

2019 Annual Report

H Share Code: 323

A Share Code: 600808



MAANSHAN IRON & STEEL COMPANY LIMITED

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IMPORTANT NOTICE

I. The board of directors (the “Board”), the supervisory committee, the directors, the supervisors and senior management of the Company warrant that there are no false representations or misleading statements contained in, or material omissions from this annual report; and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this annual report.

II. All directors attended the board meeting.

III. Ernst & Young Hua Ming LLP issued a standard unqualified audit opinion on the annual financial statements of the Company.

IV. Mr. Ding Yi, representative of the Company, Mr. Wang Qiangmin, person overseeing the accounting operations, and Mr. Xing Qunli, head of Accounting Department, made representations in respect of the truthfulness, accuracy and completeness of the financial statements contained in the annual report.

V. Profit distribution plan or plan for the capitalization of capital reserve during the reporting period proposed by the Board

The Board suggests 2019 final dividend of RMB0.08 per share (tax included) shall be distributed and retained earnings will be carried forward to the year of 2020. No capital reserve shall be transferred to share capital. The distribution plan is going to be submitted to the Annual General Meeting for approval.

VI. Risk relating to forward-looking statements

The report analyzes major risks faced by the Company. Please refer to “(4) Potential risks” of “II. Outlook for Future Development” of “Report of the Board” in Section IV for details. Forward-looking statements such as future plans contained in this report do not constitute any substantive commitments to investors by the Company. Investors should be aware of the relevant risks.

VII. During the reporting period, no appropriation of fund on a non-operating basis by the controlling shareholder or its related parties was found in the Company

VIII. During the reporting period, there is no violation of regulations, decisions or procedures in relation to provisions of external guarantees

IX. Significant risk warning

The Company has no significant risk that needs to draw special attention of investors.

X. Others

This report is prepared in both Chinese and English. In the event of any discrepancy between the Chinese and English versions, please subject to Chinese text.

I. Definitions

In this report, unless the context otherwise requires, the following terms have the following meanings:

DEFINITIONS OF COMMON TERMS

“Company” or “the Company” or “Magang Stock”	means	Maanshan Iron & Steel Company Limited
The Group	means	the Company and its subsidiaries
The Holding	means	Magang (Group) Holding Co., Limited
The General Meeting	means	the Shareholders’ General Meeting of the Company
The Board	means	the board of directors of the Company
SASAC of the State Council	means	State-owned Assets Supervision and Administration Commission of the State Council
SASAC of Anhui	means	State-owned Assets Supervision and Administration Commission of the People’s Government of Anhui Province.
China Baowu	means	China Baowu Steel Group Corporation Limited, the controlling shareholder of the Holding and the indirect controlling shareholder of the Company
Baosteel Hong Kong Investment	means	Baosteel Hong Kong Investment Company Limited, a wholly-owned subsidiary of China Baowu
Directors	means	the Directors of the Company
Supervisory Committee	means	the supervisory committee of the Company
Supervisors	means	the supervisors of the Company
Senior Management	means	the senior management of the Company
Hong Kong Stock Exchange	means	the Stock Exchange of Hong Kong Limited

I. Definitions (Continued)

SSE	means	the Shanghai Stock Exchange
A Shares	means	the ordinary shares in the share capital of the Company with a nominal value of RMB1.00 per share, which are listed on the SSE, and subscribed for and traded in RMB
H Shares	means	the foreign shares in the share capital of the Company with a nominal value of RMB1.00 per share, which are listed on the Hong Kong Stock Exchange, and subscribed for and traded in Hong Kong dollars
SD&C Shanghai Branch	means	Shanghai Branch of China Securities Depository and Clearing Corporation Limited
PRC	means	the People's Republic of China
Hong Kong	means	the Hong Kong Special Administrative Region
RMB	means	Renminbi Yuan
CSRC	means	the China Securities Regulatory Commission
MIIT	means	the Ministry of Industry and Information Technology of the People's Republic of China
CISA	means	China Iron and Steel Association
CRCC	means	China Railway Test & Certification Center
the Articles of Association	means	The articles of association of Maanshan Iron and Steel Company Limited
MG-VALDUNES	means	MG-VALDUNES S.A.S, a wholly-owned subsidiary of the Company
Ma Steel (Hong Kong)	means	Ma Steel (Hong Kong) Co., Ltd., a wholly-owned subsidiary of the Company

I. Definitions (Continued)

Ma Steel Hefei	means	Ma Steel (Hefei) Iron & Steel Co., Ltd., a controlling subsidiary of the Company
Changjiang Steel	means	Anhui Changjiang Steel Co., Ltd., a controlling subsidiary of the Company
MaSteel Finance	means	Magang Group Finance Co. Ltd., a controlling subsidiary of the Company
Environmental Protection Company	means	Anhui Xinchuang Energy Saving and Environmental Protection Technology Company Limited, a controlling subsidiary of the Holding and a joint venture of the Company
Masteel Scrap, Ouye Lianjin	means	Maanshan Masteel Scrap Steel Co., Ltd., renamed as Ouye Lianjin Renewable Resources Co., Ltd. on 19 February 2020, a controlling subsidiary of the Holding and a joint venture of the Company
MaSteel K. Wah	means	Anhui Masteel K. Wah New Building Materials Co. Ltd., a controlling subsidiary of the Holding and a joint venture of the Company
Magang Chemicals & Energy	means	Anhui Magang Chemical & Energy Technology Co., Ltd., a controlling subsidiary of the Holding and a joint venture of the Company
Jinma Energy	means	Henan Jinma Energy Co. Ltd., a joint venture of the Company
Magang Investment	means	Magang Group Investment Ltd., a wholly-owned subsidiary of the Holding
Auditor, Ernst & Young	means	Ernst & Young Hua Ming LLP
Reporting Period	means	From 1 January 2019 to 31 December 2019

II. Company Introduction and Major Financial Indicators

1. COMPANY PROFILE

Chinese name of the Company	馬鞍山鋼鐵股份有限公司
Chinese short name of the Company	馬鋼股份
English name of the Company	MAANSHAN IRON & STEEL COMPANY LIMITED
English short name of the Company	MAS C.L.
Legal representative of the Company	Ding Yi

2. CONTACT PERSON

Secretary of the board of directors, joint company secretary		Joint company secretary
Name	He Hongyun	Rebecca Chiu
Office address	No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC	Room 1204-06, 12/F, The Hong Kong Chinese Bank Building, 61 Des Voeux Road Central, Central, Hong Kong, PRC
Telephone	86-555-2888158/2875251	(852) 2155 2649
Fax	86-555-2887284	(852) 2155 9568
Email address	mggfdms@magang.com.cn	rebeccachiu@chiuandco.com

3. BASIC INFORMATION

Registered address	No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC
Postal code of the registered address	243003
Office address	No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC
Postal code of the office address	243003
The Company's website	http://www.magang.com.cn (A Shares); http://www.magang.com.hk (H Shares)
Email address	mggfdms@magang.com.cn

II. Company Introduction and Major Financial Indicators (Continued)

4. INFORMATION DISCLOSURE AND LOCATION FOR INSPECTION

Name of newspaper designated for information disclosure	Shanghai Securities News
Internet website designated by CSRC for annual report publication	www.sse.com.cn
Location for inspection of annual report of the Company	The secretariat office of the Board of Maanshan Iron & Steel Company Limited

5. BRIEF INFORMATION ON THE SHARES OF THE COMPANY

Type of shares	Stock exchange for listing of shares	Short name of stock	Stock code
A Shares	The Shanghai Stock Exchange	Magang Stock	600808
H Shares	The Stock Exchange of Hong Kong Limited	Maanshan Iron & Steel	00323

The address of the H share registrar of the Company is Room 1712-1716, Level 17, Hopewell Centre, 183 Queen's Road East, Wan chai, Hong Kong.

