<sup>123</sup> <http://www.scmp.com/business/commodities/article/1388556/hebei-iron-may-face-closer-watch>



## 7.3 Impact / Influence of Government on Operations and Performance

### State Control of Operations

Being the largest steel production province and most polluted region in China, Hebei government faces huge challenges. Senior Chinese officials are pushing Hebei to act faster. Central government documents “*Guiding opinion to reduce serious overcapacity*”(关于化解产能严重过剩矛盾的指导意见) and “*Guidelines to implement prevention measures of atmospheric pollution in Beijing, Tianjin, Hebei province and surrounding area*”(京津冀及周边地区落实大气污染防治行动计划实施细则) stated that Hebei government must reduce capacity by at least 60 million tons by 2017, a quarter of Hebei’s overall capacity.<sup>124</sup> While the central government has been pushing hard to tear down the old facilities, new steel production facilities are still being built, with or without government approval.<sup>125</sup> The Hebei government is acting carefully, as curbing the steel production capacity will lead to 400,000 people requiring new jobs, while tax revenue will be reduced by RMB 37 billion. However, in the public eye, the Hebei government is showing that they are trying their best to meet the instruction from Beijing.

### Examples of Impact on Operations

#### Example 1 – Establishment and Support of Hebei Steel

According to the company website, Hebei Steel was established on 30 June 2008, by combining Tangshan Steel Group Co Ltd (唐山钢铁集团有限公司) and Handan Steel Group Co Ltd (邯郸钢铁集团有限责任公司).<sup>126</sup>

Cai Xiangshi (蔡祥仕) published an article *Strategic Thinking about Forming Hebei Steel Group Co Ltd* (组建河北钢铁集团有限公司的战略思考) in the 10<sup>th</sup> edition of the journal *Metallurgy Management* 《冶金管理》 in 2008. According to the article, since 2001, Hebei was listed as the province which had the biggest output of steel products for six consecutive years. However, Hebei steel industry was not competitive because it was lacking focus, and steel companies were mostly equipped with poor facilities and outdated technology, while facing increasing pressure and significant cost related to environment protection. Hebei steel companies were candidates to be acquired by other Chinese or foreign steel companies. In 2007, the output improvement of Hebei Steel Industry was 14.57% (higher than the average increase in China), but the increase of profit was 10.74% (lower than the average level in China). Under the circumstances, Hebei Provincial Government realized that it was necessary to establish a main steel group in Hebei in order to combine the resources and improve the competency of the local steel industry.<sup>127</sup> The establishment of Hebei Steel was a strategy coordinated by the provincial government.

Source S said that Hebei provincial government has provided tremendous amount of support to Hebei Steel Group since its establishment. For example, Hebei provincial government helped Hebei Steel Group to obtain a credit line of almost RMB 50 billion from Bank of China. In addition, given the environment protection policies becoming stricter, Hebei government has offered land and financial subsidies to the subsidiaries of Hebei Steel Group to relocate further away from the residential areas. The Science and Technology Department of Hebei government has also support the company through a subsidy of RMB 10 million to spend on technical upgrade of its facilities.

Source S mentioned that Hebei Steel Group has received very large sum of financial subsidies, including a RMB 70 million employment stabilizing subsidy from the Hebei government. From late 2011 to 2016, Hebei Steel Group has received subsidies for the iron ore comprehensive utilization project. The total amount of that subsidy is over RMB

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<sup>124</sup> [http://hebei.ifeng.com/zt/hebeigangtie/detail\\_2014\\_11/21/3183589\\_0.shtml](http://hebei.ifeng.com/zt/hebeigangtie/detail_2014_11/21/3183589_0.shtml)

<http://myuswlocal.org/sites/US/LU1899/index.cfm?action=article&articleID=fe86214c-fefb-4b6c-916a-2e4b02629e30>

<sup>125</sup> [http://hebei.ifeng.com/news/zbc/detail\\_2013\\_10/29/1386175\\_0.shtml?\\_from\\_ralated](http://hebei.ifeng.com/news/zbc/detail_2013_10/29/1386175_0.shtml?_from_ralated)

<sup>126</sup> <http://www.hebgjt.com/lists.jsp?pid=17>

<sup>127</sup> <http://www.cnki.com.cn/Article/CJFDTOTAL-YJGL200810010.htm>

350 million. Moreover, the tax bureau of Hebei government has exempted Hebei Steel Group from many taxes, estimated to be over RMB 450 million from 2012 to 2014.

### Example 2 – Overseas acquisition or business cooperation

Hebei Steel Group is attempting to set up a joint venture with several parties from South Africa and build a local steel plant.<sup>128</sup> This could also become a part of the solution to reduce overcapacity with the opportunity to export steel to countries that are under capacity, including exporting destination such as Indonesia and several countries in Africa. The Hebei government wishes that at least 20 MT of the overall production in the province will be for export by 2023.

Source K confirmed the media report, stating that in late 2014 Hebei government facilitated cooperation between Hebei Steel Group and China-Africa Development Fund on a steel making project in South Africa. He noted that Hebei government made tremendous effort to obtain this project for Hebei Steel Group, because at that time some other steel SOEs were also trying to win this project.

The same source also said that under the guidance and facilitation of Hebei provincial government, Hebei Steel Group had acquired and merged a number of private steel companies in Hebei province since the middle of 2010. During this process Hebei government not only provided administrative guidance and mandates, but also financial assistance.

### Example 3 – Restructuring of private steel companies

On 12 July 2011, Hebei Provincial Government issued an announcement “*Hebei Provincial Government’s Guideline Regarding Pushing the Mergers and Restructuring of Enterprises*” (河北省人民政府关于促进企业兼并重组的实施意见) (冀政[2011]79 号).<sup>129</sup> In the section “*Main Tasking*” (主要任务), the government stated that it would “*support Hebei Steel in becoming a giant and competitive global steel company, by carrying out cross-area and cross-industry merger and restructuring; develop 3 to 5 large steel group company with leading competencies and advantages.*” By the end of the 12<sup>th</sup> five year plan, it aims to integrate 15 steel companies with refining capacity in Hebei Province, and with total output of the top 10 steel companies accounting for 75% in the province. The announcement also mentioned encouragement and support for restructuring the upstream and downstream companies, in an effort to form a new industry ecosystem in Hebei Province.