6. OTHER RELATED INFORMATION

Accounting firm engaged by the Company	Name	Ernst & Young Hua Ming LLP
	Office address	Level 16, Ernst Young Tower, Oriental Plaza, No.1 East Chang An Avenue, Beijing, China
	Names of the auditors who signed the report	An Xiuyan, Gong Wei

II. Company Introduction and Major Financial Indicators (Continued)

7. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS FOR THE PAST THREE YEARS

(1) Major accounting data

Unit: RMB

Major accounting data	2019	2018	Increase/ decrease compared to previous year (%)	2017
Revenue	78,262,846,004	81,951,813,488	-4.50	73,228,029,624
Net profit attributable to owners of the parent	1,128,148,980	5,943,286,585	-81.02	4,128,939,861
Net profit excluding non-recurring gains or losses attributable to owners of the parent	1,635,501,579	5,092,357,115	-67.88	3,969,088,696
Net cash flows from operating activities	7,865,957,124	13,870,430,106	-43.29	4,599,822,004
	As at the end of 2019	As at the end of 2018	Increase/ decrease compared to the end of the previous year (%)	As at the end of 2017
Net assets attributable to owners of the parent	26,933,162,065	28,173,623,272	-4.40	23,895,739,812
Total assets	86,322,043,538	76,871,999,293	12.29	72,191,589,979
Total share capital	7,700,681,186	7,700,681,186	–	7,700,681,186

II. Company Introduction and Major Financial Indicators (Continued)

(2) Major financial indicators

Major financial data	2019	2018	Increase/ decrease compared to the previous year (%)	2017
Basic earnings per share (RMB/share)	0.147	0.772	-80.96	0.536
Diluted earnings per share (RMB/share)	0.147	0.772	-80.96	0.536
Basic earnings per share excluding non-recurring gains or losses (RMB/share)	0.212	0.661	-67.93	0.515
Return on net assets (weighted average) (%)	4.09	22.68	Decreased by 18.59 percentage points	18.92
Return on net assets excluding non-recurring gains or losses (weighted average) (%)	5.94	19.44	Decreased by 13.50 percentage points	18.18

8. MAJOR FINANCIAL DATA BY QUARTER IN 2019

Unit: million RMB

	1st Quarter (Jan-Mar)	2nd Quarter (Apr-Jun)	3rd Quarter (Jul-Sep)	4th Quarter (Oct-Dec)
Revenue	17,717	19,309	20,555	20,682
Net profit attributable to owners of the parent	84	1,061	320	-337
Net profit excluding non-recurring gains or losses attributable to owners of the parent	56	785	612	183
Net cash flows from operating activities	-2,289	5,262	-1,336	6,229

II. Company Introduction and Major Financial Indicators (Continued)

9. NON-RECURRING ITEMS AND AMOUNTS

Unit: RMB

Non-recurring items	2019	2018	2017
(Loss)/gain from disposal of non-current assets	-77,058,351	371,280,264	-176,952,368
Government grants recognized in current period profit or loss (excluding those having close relationship with the Company's normal business, conforming to the national policies and regulations and enjoying ongoing fixed amount or quantity according to certain standard)	579,015,240	337,543,274	409,513,631
Employee termination compensation	-1,163,531,268	-150,464,248	-216,124,494
Except for the effective hedging business related to ordinary business of the Company, changes in fair value of financial assets and financial liabilities held-for-trading, as well as the return on investment generated from the disposal of financial assets and financial liabilities held-for-trading and financial assets at fair value through other comprehensive income	249,161,379	225,957,069	217,458,815
Reversal of impairment provision for receivables assessed for impairment individually	—	—	3,632,383
Gain from disposal of subsidiaries	—	188,829,498	736,943
Gain from fair value adjustment generated in a business combination not under common control	—	—	390,855
Investment loss caused by passive dilution of equity interests due to the increased capital of joint ventures and associates	—	—	-22,335,060
Gain from disposal of an associate	-16,052	7,689,556	—
Net non-operating income or expenses other than the above items	3,444,379	-1,033,653	-11,146,562
Non-controlling interests effect	-23,911,246	-40,870,094	-11,689,059
Income tax effect	-74,456,680	-88,002,196	-33,633,919
Total	-507,352,599	850,929,470	159,851,165

II. Company Introduction and Major Financial Indicators (Continued)

10. ITEMS MEASURED AT FAIR VALUE

Unit: RMB

Account name	Opening balance of the reporting period	Closing balance of the reporting period	Change in the reporting period	Effects on the current period profit
Financial assets held for trading	2,084,414,075	2,126,112,194	41,698,119	175,611,380
Financial liabilities held for trading	8,012,670	2,258,750	-5,753,920	5,753,920
Financing receivables	4,970,113,847	11,098,699,421	6,128,585,574	–
Other equity instruments investments	263,122,364	278,576,509	15,454,145	–
Total	7,325,662,956	13,505,646,874	6,179,983,918	181,365,300

11. OTHERS

The group's major accounting data and financial indicators for five recent years (Unit: million RMB)

Accounting data (indicators)	2019	2018	2017	2016	2015
Revenue	78,263	81,952	73,228	48,275	45,109
Profit before tax	2,298	8,239	5,809	1,369	-4,727
Net profit	1,714	7,058	5,072	1,257	-5,104
Basic earnings per share (RMB/share)	0.147	0.772	0.536	0.160	-0.624
Diluted earnings per share (RMB/share)	0.147	0.772	0.536	0.160	-0.624

III. Overview of the Company's Business

1. INTRODUCTION OF THE COMPANY'S MAJOR BUSINESSES AND OPERATION MODEL AND INDUSTRY PERFORMANCE DURING THE REPORTING PERIOD

(1) MAIN BUSINESS AND OPERATION MODEL

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

Plates: Major products include hot and cold-rolled thin plates, galvanized plates and coil-coating plates. Hot-rolled thin plates are mostly used in the construction, automobile, bridge-building, machinery businesses and petroleum transportation, while cold-rolled thin plates are used in high-grade light industries, home electrical appliances, and medium and high-grade production of automobile parts. Galvanized plates are positioned to be used as automobile plates, home electrical appliances plates, high-grade construction plates, and plates for businesses like packaging and utensil manufacturing. Coil-coating plates can be used in both interior and exterior of buildings, home electrical appliances and steel windows.