According to several online reports, in 2010 a number of private steel companies were temporarily shut down due to the government’s power restriction policy. The private steel companies were either to be restructured or permanently closed down.<sup>130</sup> As stated in an online report on the website of *China Times* (华夏时报) on 23 March 2012, Hebei Provincial Government and Hebei Steel Group jointly created a restructuring model called share progressive integration (渐进式股权融合), which positioned Hebei Steel Group in a lead role to restructure private steel companies in Hebei Province. Under this model, Hebei Steel Group leveraged its reputation, management, technology consulting services, supply and sales channels in exchange for 10% shareholdings of private companies. The company therefore paid no upfront capital to become a 10% shareholder of private steel companies. Within two months, Hebei Steel Group had successfully entered into restructuring agreements with twelve private steel companies.<sup>131</sup>

However, the restructuring did not proceed smoothly. In a 25 November, 2010 report published on the website *Time Weekly* (时代在线), a source from Yongyang Steel (永洋钢铁) reportedly disclosed that Yongyang Steel and Hebei Steel Group had no business corporation. Hebei Steel Group did not provide the support as agreed. Aside from

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<sup>128</sup> <http://canada.eastday.com/n11/u1ai153742.html>  
<http://www.titotech.com/news/ShowNews.asp?ID=463>

<sup>129</sup> <http://info.hebei.gov.cn/eportal/ui?pageId=1966722&articleKey=3687337&columnId=330053>

<sup>130</sup> [http://www.time-weekly.com/html/20101125/446\\_1.html](http://www.time-weekly.com/html/20101125/446_1.html)

<sup>131</sup> <http://www.chinatimes.cc/article/28717.html>



Yongyang Steel, the journalist revealed in the report that the other eleven private steel companies also did not receive support from Hebei Steel Group as stated in the initial agreement. Professor Xu Zhongbo (许中波) from University of Science and Technology Beijing (北京科技大学) told journalists that Hebei Steel Group was focused on managing its own operations (refer to details below).<sup>132</sup>

According to a report from *Netease* (网易) in 2014, it was reported that the share progressive integration was initially raised by Song Jijun (宋继军), the Vice Chairman of Hebei Metallurgical Industry Association (河北省冶金工业协会).<sup>133</sup> Private steel companies in Hebei encountered tremendous pressure from the government in relation to technology innovation capability and environment protection. They faced a lack of funds to change their business model. In contrast, Hebei Steel Group had a good credit rating to obtain bank loans. Song acted as a liaison between Hebei Steel Group and other private steel companies, and both sides agreed to the share progressive integration strategies. In the same *Netease* report, it was reported that the restructuring agreement between Hebei Steel Group and the twelve private steel companies has since been dismissed. Three reasons were mentioned:<sup>134</sup>

1. Song Jijun said that Hebei Steel Group failed to provide support to the twelve private steel companies as agreed.
2. Hebei Steel Group executives told journalists that the twelve private steel companies were not fully cooperating, while the government did not issue related regulations on the restructuring.
3. Hebei Steel Group was also suffering huge losses, therefore was mainly engaged in their own business operations. At that time, the company was in a transition period with the new chairman Yu Yong.

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<sup>132</sup> [http://www.time-weekly.com/html/20101125/446\\_1.html](http://www.time-weekly.com/html/20101125/446_1.html)

<sup>133</sup> <http://money.163.com/special/view454/>

<sup>134</sup> <http://money.163.com/special/view454/>

## 8. RIZHAO STEEL GROUP

Discreet interviews and supplementary research were conducted to obtain details of state involvement in management and operations of Rizhao Steel as detailed below.

### 8.1 Management Chart

Relevant public records were retrieved and focused research conducted to identify key management positions held by political figures at Rizhao Steel. The below table shows the current / former political or official roles held by senior figures in the management lineup:<sup>135</sup>

Name	Position in Rizhao Steel	Current / Previous Role in Government Department or Government Related Organization
Du Shuanghua (杜双华)	<ul style="list-style-type: none"> <li>Chairman</li> <li>General Manager</li> </ul>	<ul style="list-style-type: none"> <li>Not found</li> </ul>
Wang Lifei (王立飞)	<ul style="list-style-type: none"> <li>Supervisor</li> </ul>	<ul style="list-style-type: none"> <li>Former official at State Price Bureau (国家物价局)<sup>136</sup></li> </ul>
Zhou Zhihong (周志鸿)	<ul style="list-style-type: none"> <li>Supervisor</li> </ul>	<ul style="list-style-type: none"> <li>Not found</li> </ul>
Hu Wenming (胡文明)	<ul style="list-style-type: none"> <li>Supervisor</li> <li>Head of Capital Operation Department<sup>137</sup></li> </ul>	<ul style="list-style-type: none"> <li>Supervisor of Qilu Bank Co Ltd (齐鲁银行股份有限公司)<sup>138</sup></li> <li>Director of Qingdao Rural Commercial Bank Co Ltd (青岛农村商业银行股份有限公司)</li> <li>Director of Bank of Rizhao</li> </ul>
Zhao Yongqing (赵永钦)	<ul style="list-style-type: none"> <li>Supervisor</li> </ul>	<ul style="list-style-type: none"> <li>Not found</li> </ul>
Xue Jian (薛健)	<ul style="list-style-type: none"> <li>Director</li> <li>Former Vice General Manager of Rizhao Steel</li> </ul>	<ul style="list-style-type: none"> <li>Former Vice Chairman of Bank of Rizhao</li> </ul>
Zhang Huilai (张会来)	<ul style="list-style-type: none"> <li>Former Finance Director</li> </ul>	<ul style="list-style-type: none"> <li>Former management from Agricultural Bank of China Hengshui Chengzhong Sub-Branch (中国农业银行衡水市城中支行).<sup>139</sup></li> </ul>
Liao Haiting (廖海亭)	<ul style="list-style-type: none"> <li>Former Secretary of the CPC</li> </ul>	<ul style="list-style-type: none"> <li>Former head of China Construction Bank Rizhao Branch.<sup>140</sup></li> </ul>

The below chart shows the current / former political or official roles held by the most senior management figures at Rizhao Steel:

<sup>135</sup> Online business registration records

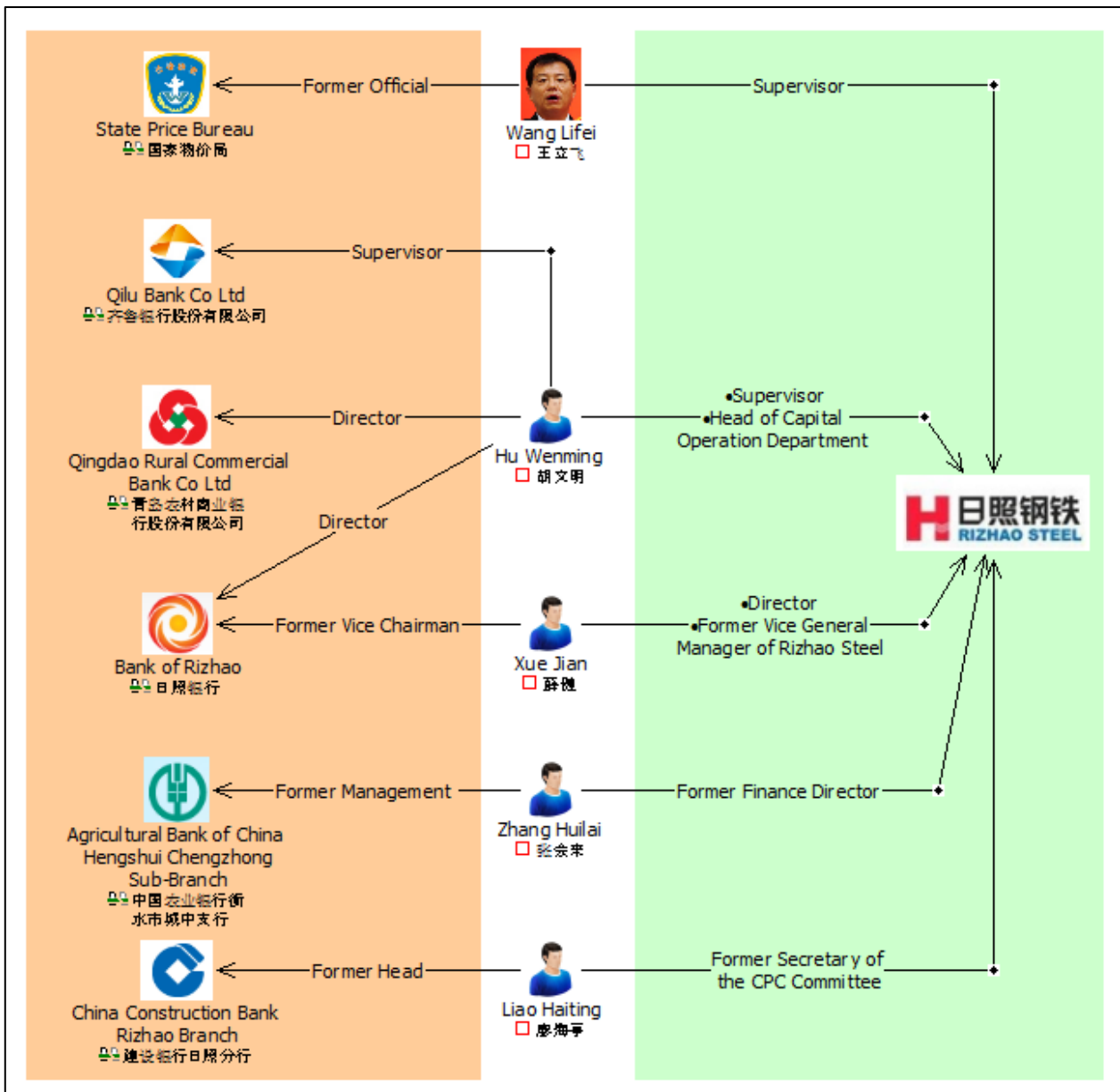
<sup>136</sup> <http://xyh.btbu.edu.cn/xyfc/xyfc/50132.htm>

<sup>137</sup> [http://file.neeq.com.cn/upload/disclosure/2015/2015-06-10/1433936226\\_307874.pdf](http://file.neeq.com.cn/upload/disclosure/2015/2015-06-10/1433936226_307874.pdf)

<sup>138</sup> [http://file.neeq.com.cn/upload/disclosure/2015/2015-06-10/1433936226\\_307874.pdf](http://file.neeq.com.cn/upload/disclosure/2015/2015-06-10/1433936226_307874.pdf)

<sup>139</sup> <http://finance.people.com.cn/GB/70392/8589369.html>

<sup>140</sup> <http://finance.people.com.cn/GB/70392/8589369.html>



## 8.2 Roles and Activities of Officials

### Role of Political Figures

Research was conducted to show the extent to which the management lineup is dominated by political figures. This includes narrative description of some of the roles held by these figures, which may indicate their involvement in decision making, target setting, facilitating state support etc. or other roles.

No information indicated that any current or former government officials are holding or previously held positions in Rizhao Steel. Since Rizhao Steel is a private company, it would not be expected for a government official to hold a management or director role. However, it is not unusual for former or retired SOE senior managers to work for private steel companies. Accordingly, we identified several executives of Rizhao Steel previously having held positions in SOEs or banks, which are controlled by the state or local government.

- Liao Haiting (廖海亭), former Secretary of the CPC of Rizhao Steel, was formerly the head of China Construction Bank (“CCB”) Rizhao Branch.<sup>141</sup> CCB is one of the five state-owned banks in China.<sup>142</sup>
- Zhang Huilai (张会来), former Finance Director of Rizhao Steel, held a management role at the Agricultural Bank of China (“ABC”) Hengshui Chengzhong Sub-Branch.<sup>143</sup> ABC is one of the five state-owned banks in China.<sup>144</sup>
- Xue Jian (薛健), a former Vice General Manager of Rizhao Steel, was a Vice Chairman of Bank of Rizhao, a local commercial bank.<sup>145</sup> Online business registration records indicate that Rizhao Steel and the Rizhao Finance Bureau are two of the forty-five shareholders of Bank of Rizhao.<sup>146</sup>
- Hu Wenming (胡文明), currently the Head of Capital Operation Department of Rizhao Steel, is also a Supervisor of Qilu Bank Co Ltd since December 2013, as well as the Director of Qingdao Rural Commercial Bank Co. Ltd. (“QRCB”) and Bank of Rizhao. We note that the Jinan State-owned Assets Management Co Ltd (济南市国有资产运营有限公司), a SOE, is a 17.84% shareholder of Qilu Bank, while Rizhao Steel is a 4.22% shareholder.<sup>147</sup> Rizhao Steel also has shareholding interest in QRCB; according to the 2014 annual report of QRCB, Rizhao Steel is a 6% shareholder.<sup>148</sup>

## Activities of Political Figures

Research was conducted to identify examples of Rizhao Steel’s key political figures’ roles in its operations or activities.