Long products: Major products include section steel and wire rod. H beams is mostly used in construction, steel structures, machinery manufacturing and the construction of petroleum drilling platforms and railways. Common medium-shaped steel is mostly used in construction structures, machinery manufacturing and steel structures used in shipbuilding. High-speed wire rod products are mostly used in construction, the production of fasteners, strand steel wires and spring steel wires. Hot-rolled ribbed bars are mainly used in construction.

Wheels and axles: Major products include train wheels, axles and rings, which are widely used in railway transport, port machinery, petrochemical industries, aerospace industry, and so forth.

The Company adopts different business models for different products. Plates mainly adopt direct sales, supplemented by dealer sales; long products are mainly sold by dealers, supplemented by direct sales; wheels and axles mainly adopt direct sales.

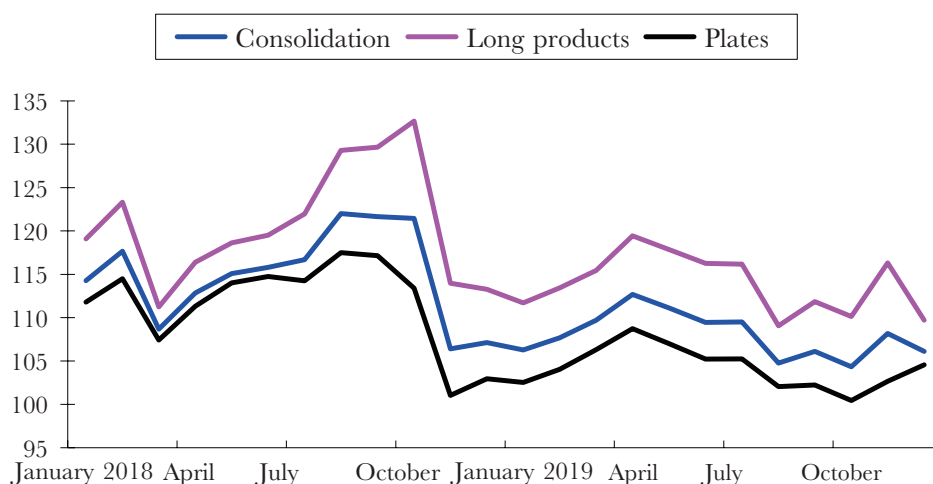
During the reporting period, the major businesses, main products and their usages, operation modes, major driving factors of performance did not experience substantial changes.

III. Overview of the Company's Business (Continued)

(2) INDUSTRIAL PERFORMANCE

In 2019, due to the influence of increased productivity and output, the price of steel slightly fluctuated with a slight year-on-year decrease. The Consolidated Steel Price Index (CSPI) for domestic steel products increased in slight fluctuation from 107.12 at the end of the previous year, and reached a year high of 112.67 at the end of April. Then, the index decreased in fluctuation and reached 106.10 at the end of December. The monthly average value of consolidated price index for domestic steel products was 107.98 with a year-on-year decrease of 5.9%. The market was featured by the trend of “strong in long products and weak in plates”. (Source: CISA)

Table 1: the consolidated price index for domestic steel products in 2018 and 2019



As for raw materials and fuels, in 2019 iron ore price rose quickly due to the dam-break accident of Vale of Brazil at the beginning of the year, reaching US\$115.96/ton at the end of July. Then the price fell back and decreased to US\$90.52/ton at the end of December with dramatic increase in fluctuation range than the previous year. The average CIF of import iron ore nationwide in 2019 was US\$94.92/ton with a year-on-year increase of 36.65%. Due to the influence of environmental protection policy and the supply-side reform in relevant sectors, the price of raw materials and fuels such as scrap steel and coal fluctuated in a higher level. Affected by the cost factor, the profit margins of iron and steel enterprises during the reporting period were reduced significantly. (Source: China Customs, CISA)

III. Overview of the Company's Business (Continued)

2. DURING THE REPORTING PERIOD, THE STATEMENT OF MATERIAL CHANGE IN THE COMPANY'S MAJOR ASSETS

In 2019, in addition to the impact of changes in the China Accounting Standards, the Company's investment assets, fixed assets, intangible assets, construction in progress and other major assets did not undergo material changes. Among them: overseas assets amounted to RMB4.271 billion, accounting for 4.95% of total assets.

3. THE COMPANY'S CORE COMPETITIVENESS ANALYSIS DURING THE REPORTING PERIOD

(1) Location advantage

The Company is located in the Eastern China where economic activities are active, and it is close to the downstream market; transportation is convenient.

(2) Collaborative advantage

As a member of China Baowu, the Company cooperates with China Baowu in terms of planning, manufacturing, marketing, procurement, and management, which is beneficial for the Company to optimize procedures, reduce costs, improve quality, and advance technology for enhanced comprehensive competitiveness.

(3) Product structure advantage

The unique product structure "plates, long products and wheels and axles" enables the Company to allocate resources flexibly, so as to enlarge the percentage of high value-added products.

(4) Technical advantage

During the report period, the Company has issued 228 patents, which included 109 invention patents, 119 utility models. As of 31 December 2019, the Company had owned 1,380 domestic and foreign valid patents (including 3 foreign patents) and 4,571 technical know-hows (non-patented technologies).

(5) Talents advantage

The Company has always attached great importance to core technical team building. On one hand, it makes double efforts to attract and retain talents of high caliber and to foster leadership. On the other hand, it seeks to turn out leaders in each discipline from the team of senior technology leaders. The Company has 56 senior technology leaders, due to the end of the report period.

IV. Report of the Board

1. OPERATING RESULTS AND DISCUSSION AND ANALYSIS

(1) OPERATING RESULTS AND MAJOR WORK MEASURES

1. *Operating results*

According to the China Accounting Standards, the Group achieved revenue of RMB78,263 million in 2019, representing a YoY decrease of 4.50%. The net profit attributable to owners of the parent was RMB1,128 million, representing a YoY decrease of 81.02%. The basic earnings per share was RMB0.147, representing a YoY decrease of 80.96%. As at the end of the reporting period, the Group's total assets amounted to RMB86,322 million, representing a YoY growth of 12.29%. Net assets attributable to owners of the parent were RMB26,933 million, representing a YoY decrease of 4.40%.

According to the China Accounting Standards, in 2019, the Company achieved a net profit of RMB794 million. After accruing 10% of the statutory surplus reserve, the profit available for distribution to shareholders at the end of 2019 was RMB3,288 million. Taking into account the Company's profitability and future sustainable development, the Board of Directors proposed a final dividend of RMB0.08 per share (tax included) in 2019, and the retained earnings were carried forward to 2020, and no capital reserve was transferred to share capital. These distribution plans have yet to be submitted to the annual general meeting for approval.