### Example 1 - Potential Acquisition by Shandong Steel

Multiple online reports indicated that there was a plan for Shandong Steel to acquire Rizhao Steel. On 26 May 2009, *China News* (中国新闻网) reported that Chairman Du Shuanghua did not agree to the plan, but after attempting to keep the government from arranging the merger, he was left with no choice and had to comply with the steel industry strategy set out by the Shandong Provincial Government, to combine 70% of Rizhao Steel’s production capacity with Shandong Steel within five years.<sup>149</sup>

According to a 26 August 2009 report on the *FTChinese.com*, Du Shuanghua fought “a bitter battle to avoid losing his company”, by handing up to 30% shareholdings of Rizhao Steel to Kaiyuan Holdings Limited (开源控股有限公司), which reportedly is a Hong Kong-listed company controlled by close relatives of Hu Jintao.

Based on the 2014 annual report of Kaiyuan, Hu Yishi (胡翼时) is the Chairman, executive director and a non-executive director of the firm.<sup>150</sup> Hu Yishi is a cousin of Hu Jintao, the former President of China.<sup>151</sup> Online references indicated that Du Shuanghua expected to use his political connection to Hu Yishi to block Shandong Steel’s attempt to acquire Rizhao Steel.<sup>152</sup> The report said that his attempt to block the hostile takeover failed because the “involvement of the president’s relatives was too obvious and any perception of favoritism would have been politically dangerous” to Hu Jintao.<sup>153</sup>

<sup>141</sup> <http://finance.people.com.cn/GB/70392/8589369.html>

<sup>142</sup> <http://baike.baidu.com/view/1591126.htm>

<sup>143</sup> <http://finance.people.com.cn/GB/70392/8589369.html>

<sup>144</sup> <http://baike.baidu.com/view/1591126.htm>

<sup>145</sup> [http://news.jinku.com/20081229/84160\\_4.html](http://news.jinku.com/20081229/84160_4.html)

<sup>146</sup> <http://www.bankofrizhao.com.cn/publish/main/gybh/bhjj/index.html>

<sup>147</sup> [http://file.neeq.com.cn/upload/disclosure/2015/2015-06-10/1433936226\\_307874.pdf](http://file.neeq.com.cn/upload/disclosure/2015/2015-06-10/1433936226_307874.pdf)

<sup>148</sup> [http://www.qrcb.com.cn:8000/qrcbcms/r/cms/www/main/img/download/report2014\\_1.pdf](http://www.qrcb.com.cn:8000/qrcbcms/r/cms/www/main/img/download/report2014_1.pdf)

<sup>149</sup> <http://www.chinanews.com/cj/news/2009/05-26/1708190.shtml>

<sup>150</sup> <http://www.kaiyuanholdings.com/announcement/rt1136.pdf>

<sup>151</sup> [http://blog.boxun.com/hero/201207/yangxiaolu/21\\_1.shtml](http://blog.boxun.com/hero/201207/yangxiaolu/21_1.shtml)

<sup>152</sup> <http://m.secretchina.com/node/307538>

<sup>153</sup> <http://www.ft.com/cms/s/0/ed580b0e-9198-11de-879d-00144feabdc0.html#axzz3hpDWvQmU>

It is unclear about the impact of Hu Yishi and Du's failed attempt on the acquisition. Online news reports from 2011 indicated that the negotiation between Rizhao Steel and Shandong Steel was postponed for a third time. In the reports, sources from Rizhao Steel told journalists that negotiations were postponed because of the shuffling of government roles under the Rizhao Municipal Government. Zhao Xiaowei (赵效为), the Mayor of Rizhao Municipal Government at that time, resigned on 1 February 2011 and was transferred to become the Deputy General Secretary of Shandong Provincial CPPCC. Li Tongdao (李同道) replaced Zhao Xiaowei to become the Mayor of Rizhao Municipal Government, and was unable to get involved in the negotiations in the short timeframe. Zhao Xiaowei was said to have played an important role in convincing Du Shuanghua to leave Rizhao Steel, and instead focus on the development of Rizhao Port Group Co Ltd (日照港集团有限公司).<sup>154</sup>

A March 2012 report originally published in *New Finance Observation News* (新金融观察报) stated that management from Rizhao Steel had denied a rumor that the change of Rizhao Municipal Government mayor was linked to the Rizhao Steel acquisition.<sup>155</sup>

More recently, a news report on 10 September 2013 indicated that this restructuring deal had not materialized.<sup>156</sup>

## 8.3 Impact / Influence of Government on Operations and Performance

### State Control of Operations

The steel industry, unlike most other industries, is highly impacted by national policies and steel companies are unable to develop without government support. Steel companies request assistance from government, which is provided in the form of free land, bank loans, new project approval, water and electric power support. Although Rizhao Steel is a private steel company, the company has received government support at its incorporation and development. Du Shuanghua is said to be adept at handling political relationships, and the success of Rizhao Steel appears to be closely related to local government support.