2. *Major work measures*

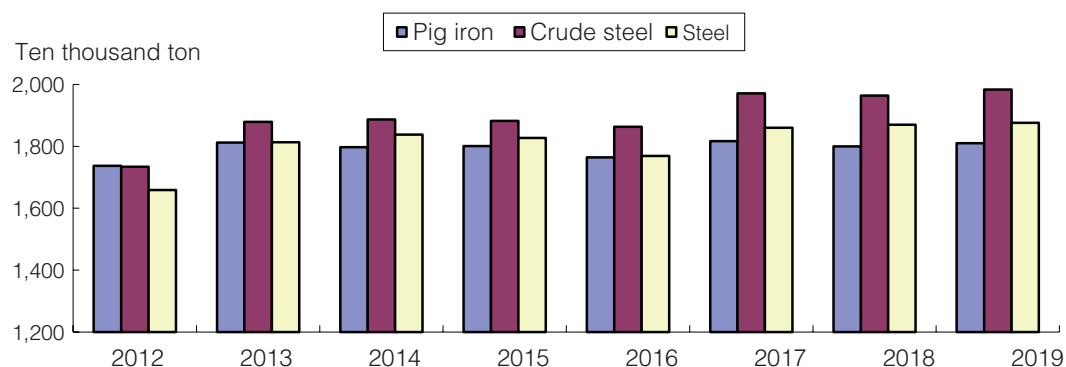
The year 2019 was a landmark year in the Company's history of development. Under the guidance of Anhui Province and China Baowu, the Company joined China Baowu, obtaining a new platform to accelerate high-quality growth. In the year of 2019, the Company adhered to the general tone of steady progress, and thoroughly carried out and implemented the major strategic deployment of Anhui provincial government and China Baowu. Under the background of the global economy staying in a downward period and the growth in China slowing down, the Company actively coped with the sharp change in both supply and demand markets, enhanced its dual engine of "effectiveness and efficiency", focused on changes and breakthroughs as well as value creation, promoted the premium quality development of iron and steel sector. Although its profit margins were reduced significantly by the influence of the increased productivity in iron and steel sector, the rapid increase or fluctuation in a higher level of the price of raw materials and fuels such as iron ore, scrap steel and coal, the Company still managed to have a stable and orderly operation. Major business performance:

- (1) Fully promoting the restructuring work with China Baowu for a preliminary synergistic effect. After becoming a member of China Baowu, the Company actively promoted its consolidation and integration with China Baowu, aligned its management with that of China Baowu in an orderly way, and fully launched its cooperation with China Baowu in green development • intelligent manufacturing as well as the 100-Day Action Plan concerning professional consolidation and integration.

IV. Report of the Board (Continued)

- (2) Focusing on premium development of its major iron and steel business and gradually improving business quality. Under the circumstances of the Company's permanent shutdown of two 420-cubic-meter blast furnaces in April 2018 and two 40-tonne converters in October 2018 as well as the overhaul of a 2500-cubic-meter blast furnace from January to February in 2019, the Group, by adopting a flexible production plan and premium manufacturing, managed to produce 18.10 million tonnes of pig iron, 19.84 million tonnes of crude steel and 18.77 million tonnes of steel with a slight year-on-year increase; adhered to the principle of maximizing efficiency and continued to increase the proportion of high value-added products with that of specialty steel being 55.5%; further implemented lean marketing and continuously optimized customer channels, developing 102 new end users and achieving the annual proportion of direct supply of steel plates of 81.1%; accelerated to promote the certification of key products, with highly corrosion resistant continuous hot-rolled steel sheet products for railway vehicles passing the product certificate of CRCC, 70 grades of auto sheets being certified by various original automobile manufacturers including SAIC Volkswagen and SAIC-GM, and the "wheels for China standard EMU Fuxing bullet train" produced by Magang being awarded the Gold Award for Innovative Products in 2019 World Manufacturing Conference.

Table 2: The Group's production volume of pig iron, crude steel and steel from 2012 to 2019



- (3) Continuing to deepen reform and management to stimulate development vitality. The Company innovated performance assessment mechanism by establishing an assessment indicator system focusing on EVA and checklist evaluation. To further strengthen the resource integration and business integration, the Company established an ironmaking plant, orderly promoted the integration of rail transit resources; persisted in optimizing human resources, actively implemented the principle of "reducing total volume, adjusting structure, improving quality, enhancing vitality" in accordance with the baseline requirement of an annual average of 8% in the human resources optimization rate, improved supporting policies, carried out process reengineering, promoted flat management, significantly increased the personnel efficiency; stepped up the training of innovative talents, advanced the "1+2+4" talent training program in a systematical way, and conducted "Pilot Program" and "Flying Program".

IV. Report of the Board (Continued)

- (4) Deeply implementing and constantly boosting technical innovation. The Company further carried out the “Base+” technology innovation model, launched several intelligent manufacturing projects by cooperating with USTB, and built a joint research center for new iron-based materials with Tsinghua University; kept accelerating the building of innovative platforms, with the “National and Local Joint Engineering Research Center of Advanced Manufacturing Technology for Rail Transit Key Parts” being approved and put into service; vigorously intensified efforts to achieve breakthroughs in technology research and development, and managed to undertake 13 science research projects over provincial level, conduct 73 new product development projects, and win 3 China Metallurgical Science and Technology Awards, among which, the “R&D innovation in metallurgical technology of heavy-duty axle steel and product development” and “Research on surface oxidation mechanism and development and application of new generation control technology of hot-rolled strips” led by or involving the Company won the first prize.
- (5) Constant deepening of brand building for an improved enterprises image. Leveraging on the implementation of 20 annual key works in brand building, the Company kept improving its brand cultivation management system and actively participated in domestic and overseas exhibitions such as the “19th China International Metallurgical Industry Expo” and the “2019 World Manufacturing Conference” to expand brand communication. During the assessment of CISA Modernized Innovation Achievement Award of Management of Metallurgical Industry in 2019, two of our achievements won awards. The Company also won the China’s Top 100 Enterprises Award from China Business Top 100 and the Top 100 in Comprehensive Strength from Top 100 Hong Kong Listed Companies Research Center.
- (6) Continuing the construction of an enterprise with three characteristics to greatly enhance risk control capability. The Company, focusing on building an intrinsic-safety enterprise, strengthened the philosophy of “safety 1000”, implemented safety responsibilities, and deeply carried out the “1+5+N” special security governance, keeping its safety production situation in general stability. The Company, focusing on building an intrinsic environment-friendly enterprise, accelerated the execution of ultra-low emission moderation three-year action plan, organized and carried out Yangtze River protection work, and thoroughly implemented the requirements of the central environmental protection inspection team. The Company, focusing on building a financially sound enterprise, perfected investment income mechanism, controlled capital expenditure strictly and tightly, optimized financing structure, and actively competed for governmental funds.
- (7) Actively participating in the critical battle against targeted poverty relief and achieving practical results. The Company continued to promote the all-round and balanced development between enterprises and the society, dispatched poverty relief village working teams to conduct poverty relief by developing industries, improving education and providing assistance by pairs under the support and help of the Holding. The poverty relief work received positive results and won recognition from Anhui Province.