Prior to the establishment of Rizhao Steel, Rizhao Municipal Government regretted not having a major steel company in Rizhao City. As reported in an article originally published in the newspaper *21st Century Business Herald* (21世纪经济报道),<sup>157</sup> when Rizhao Steel was established, Rizhao Municipal Government provided various support. In this report, a source close to Rizhao Municipal Development and Reform Commission (日照市发展和改革委员会) disclosed that Rizhao Municipal Government was planning to become an industrial city and expected to develop a steel company with output of over RMB 10 billion. Rizhao Steel was growing very fast and had been supported by the Rizhao Municipal Government.<sup>158</sup>

In the same report, it was alleged that Rizhao Steel commenced construction before obtaining its land use right, which should have been approved by the State Council. Rizhao Steel is located in Hanjia Yingzi, Hushan town, Langshan District, Rizhao City (日照市岚山区虎山镇韩家营子). In 2003, villagers were advised that 1400 mu of land would be confiscated by Rizhao Steel. The Secretary of Party Committee of Hanjia Yingzi told journalists that there were up to 6000 mu of land from 12 villages included in the land confiscation for Rizhao Steel. Most of this land was said to be leased to Rizhao Steel for 50 years, and only a small part of the land was bought by Rizhao Steel. One day in 2003, villagers from Hanjia Yingzi Villages were gathered and told by The Secretary of Party Committee of the village that 1) Rizhao Steel is a major project which has been approved by the local government (likely Rizhao Municipal

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<sup>154</sup> <http://finance.sina.com.cn/chanjing/gsnews/20110221/22579409141.shtml>

<sup>155</sup> <http://finance.sina.com.cn/chanjing/sdbd/20120311/114511560927.shtml>

<sup>156</sup> <http://finance.sina.com.cn/chanjing/gsnews/20130910/093916716370.shtml>

<sup>157</sup> <http://www.timesventure.com/info/2009/0610/4932.html>

<sup>158</sup> <http://www.timesventure.com/info/2009/0610/4932.html>

Government); 2) since Rizhao Steel is a major project for the local government, villagers should comply with the government decision; and 3) Rizhao Steel would rent the land for RMB 1000/mu, including RMB 200 for the CPC of the village.

Journalists reported that only the State Council or Provincial Government has the authority to approve the use of farm land confiscation. They tried to contact the Land Bureau of Rizhao City (日照市土地局) several times to confirm the land approval for Rizhao Steel, but no one was willing to talk. Neither did anyone from Rizhao Steel provide a comment. The Secretary to the Chairman of Rizhao Steel Zhao Yongqin (赵永钦) told journalists that the land use had been approved by the government and any related inquiries should be directed to the government. Rizhao Steel was an important client for local banks. The total bank loan that Rizhao Steel obtained was close to RMB 2 billion from banks including Bank of China, China Construction Bank, and Bank of Rizhao (日照商业银行). Officers from the banks told journalists that Rizhao Steel project would not have any major problems over the next two or three years, citing support from the local government.<sup>159</sup>

According to the book *They Are More Worried Than You* (他们比你更焦虑),<sup>160</sup> Liao Haiting (廖海亭) was a former head of China Construction Bank Rizhao Branch who made great effort to obtain loans from banks for Rizhao Steel. The author of the book interviewed Liao Haiting about why he joined Rizhao Steel, but he did not respond to the question. The book mentioned that the development of Rizhao Steel is related to three factors: government connections, land and banks. Many believed that Du Shuanghua has connections with high level government officials, although details were not disclosed in the book. The author also did research into the banks that provided loans to Rizhao Steel. A list called “*Banks Financed to Rizhao Steel*” (日照钢铁融资银行名单) was obtained, and showed that 29 banks provided bank loans or other forms of assistance to Rizhao Steel. It should be noted that Rizhao Steel even became a shareholder of Bank of Rizhao.

Du Shuanghua tried to maintain a low profile, but became a well-known figure when Rizhao Steel donated more than RMB 150 million to the All-China Federation of Industry & Commerce (中华全国工商业联合会, “ACFIC”) for community rebuilding after the 2008 Sichuan Earthquake. The book revealed that as much as RMB 100 million was not meant to be donated to ACFIC. Initially, the RMB 100 million was donated to Rizhao Municipal Government, but Rizhao Municipal Government was afraid to accept due to bribery concerns. Du then tried to donate the money to Shandong Provincial Government, which also did not accept the money. As no government office would accept the money, the RMB 100 million was donated to ACFIC. The author did not elaborate why Rizhao Steel tried to donate RMB 100 million to the local government and not to Sichuan Province. The donation made Rizhao Steel a star company, and that put pressure on Shandong Steel when it tried to acquire Rizhao Steel.

The author mentioned that he had talked to Liao Haiting. During the conversation, Liao accidentally mentioned that he would accompany the Mayor of Rizhao City to meet with Du Shuanghua in Beijing to discuss about some new projects. When asked what the new projects were, Liao Haiting realized that he had said something confidential and immediately said these new projects were not for steel. The author further indicated that the new projects for Rizhao Steel were about forming a team for overseas mining projects.<sup>161</sup>

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<sup>159</sup> <http://www.timesventure.com/info/2009/0610/4932.html>

<sup>160</sup> <http://lz.book.sohu.com/book-19364.html>

<http://book.douban.com/subject/5413308/>

<sup>161</sup> <http://lz.book.sohu.com/chapter-1016756.html>

## Examples of Impact on Operations

### Example 1 – Regulatory-driven acquisition by local SOE

At the end of 2007, Shandong Provincial Government made an announcement “*Advises Regarding Fastening Steel Industry Structure Adjustment*” (《关于进一步加快钢铁工业结构调整的意见》). In the announcement, it was reported that Shandong Province was planning to establish a large steel base in Rizhao City. The capacity of steel base was expected to be 20 million MT. It said that the planned acquisition of Rizhao Steel is the result of “*steel industry regulations*” and also part of the trend in the steel industry. After Rizhao Steel signed a restructuring agreement with Shandong Steel in 2008, the management team of Rizhao Steel said that they would comply with the announced policies of Shandong Provincial Government.<sup>162</sup> Yi Peng (易鹏), an analyst from NDRC China Centre for Urban Development (发改委中国城市和小城镇改革发展中心) and a commentator for international media,<sup>163</sup> posted a blog on 7 September 2009 regarding Shandong Steel’s merger with Rizhao Steel. Yi indicated that the successful acquisition of Rizhao Steel (as of that time) also showed the success of Shandong Provincial Government. He said that Shandong Provincial Government would make great efforts to support Shandong Steel in order to take control of Rizhao Steel.<sup>164</sup> The vast majority of online references indicated that the acquisition of Rizhao Steel is an example of “*advance of the state and retreat of private enterprise*” (国进民退).