IV. Report of the Board (Continued)

(2) ANALYSIS OF PRINCIPAL OPERATION

1. Analysis of the change in accounts of the income statement and statement of cash flows

Unit: RMB

Account	Amount of the current year	Amount of the same period of last year	Change (%)
Revenue	78,262,846,004	81,951,813,488	-4.50
Cost of sales	71,315,481,915	69,794,982,119	2.18
Selling expenses	949,844,233	959,718,246	-1.03
General and administrative expenses	2,378,932,727	1,379,991,907	72.39
R&D expenses	846,472,355	801,240,784	5.65
Financial expenses	784,811,228	960,457,412	-18.29
Other income	117,373,339	185,350,836	-36.68
Investment income	815,067,777	1,090,099,779	-25.23
Gain/(loss) on changes in fair value	9,598,445	-10,213,369	—
Credit impairment losses	-15,592,865	-41,876,945	—
Assets impairment losses	-424,598,573	-754,443,431	—
(Loss)/gain from disposal of assets	-77,058,351	371,280,264	-120.75
Operating profit	1,831,577,615	8,085,297,848	-77.35
Non-operating income	469,913,966	160,098,567	193.52
Non-operating expenses	3,735,871	6,472,487	-42.28
Profit before tax	2,297,755,710	8,238,923,928	-72.11
Income tax expenses	583,837,841	1,180,935,234	-50.56
Net profit	1,713,917,869	7,057,988,694	-75.72
Net profit attributable to owners of the parent	1,128,148,980	5,943,286,585	-81.02
Net profit attributable to non-controlling interests	585,768,889	1,114,702,109	-47.45
Net cash flows from operating activities	7,865,957,124	13,870,430,106	-43.29
Net cash flows used in investing activities	-4,793,209,384	-4,011,703,200	—
Net cash flows used in financing activities	-2,822,692,873	-6,027,314,622	—

IV. Report of the Board (Continued)

(1) Analysis of changes to profits

Revenue decreased by 4.50% compared with the previous year, mainly due to the decrease in average sales price of steel this year.

Cost of sales increased by 2.18% compared with the previous year, mainly due to the increase in price of raw materials and fuels such as import ore this year.

General and administrative expenses increased by 72.39% compared with the previous year, mainly due to the increase in one-off termination compensation paid by the Company to its employees because of human resource optimization.

Other income decreased by 36.68% compared with the previous year, mainly due to the decrease in governmental grants received concerning daily operating activities this year.

Gain on changes in fair value is RMB9,598,445, while it was a loss of RMB10,213,369 in previous year, mainly due to the gain from the fair value changes of forward foreign exchange contracts held by the Company this year.

Credit impairment losses decreased by 62.77% compared with the previous year, mainly due to the decrease in bad debt provision based on the expected credit loss model of the Company this year.

Assets impairment losses decreased by 43.72% compared with the previous year, mainly due to the increase in fixed assets impairment of MGVALDUNES and Changjiang Steel, subsidiaries of the Company, was offset by the decrease in the Company's inventory impairment this year resulted from the relatively stable steel price at the end of this year.

Loss from disposal of assets was RMB77,058,351, while it was a gain of RMB371,280,264 in previous year, mainly due to the Company's gain from disposal of certain fixed assets and land, and the recognition of gain from disposal of scrap assets by Ma Steel Hefei last year, while the recognition of loss from disposal of backward production capacity assets by Changjiang Steel.

Non-operating income increased by 193.52% compared with the previous year, mainly due to the increase of stable subsidy received by the Company and the governmental grants for decapacity received by its subsidiary Ma Steel Hefei this year.

IV. Report of the Board (Continued)

Non-operating expenses decreased by 42.28% compared with the previous year, mainly due to the decrease of fine and confiscation expenditure and other expenditure in the Company and its subsidiaries this year.

Income tax expenses decreased by 50.56% compared with the previous year, mainly due to the profitability of some subsidiaries decreased this year.

Net profit attributable to non-controlling interests decreased by 47.45% compared with the previous year, mainly due to the profitability of some non wholly-owned subsidiaries decreased this year.

Operating profit, profit before tax, net profit, and net profit attributable to owners of the parent decreased by 77.35%, 72.11%, 75.72% and 81.02%, respectively, compared with the previous year. These were all mainly due to the increased price of some raw materials and fuels, and decrease of steel price and gross margin of steel products this year.

(2) Analysis of changes to cash flows

Net cash inflows from operating activities were RMB7,865,957,124 which decreased by 43.29% compared with the previous year, mainly due to the decrease of steel price and the increase of cash outflow because of increased price of raw materials and fuels.

Net cash outflows used in investing activities were RMB4,793,209,384, while it was net outflows of RMB4,011,703,200 in previous year, mainly due to the cash payments for acquisition and construction of fixed assets and intangible assets increased compared with the previous year.

Net cash outflows used in financing activities were RMB2,822,692,873, while it was net outflows of RMB6,027,314,622 in the previous year, mainly due to the decrease of payment for loans this year.

During the reporting period, the Company's net cash flow from operating activities was RMB7.866 billion, while net profit was RMB1.714 billion, and the difference is RMB6.152 billion which is mainly due to cash inflows of RMB5.549 billion because of the increase in customer deposits of MaSteel Finance.

IV. Report of the Board (Continued)

(3) Financial position and exchange risks

As at 31 December 2019, the total loans of the Group amounted to RMB17.878 billion. Except for foreign currency loans amounting to US\$235 million, all other loans were denominated in Renminbi. Among loans denominated in foreign currencies, US dollar loans amounting to US\$228 million carried fixed interest rates and US dollar loans of US\$7 million at LIBOR plus premium. Among the Renminbi denominated loans of the Group, loans amounting to RMB11.464 billion carried fixed interest rates and loans amounting to RMB4,773 million carried floating interest rates. In addition, the short-term financing notes with a total amount of RMB1 billion issued by the Company in June 2018 were due with payment completed in June 2019.

The Group's level of loans and borrowings varies according to the scale of production and progress of construction projects. The Group had no overdue loans or borrowings in the reporting period. At present, the Group is financing its capital projects primarily with its own funds. At the end of the reporting period, banking facilities available to the Group amounted to approximately RMB22.2 billion, and the asset-liability ratio was 64.27%, 5.89 percentage points higher than that of the previous year, mainly due to the increase in deposits taken by MaSteel Finance from members out of the Group, the decrease in the endorsement transfer of bank acceptance notes received by the Company, and the increase in bank acceptance notes newly issued for purchase payment, thus causing the increase of liabilities.

As at 31 December 2019, the Group's cash and bank balances amounted to RMB9.517 billion and financing receivables amounted to RMB11.099 billion. The majority of the cash and bank balances as well as bank acceptance notes were derived from sales proceeds. No due deposits of the Company couldn't be withdrawn.