However, in the end the acquisition fell apart after several years of effort. It is still expected Rizhao Steel will be restructured sooner or later, as industry sources have stated that Rizhao Steel is part of the planning for Shandong Provincial Government.<sup>165</sup> According to Source X, the deal failed because of several reasons:

1. Shandong Steel incorporated its own steel manufacturing plant in Rizhao City, and the new location of Shandong Steel’s plant is near Rizhao Steel at Yanhai Road.
2. Rizhao Steel was no longer performing well due to the weak state of the steel market.
3. Shandong Steel had insufficient capital to acquire Rizhao Steel. He added that Du Shuanghua was only willing to accept either cash or equity, but Shandong Steel did not have enough cash, and was not willing to give away equity.

Source X said that the planned acquisition was a decision of Shandong SASAC, but not a decision of a specific person. Shandong SASAC planned to increase the capacity of Shandong Steel by acquiring private companies like Rizhao Steel. But the acquisition was considered a political achievement for Shandong SASAC government officials. Rizhao Steel hired Ernst & Young to carry out a valuation exercise, and at the time, Rizhao Steel was evaluated to be worth RMB 48 billion. Shandong Steel did not expect Rizhao Steel to be worth of RMB 48 billion, and only expected to pay maximum RMB 10 billion to acquire Rizhao Steel. Given the price tag, Shandong Steel was not as keen to acquire Rizhao Steel. It was therefore difficult for Shandong Provincial Government and Shandong SASAC to force Shandong Steel to acquire Rizhao Steel.

Source X said the government had no influence on the asset valuation of Rizhao Steel, and added that he had not heard of any scandal in this regard. However, the source confirmed that the government had created difficulties for the operations of Rizhao Steel, such as power shutdown etc. But he added that they were very minor comparing to other factors. Even with the obstacles created, it was impossible for Shandong Steel to pay less than RMB 48 billion to acquire Rizhao Steel.

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<sup>162</sup> <http://finance.ifeng.com/news/industry/corporate/20090704/886200.shtml>

<sup>163</sup> <http://csljyp.blog.163.com/blog/static/10649041320098714458693/>

<sup>164</sup> <http://csljyp.blog.163.com/blog/static/10649041320098714458693/>

<sup>165</sup> <http://finance.sina.com.cn/stock/s/20141128/020520942417.shtml>



There were other problems with the potential merger. In addition to needing to pay a large amount of cash, even if Shandong Steel was to successfully acquire Rizhao Steel, there would likely also be disputes between the management of both companies. In addition, Rizhao Municipal Government was not happy that Rizhao Steel was being forced to merge into Shandong Steel. If Rizhao Steel was successfully acquired by Shandong Steel, the tax of Rizhao Steel would be paid to Shandong Provincial Government and not the local city government.

### Example 2 – Government Support

According to an online post that cited several online discussion forums and blogs in 2009, it was said that Du Shuanghua has political connections. In addition to Hu Yishi, a cousin of Hu Jintao, being his business partner, Du Shuanghua was said to have close relationships with some ministry level government officials. Rizhao Steel has reportedly set up a representative office in Beijing to deal with import and export business. But the representative office was alleged to actually be used for money laundering and bribes. The post added that Du Shuanghua frequently travelled to Beijing and Shenzhen to maintain his connections, and also noted that he was close to the Rizhao Municipal Government. The security team of 300 people in Rizhao Steel are said to be included in Anti-Riot team (防暴大队), which is part of the public security service team in Rizhao City.<sup>166</sup>

Another report from *21st Century Business Herald* in 2008 also provided a brief introduction regarding the government support received by Rizhao Steel. In the report, a senior management figure from Shandong Steel said that Rizhao city is a main steel production center according to the state's industry plan, and that Rizhao Municipal Government had always wanted to set up a factory to increase local tax income. Du Shuanghua also revealed that the construction of Rizhao Steel highly relied on the support from Rizhao Municipal Government and Shandong Provincial Government. The report added that the establishment of Rizhao Steel did not obtain the necessary approval of National Development and Reform Commission ( 国 家 发 改 委 ; “NDRC” ) prior to construction in 2003. In the second half of 2003, the Investment Review Team for Fixed Assets Clearance from NDRC (国家发改委清理固定资产投资核查) conducted an inspection on Rizhao Steel, and it was shut down. Shandong Provincial Government made a promise to NDRC, indicating that Rizhao Steel is a good steel project, and Shandong Provincial Government would maintain the total steel output in Shandong Province by cutting those small steel companies and maintain good steel projects. Because Rizhao Steel was listed as being one of the ‘good steel projects’, the company avoided being shut down.<sup>167</sup>

Source X confirmed that Rizhao Steel has received support since it was established, as Rizhao Steel is an important tax payer to Rizhao City. However, he would not provide any details in this regard. This source was not aware of the connection between Hu Yishi and Du Shuanghua.

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<sup>166</sup> <http://bbs.tianya.cn/post-develop-313711-1.shtml>

<sup>167</sup> [http://news.jinku.com/20081229/84160\\_2.html](http://news.jinku.com/20081229/84160_2.html)



## 9. ANNEX

### 9.1 Political Control in Private Entities

Officially the government is not involved in the management of personnel, assets, and financials of private companies and does not establish Party Committees to control them. However, many private companies have voluntarily established Party Committees to develop government relationships; membership can improve government communication and facilitate the companies obtaining more resources / loans. Party Committees in private companies do not provide a supervisory role as in state-owned companies, and activities are dependent on approval from private companies' owners. These government relationships may, however, be a double edged sword in terms of efficient management and innovation in private companies.

#### Role of Party Committee in Private Enterprises

Lin Shenggen (林盛根) from Communist Party School of Guangdong Province (中共广东省党校) published a paper “*Research on Problems of Mechanism Built by Party Organization at Private Enterprise to Come to Play* (构建民营企业党组织发挥作用机制问题研究)” in the journal *Theory Monthly* in 2010.<sup>168</sup> The paper stated that the government is not involved in the management of personnel, assets, and financials of private companies. However, it stressed that the government holds important resources for private companies. It further states that private companies should follow CCP's policy and the policies designed by the government to maximize their potential.

Developing government relationships and handling politics is a substantial part of operations in a private company. Much of this activity is carried out through a Party Committee, and a number of large companies such as Xiaomi, Alibaba, Tencent, have voluntarily established a Party Committee. Zhang Baoyun (张宝运) (“Zhang”) from Human Sciences Department, Shandong Jiaotong University (山东交通学院人文科学系) wrote a paper “*Discussion on Party Committee's Role in Private Companies* (民营企业党组织的功能定位探讨)” that was also published on *Theory Monthly* in 2007.<sup>169</sup> In this paper, Zhang discussed differences about CPC Party Committee in private companies and state-owned companies, as summarized below:

1. Unlike in state-owned companies, a CPC Party Committee in private companies does not establish a core political role. Private companies have individual ownership, organization structure, and operations strategies. If a Party Committee were only established for political motivation, the owners and shareholders of private companies would not support its establishment within the company.
2. A Party Committee finds it difficult to carry out supervision on private companies. The Party Committee in an SOE is required to have a supervisory role due to certain laws and regulations in China. However, there are no such laws for private companies. In addition, in private companies, unlike government departments, the owner is free to control all the resources within the company. There is no room for a Party Committee to “supervise” company owners, such as to ask them to provide information in relation to companies' operations or tax information.

The paper states that a Party Committee should be involved in major decisions within an SOE, since it plays a role to ensure the security and growth of national assets. Since private companies are more concerned with its own profitability and the growth of shareholder wealth, the role of a Party Committee in a private company is different. Zhang added in the paper that the establishment and development of a Party Committee is highly related to the approval and support from private company owners.

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<sup>168</sup> [http://www.nssd.org/articles/Article\\_Read.aspx?id=32930076](http://www.nssd.org/articles/Article_Read.aspx?id=32930076)

<sup>169</sup> [http://www.nssd.org/articles/Article\\_Read.aspx?id=24455065](http://www.nssd.org/articles/Article_Read.aspx?id=24455065)

In another paper<sup>170</sup> by Zhang in May 2010, he wrote that private companies' owners have significant impact on Party Committees established within their companies:

- A Party Committee can only carry out activities based on the approval from private companies' owners, especially the resources such as the fees paid, time, venue etc.; and
- The owner of a private company can fire a Party Committee member if there is conflict between the Party Committee's focus and the private company's strategy.

Private companies intend to develop close relationships with government by voluntarily establishing a Party Committee. For example, a private company owner Zhang Zhixiong (张志雄) told a journalist in one report that it is easier for him to communicate with a government department if he is a Party Committee member.<sup>171</sup> In general, a Party Committee in private companies is not established by a government department to control the companies, rather it is initiated by the private company so it can effectively communicate with government departments, and if necessary "lobby" them.

### **Political Control of Private Companies' Operations**

According to an online report from 2014 published by a Yu Wei (于蔚), who claims to be a professor from Zhejiang Gongshang University's Finance faculty, more private companies are trying to establish closer connections with government to increase competitiveness.<sup>172</sup> For example, private companies' owners are increasingly proactive with a strong desire to become a deputy of National's Congress, CPPCC member etc., and some companies even have politics as a core part of their business strategy. Such government connections help private companies to obtain more resources, such as bank loans, which is critical to the operations of private companies. Given that banks are often state owned, they tend to lend money to other state owned companies and less to private companies, making it difficult for private companies to finance their growth.

In addition, a number of industries are still controlled by the state. For a private company to make an entrance into these sectors, a close relationship with the government would be highly advantageous as it would be easier for a private company to gain an "entry pass". To build close relationships, private company owners are spending a large amount of time in government-facing activities – an informal survey found that they spend more than 50% of their time in such activities, which is even more than executives from state owned companies. That reduces the amount of time and focus on the actual business operations, and negatively impacts upon the competitiveness and development of private companies.

Government relationships may, however, be a double edged sword in terms of management and innovation. For example, in order to improve the local employment rate, government officials may request private companies to hire an unnecessary number of staff by providing allowances, which would be detrimental to the efficiency of a business. In addition, a private company may become less innovative and efficient if it relies on strong government relationships that allow them entry into state-controlled industries. While those industries are highly profitable, the exclusivity and political protection enjoyed by a handful of private companies could cause them to lose the motivation to innovate, thereby affecting the sustainability of those businesses.

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<sup>170</sup> [http://www.nssd.org/articles/article\\_detail.aspx?id=33731925](http://www.nssd.org/articles/article_detail.aspx?id=33731925)

<sup>171</sup> [http://lw.xinhuanet.com/htm/content\\_1341.htm](http://lw.xinhuanet.com/htm/content_1341.htm)

<sup>172</sup> <http://www.boxun.com/news/gb/pubvp/2014/07/201407200526.shtml#.VinoDH4rK00>

## Examples of Private Steel Companies' Management with Political Positions

### Hebei Jinxi Iron&Steel Group Co Ltd (河北津西钢铁集团股份有限公司)

Name	Position in Jinxi Group	Political Related Position
Han Jingyuan (韩敬远)	Chairman	<ul style="list-style-type: none"> <li>Former Standing Member of Party Committee of Qianxi County (迁西县常委)</li> <li>Former Vice Director of Qianxi County (迁西县)</li> <li>Former Secretary of CPC County Committee of Qianxi County (迁西县县委书记)</li> <li>Deputy to the 8<sup>th</sup> People's Congress of the Communist Party of Hebei Province (河北省第八届党代表)<sup>173</sup></li> </ul>
Zhu Jun (朱军)	Chief Operations Officer	Not found
Shen Xiaoling (沈晓玲)	Chief Financial Officer	<ul style="list-style-type: none"> <li>Former Head of Luan County Sub-Branch, China Construction Bank (中国建设银行滦县支行)</li> <li>Former Head of Qianxi Sub-Branch, China Construction Bank (中国建设银行迁西支行)</li> <li>Former Deputy Chief of Qianxi Sub-Branch, Bank of China (中国银行迁西支行)<sup>174</sup></li> </ul>
Han Li (韩力)	Vice Chairman	Deputy to the 12 <sup>th</sup> National Congress of Hebei Province (河北省第十二届人大代表) <sup>175</sup>