The Group's import of raw materials was mainly settled in US dollar, while import of equipment and spare parts was settled in Euro or Japanese Yen, and export of products was settled in US dollar. During the reporting period, the forward foreign currency settlement and sales was applied as per needs to the US dollar paid to the import of raw materials to lock US dollar exchange rate; the procurement payment was relatively less affected by exchange rate fluctuations since the amount of such European and Japanese equipment procurement payment was small.

IV. Report of the Board (Continued)

2. Analysis of revenue and cost of sales

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

Unit: million RMB

Principal operation by industry						
Industry	Revenue	Cost of sales	Gross margin	Increase/ (decrease) of revenue compared with last year	Increase/ (decrease) of cost of sales compared with last year	Increase/ (decrease) of gross margin compared with last year
				(%)	(%)	(%)

Iron and Steel	71,760	65,712	8.43	-5.82	0.28	Decreased by 5.57 percentage points
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Principal operation by product						
Product	Revenue	Cost of sales	Gross margin	Increase/ (decrease) of revenue compared with last year	Increase/ (decrease) of cost of sales compared with last year	Increase/ (decrease) of gross margin compared with last year
				(%)	(%)	(%)

Long products	32,712	28,878	11.72	-2.77	3.73	Decreased by 5.53 percentage points
Steel plates	33,590	31,644	5.79	-11.42	-5.70	Decreased by 5.71 Percentage points
Wheels and axles	2,867	2,580	10.01	41.02	26.35	Increased by 10.45 percentage points

IV. Report of the Board (Continued)

Revenue by region						
Region	Revenue	Cost of sales	Gross margin	Increase/ (decrease) of revenue compared with last year	Increase/ (decrease) of cost of sales compared with last year	Increase/ (decrease) of gross margin compared with last year
			(%)	(%)	(%)	
Anhui	26,789	24,429	8.81	-12.51	-6.11	Decreased by 6.21 percentage points
Shanghai	12,365	11,591	6.26	-4.60	4.39	Decreased by 8.07 percentage points
Jiangsu	12,174	11,201	7.99	0.45	8.00	Decreased by 6.44 percentage points
Zhejiang	5,040	4,705	6.65	-6.91	-0.76	Decreased by 5.78 percentage points
Guangdong	2,176	2,012	7.54	-8.84	-1.71	Decreased by 6.68 percentage points
Other Mainland regions	15,117	13,485	10.80	14.63	20.05	Decreased by 4.03 percentage points
Overseas and Hong Kong	4,602	3,892	15.43	-12.58	-9.04	Decreased by 3.29 percentage points

During the reporting period, the Group's revenue from principal operation was RMB77,158 million, of which the iron & steel revenue was RMB71,760 million, accounting for 93% of the principal operation revenue, little change in proportion. The YoY decrease in the gross margin of long products and plates was mainly due to the increase in the price of major raw materials and fuels as well as cost of production. The revenue from wheels and axles realized a YoY increase of 41.02%, mainly due to the increase in product price. The increase in gross margin was mainly due to the increase of product price exceeded that of cost.

IV. Report of the Board (Continued)

Analysis of Production and Sales Volumes

Unit: ten thousand tonnes

Products	Production volume	Sales volume	Inventory volume	Year-on-year increase/ (decrease) of production volume (%)	Year-on-year increase/ (decrease) of sales volume (%)	Year-on-year increase/ (decrease) of inventory volume (%)
Long products	937.9	933.9	16.8	3.22	2.64	31.25
Steel plates	915.9	915.9	4.9	-2.59	-2.64	-
Wheels and axles	23.0	22.5	1.0	6.48	2.27	100.00

During the reporting period, the Group continued to keep a balance between production and sales and maintain a relatively low product inventory. As at the end of the reporting period, the inventory of long products of the Group increased slightly, mainly due to a proper amount of reserve inventory was prepared by its subsidiary Changjiang Steel to cope with the earlier arrival of the 2020 Spring Festival than that of the previous year; the inventory of wheels and axles was increased, mainly due to part of the exported wheels manufactured as per sales orders as at the end of the reporting period was shipped and in transit but unsold due to unavailability.

(2) Analysis of Costs

Unit: million RMB

Cost components	Amount in 2019	% of total costs in 2019 (%)	Amounts in 2018	% of total costs in 2018 (%)	Change in amount in 2019 against amount in 2018 (%)
Raw materials and fuels	55,857	78.32	53,081	76.05	5.23
Salary	3,707	5.20	3,735	5.35	-0.75
Depreciation and amortization	3,037	4.26	3,519	5.04	-13.70
Fuels and power	3,720	5.22	3,398	4.87	9.48
Others	4,994	7.00	6,062	8.69	-17.62

IV. Report of the Board (Continued)

During the reporting period, the proportion of raw materials and fuels, energy and power in total costs increased, mainly due to the increase in the price of raw materials and fuels; the proportion of depreciation and amortization in total costs decreased, mainly due to the disposal of subsidiaries at the end of the previous year and the decrease in carrying amount of long-term assets; the proportion of other items in total costs decreased, mainly due to the decrease in repair expenses.

(3) Analysis of Major Customers and Major Suppliers

During the reporting period, the amount of total sales to the top five customers was RMB5.946 billion, accounting for 8% of the annual sales. Among which, the sales of the related parties was RMB1.755 billion, accounting for 2% of the annual sales. The amount of the total purchase from the top five suppliers was RMB17.078 billion, accounting for 26% of the annual purchase. Among which, the purchase from the related parties was RMB7.161 billion, accounting for 11% of the annual purchases.

Among the major suppliers, the Holding is the controlling shareholder of the Company, the Masteel Scrap is a controlling subsidiary of the Holding; among the major customers, the Magang Chemicals & Energy is a controlling subsidiary of the Holding. Saved as the above, there was no directors or supervisors or their connected persons or any shareholders (to the best knowledge of the board of directors, holding 5% or above of the shares in the Company) having any beneficial interests in the top five suppliers or customers of the Group in 2019.

3. *Expenses*

During the reporting period, the Group's selling expenses were RMB950 million, general and administrative expenses were RMB2.379 billion, and the financial expenses were RMB785 million. Among which, the selling expenses and financial expenses decreased by 1.03% and 18.29%, respectively, and the general and administrative expenses increased by 72.39%. The increase in general and administrative expenses was mainly due to the increase of one-off termination compensation paid by the Company to its employees because of human resource optimization.

IV. Report of the Board (Continued)

4. Research and Development (R&D) Expenses

(1) R&D expenses details

Unit: million RMB

Expensed R&D expenses in 2019	846.47
Capitalized R&D expenses in 2019	–
Total R&D expenses	846.47
Total R&D expenses as a portion of revenue (%)	1.08
Number of the Company's R&D staff	1,738
Percentage of R&D staff number to the Company's total number of employees (%)	6.63
Percentage of capitalized R&D expenses (%)	–

(2) R&D projects and their impact on the future development of the Company

In 2019, focusing on the technical challenges restricting markets and sites, the Company organized and implemented 167 projects (8 in national level and 5 in provincial level) in terms of scientific research and technological breakthrough. Via the implementation of projects, results were applied to practical production to support the stable and efficient production, quality improvement and batch manufacturing of new products of all departments of the Company, thus providing a solid support for the Company to improve quality and enhance efficiency.

(3) DURING THE REPORTING PERIOD, NO SIGNIFICANT CHANGE IN THE COMPOSITION OR SOURCES OF THE COMPANY'S PROFIT CAUSED BY MINOR BUSINESS OPERATION.

IV. Report of the Board (Continued)

(4) ANALYSIS OF ASSETS AND LIABILITIES

1. Assets and Liabilities

Unit: RMB

Account	Closing balance of 2019	Percentage of closing balance of 2019 in total assets (%)	Closing balance of 2018	Percentage of closing balance of 2018 in total assets (%)	Year-on-year change (%)
Cash and bank balances	9,517,313,695	11.03	9,762,844,718	12.70	-2.51
Financing receivables	11,098,699,421	12.86	4,970,113,847	6.47	123.31
Prepayments	981,443,575	1.14	712,340,548	0.93	37.78
Loans and advances to customers	4,256,415,190	4.93	2,845,298,103	3.70	49.59
Non-current assets due within one year	–	–	101,201,184	0.13	-100.00
Property, plant and equipment	30,045,743,674	34.81	31,545,176,835	41.04	-4.75
Construction in progress	3,259,704,984	3.78	1,662,672,077	2.16	96.05
Right-of-use assets	418,879,903	0.49	–	–	–
Deposits and balances from banks and other financial institutions	400,031,889	0.46	900,366,111	1.17	-55.57
Customer deposits	10,964,896,002	12.70	4,915,309,311	6.39	123.08
Short-term loans	12,880,053,159	14.92	10,917,293,181	14.20	17.98
Financial liabilities held for trading	2,258,750	0.003	8,012,670	0.01	-71.81
Notes payable	7,313,729,148	8.47	2,638,271,437	3.43	177.22
Trade payables	6,130,327,006	7.10	7,703,736,542	10.02	-20.42
Taxes payable	547,209,418	0.63	1,325,517,987	1.72	-58.72
Long-term employee benefits payable	101,327,703	0.12	157,371,474	0.20	-35.61
Lease liabilities	411,432,835	0.48	–	–	–
General reserve	325,786,322	0.38	224,841,404	0.29	44.90

Financing receivables increased by 123.31% compared with the previous year, mainly due to that the notes receivable at fair value through other comprehensive income was calculated under this account as per the format requirement of new financial statements. Meanwhile, the decrease in the endorsement of notes receivable this year caused the increase of notes receivable held by the Company this year.

IV. Report of the Board (Continued)

Prepayments increased by 37.78% compared with the previous year, mainly due to the increase in prepayments for procuring import raw material and fuels as well as the spare parts this year.

Loans and advances to customers increased by 49.59% compared with the previous year, mainly due to the increase in the amount of loans lent by MaSteel Finance to its external companies of the Group this year.

Non-current assets due within one year decreased by 100% compared with the previous year, mainly due to the maturity of the treasury bonds held by MaSteel Finance this year.

Construction in progress increased by 96.05% compared with the previous year, mainly due to the increased investment of the Company in heavy duty H-beam, new square billet continuous caster in Special Steel Company, long product upgrade and transform projects etc. this year.

The balance of right-of-use assets at the end of this year was RMB418,879,903 while that of the end of previous year was zero, mainly due to the Group recognized the rights to use lease assets over lease terms as right-of-use assets as a results of the application of New Leases Standard since 1 January 2019.

Deposits and balances from banks and other financial institutions decreased by 55.57% compared with the previous year, mainly due to MaSteel Finance decreased the deposits and balances from commercial banks.

Customer deposits increased by 123.08% compared with the previous year, mainly due to the increase in cash absorbed by MaSteel Finance in this year from the Holding and its subsidiaries.

Financial liabilities held for trading decreased by 71.81% compared with the previous year, mainly due to the changes to the fair value of the forward foreign exchange contracts held by the Company this year.

Notes payable increased by 177.22% compared with the previous year, mainly due to the decrease in the endorsement of notes receivable and the increasing demand for newly issued notes in this year.

Taxes payable decreased by 58.72% compared with the previous year, mainly due to the payment of various unpaid taxes payable of last year end made by the Company and its subsidiary Changjiang Steel at the beginning of this year.

Long-term employee benefits payable decreased by 35.61% compared with the previous year, mainly due to the one-off termination of employment contracts between the Company and certain early retired employees as well as the retirement of certain early retired employees this year.

IV. Report of the Board (Continued)

The balance of lease liabilities at the end of this year was RMB411,432,835 while that of the end of previous year was zero, mainly due to the Group recognized the present value of outstanding lease payments as lease liabilities as a result of the application of New Leases Standard since 1 January 2019.

General reserve increased by 44.90% compared with the previous year, mainly due to the accrual of risk reserve of MaSteel Finance this year.

2. *Major restricted assets at the end of the reporting period*

At the end of the reporting period, the restricted assets of the Group totaling approximately RMB6,771 million consisted of mandatory reserves with the central bank by MaSteel Finance of approximately RMB713 million, bank deposits of the Group for bank acceptance notes, letters of credit and performance guarantees of approximately RMB1,461 million, and bank acceptance notes pledged in banks by the Group for obtaining bank acceptance notes and short-term borrowings of approximately RMB4,597 million.

(5) OPERATIONAL INFORMATION ANALYSIS OF THE INDUSTRY

See Section III “Overview of the Company’s Business” of this report for details of the industry performance.

1. *Company Information*

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

Product type	Production Capacity (ten thousand tonnes)	Utilisation rate of production capacity (%)
Pig iron	1,833	99
Crude steel	2,170	91
Steel production	1,970	95

IV. Report of the Board (Continued)

2. Steel and Iron Industry Operational Information Analysis

(1) Manufacturing and Sales of Steel Material Based on Processing Techniques

Unit: million RMB

Type based on processing techniques	Production volume (tonnes)		Sales volume (tonnes)		Revenue		Cost of sales		Gross margin (%)	
	This Year	Last Year	This Year	Last Year	This Year	Last Year	This Year	Last Year	This Year	Last Year
Cold-rolled steel	4,491,648	4,801,070	4,488,675	4,800,445	17,951	23,015	17,147	20,879	4.48	9.28
Hot-rolled steel	14,046,434	13,687,895	14,008,657	13,704,774	48,351	48,548	43,375	40,518	10.29	16.54
Wheel and axles	230,183	215,567	224,914	220,352	2,867	2,033	2,580	2,042	10.01	-0.44