### Hebei Puyang Iron and Steel Group (河北普阳钢铁集团)<sup>176</sup>

Name	Position in Hebei Puyang	Political Associated Position
Guo Enyuan (郭恩元)	Chairman	<ul style="list-style-type: none"> <li>Deputy to Hebei People's Congress</li> <li>Deputy to the 12<sup>th</sup> Handan People's Congress</li> <li>Deputy to the 3<sup>rd</sup>/4<sup>th</sup>/5<sup>th</sup> People's Congress of the Communist Party of Hebei Province</li> <li>Member of the 4<sup>th</sup> Wu'an Committee of CPPCC</li> <li>Vice President of Hebei Metallurgical Industry Association (河北省冶金行业协会)</li> <li>Vice President of Handan Metallurgical Industry Association (邯郸市冶金行业协会)</li> <li>Vice President of Wuhan Steel Industry Association (武安市钢铁工业协会)</li> </ul>

<sup>173</sup> [http://www.hbjx.com.cn/cyportal2.0/template/site00\\_itgk\\_dgb@jx.jsp?channel\\_id=ff808081335a3c9301335a6113af00ec&f\\_channel\\_id=402881db318d29e201318d32f528001e&a1b2dd=7xaac](http://www.hbjx.com.cn/cyportal2.0/template/site00_itgk_dgb@jx.jsp?channel_id=ff808081335a3c9301335a6113af00ec&f_channel_id=402881db318d29e201318d32f528001e&a1b2dd=7xaac)

<sup>174</sup> [http://www.hbjx.com.cn/cyportal2.0/template/site00\\_itgk\\_jtld.jsp?channel\\_id=bc82770c3359125c01337cf924f2520a&f\\_channel\\_id=402881db318d29e201318d32f528001e&a1b2dd=7xaac](http://www.hbjx.com.cn/cyportal2.0/template/site00_itgk_jtld.jsp?channel_id=bc82770c3359125c01337cf924f2520a&f_channel_id=402881db318d29e201318d32f528001e&a1b2dd=7xaac)

<sup>175</sup> [http://www.hbjx.com.cn/cyportal2.0/template/site00\\_itgk\\_jtld.jsp?channel\\_id=bc82770c3359125c01337cfb3af15254&f\\_channel\\_id=402881db318d29e201318d32f528001e&a1b2dd=7xaac](http://www.hbjx.com.cn/cyportal2.0/template/site00_itgk_jtld.jsp?channel_id=bc82770c3359125c01337cfb3af15254&f_channel_id=402881db318d29e201318d32f528001e&a1b2dd=7xaac)

<sup>176</sup> <http://www.pygt.cn/china/about.asp?ClassIDone=302&ClassIDtwo=342>

Shi Yueqiang (石跃强)	General Manager	<ul style="list-style-type: none"> <li>Deputy to the 12<sup>th</sup> Wu'an People's Congress</li> </ul>
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### Examples of Private Steel Companies with CPC Committee

#### Henan Jiyuan Iron & Steel (Group) Co Ltd (河南济源钢铁(集团)有限公司)

<i>Name</i>	<i>Position in Hebei Jiyuan</i>	<i>Political Associated Position</i>
Li Yutian (李玉田)	<ul style="list-style-type: none"> <li>Chairman</li> <li>General Manager</li> <li>CPC Committee Secretary</li> </ul>	<ul style="list-style-type: none"> <li>Former Deputy Director of Jiaozuo Light Industry Bureau (焦作市轻工局副局长)</li> <li>Former Deputy Chief of Wuzhi County (武陟县人民政府副县长)</li> <li>Former Deputy Secretary-General of Jiaozuo City<sup>177</sup></li> </ul>
Liang Chao (梁超)	<ul style="list-style-type: none"> <li>Director</li> <li>Vice General Manager</li> <li>Vice CPC Committee Secretary</li> </ul>	Not found
Zhou Weimin (周为民)	<ul style="list-style-type: none"> <li>Director</li> <li>Vice General Manager</li> </ul>	Not found
Lv Zhenliang (吕振良)	Vice General Manager	Not found
Wang Fangjun (王方军)	<ul style="list-style-type: none"> <li>Vice General Manager</li> <li>Member of CPC Committee</li> </ul>	Not found
Wang Wei (王维)	<ul style="list-style-type: none"> <li>Vice General Manager</li> <li>Member of CPC Committee</li> </ul>	Not found
Niu Yingzhi (牛应芝)	<ul style="list-style-type: none"> <li>Director</li> <li>General Accountant</li> </ul>	Not found
Li Quanguo (李全国)	<ul style="list-style-type: none"> <li>Chairman of Board of Supervisors</li> <li>Secretary of Discipline Inspection Office</li> </ul>	Not found
Wang Junfeng (王俊峰)	<ul style="list-style-type: none"> <li>Assistant to General Manager</li> <li>Member of CPC Committee</li> </ul>	Not found
Li Yamin (李亚民)	Vice Secretary of CPC Committee	Not found
Zhou Jicai (周集才)	Assistant to General Manager	Not found
Wan Changjie (万长杰)	Assistant to General Manager	Not found

<sup>177</sup> <http://baike.baidu.com/subview/1302738/8713627.htm>

Liheng Group (立恒集团)

<i>Name</i>	<i>Position in Liheng</i>	<i>Political Associated Position</i>
Zheng Jiaping (郑家平)	<ul style="list-style-type: none"><li>• CPC Committee Secretary</li><li>• Chairman</li></ul>	Not found
Lv Huaixin (吕怀信)	<ul style="list-style-type: none"><li>• Vice Chairman</li></ul>	Not found
Zhang Tianfu (张天福)	<ul style="list-style-type: none"><li>• Secretary of Discipline Office</li><li>• General Manager</li></ul>	Not found
Zhang Ji (张记)	<ul style="list-style-type: none"><li>• Vice Secretary of CPC Committee</li></ul>	Not found
Hou Haiyang (候海洋)	<ul style="list-style-type: none"><li>• Vice Secretary of CPC Committee</li><li>• Vice General Manager</li></ul>	Not found
Xi Wenwu (郗文武)	<ul style="list-style-type: none"><li>• Vice General Manager</li></ul>	Not found
Zhou Ruihua (周瑞华)	<ul style="list-style-type: none"><li>• Chairman of Labor Union</li><li>• Vice General Manager</li></ul>	Not found