(2) Manufacturing and Sales of Steel Material Based on Forms of Finished Goods

Unit: million RMB

Type based on forms of finished products	Production volume (tonnes)		Sales volume (tonnes)		Revenue		Cost of sales		Gross margin (%)	
	This Year	Last Year	This Year	Last Year	This Year	Last Year	This Year	Last Year	This Year	Last Year
Long products	9,379,436	9,086,121	9,338,795	9,098,502	32,712	33,644	28,878	27,840	11.72	17.25
Steel plates	9,158,646	9,402,844	9,158,537	9,406,717	33,590	37,919	31,644	33,557	5.79	11.50
Wheels and axles	230,183	215,567	224,914	220,352	2,867	2,033	2,580	2,042	10.01	-0.44

(3) Sales of Steel Material Based on Sales Channels

Unit: 100 million RMB

Based on sales channels	Revenue		Percentage in total revenue (%)	
	This Year	Last Year	This Year	Last Year
Offline sales	686.7	702.2	87.74	84.84
Online sales	30.9	33.8	3.95	4.08

(4) Supply of Iron Ore

Supply source of iron ore	Supply volume (tonnes)		Increase/decrease year on year (%)
	This Year	Last Year	
Domestic source	7,807,702	7,848,045	-0.51
Overseas import	18,558,939	21,032,183	-11.76

During the reporting period, the Group properly increased the usage of scrap steel and reduced the procurement amount of iron ore accordingly by taking comprehensive consideration of iron ore price, scrap steel price, production needs and environmental protection factors.

IV. Report of the Board (Continued)

(6) INVESTMENT ANALYSIS

1. General Analysis of External Equity Investments

Unit: million RMB

Investment amount as at the end of the reporting period of the Company	12,050.66
Changes in investment amount	1,556.42
Investment amount as at the end of previous year of the Company	10,494.24
Increase/decrease in investment amount (%)	14.83

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

Unit: million RMB

Name of Invested Company	Equity Ratio	Main Business	New Investment during the Reporting Period
Newly established companies			
Magang Hongfei Power Energy Co., Ltd.	51%	Sales and distribution of electricity, comprehensive supply of energy, electricity operation and maintenance, etc.	51
Company with investment changes due to capital increase or equity changes			
Maanshan (Wuhan) Material Technique Co., Ltd.	85%	Research and development of automobile, home electrical appliances, engineering and machinery materials; production and sales of steel and stamping spare parts; storage and service	53
Ma-Steel Rail Transportation Co., Ltd.	100%	R&D, manufacturing, sales and repair of wheel products, wheels and axles, and wheel pairs for rail transportation	1,126
Ma Steel (Shanghai) Commercial Factoring Co., Ltd.	25%	Trade receivables financing, trade receivables delivery and clearing, management and collection, sales sub-account management, credit risk guarantee related to factoring	75
Maanshan Masteel Scrap Steel Co., Ltd.	45%	Recycling, processing and distribution of scrap metal	135

IV. Report of the Board (Continued)

Name of Invested Company	Equity Ratio	Main Business	New Investment during the Reporting Period
MG-Valdunes	100%	Design, manufacturing, processing, investment in product production, maintenance and repair of all products and equipment used in rail transport, urban transport and machinery industry; distribution, import and export of various shapes of steel products	156
Masteel Middle East	100%	Metallurgy and extended processing of ferrous metals and sale of resulting products, extended processing of iron and steel products	3
Ma Steel (Guangzhou) Processing and Distribution Co., Ltd.	74.99%	Processing and distribution of steel products	13

Explanation:

- In October 2018, the Company established Maanshan (Wuhan) Material Technique Co., Ltd. with a registered capital of RMB250 million and the Company holds 85% of its shares. In 2018, the Company completed the first phase of capital contribution of RMB31.857 million. According to the capital contribution plan, the Company completed the second phase of capital contribution of RMB53.125 million in January 2019.
- The original registered capital of Ma-Steel Rail Transportation Co., Ltd. was RMB360 million. In March 2019, the Company increased its capital by RMB40 million for a new wheel-pair disassembling and cleaning project. In November of the same year, the Company increased its capital by RMB1,086 million under the name of Masteel Wheel & Axle (a branch of the Company)
- In August 2018, the Board approved to increase the capital of MG-Valdunes by no more than EUR70 million. The first capital increase of EUR30 million (equivalent to RMB237 million) and the second capital increase of EUR20 million (equivalent to RMB156 million) was completed in November 2018 and September 2019, respectively.
- In 2018, the Company established a wholly-owned subsidiary, Masteel Middle East, with a registered capital of DHS4 million. The Company completed the first phase of capital contribution of USD300,000 (equivalent to approximately RMB2.04 million) in 2018 and the second capital injection of USD500,000 (equivalent to approximately RMB3.435 million) in July 2019.

IV. Report of the Board (Continued)

- The registered capital of Ma Steel (Guangzhou) Processing and Distribution Co., Ltd. ("Ma Steel (Guangzhou)") is RMB120 million and the Company used to hold 66.66% of its shares. In July 2019, the Company received the 8.33% equity in Ma Steel (Guangzhou) held by Parico (Suntao) Enterprises Limited by way of equity consideration of RMB13,058,200, increasing its shareholding percentage to 74.99%.
- (1) During the reporting period, the Company had not carried out any significant equity investments.
 - (2) Significant Non-Equity Investment

Unit: million RMB

Project Name	Budgeted Investment	New Investment during the Reporting Period	Project Progress
Product quality projects	9,446	1,911	51%
Energy-saving and environment protection projects	5,861	982	42%
Equipment advancement and other modification projects	1,809	620	79%
Other projects	N/A	87	N/A
Total	/	3,600	/

IV. Report of the Board (Continued)

By the end of the reporting period, progresses of the major projects under construction were as follows:

Unit: million RMB

Project name	Budget of total investment	Project Progress
Heavy duty H – beam project	1,650	Equipment installment and commissioning
The update of environmental protection and intelligent transformation project of Masteel's raw material factory	1,500	Pile foundation construction, intelligent decision-making system testing
Ma Steel Hefei environmental relocation project – coking furnace system project	1,260	Pile foundation construction
CCPP comprehensive utilization power generation project for energy saving and emission reduction	1,025	Civil infrastructure construction
Auxiliary supporting project for Masteel's long product upgrading and renovation	520	Equipment commissioning
New square billet continuous caster and supporting retrofit project in the Special Steel Company	435	Equipment installment and single commissioning
Renovation or 1720 acid rolling lines	429	Preparations for commencement of works
New silo project in the coal coking company	420	The first phrase was basically completed and the second phrase is under preparation for commencement of works
Masteel 220KV electricity transmission and transformation – CCPP auxiliary electricity supporting project	374	Preliminary preparation
Profiled billet continuous casting machine project for heavy-duty H beam production lines	330	Equipment commissioning
Auxiliary gas and thermal supporting project for new CCPP in the southern area of Masteel	291	Preparations for commencement of works
Capability upgrade and renovation project for No. 1 galvanizing line of cold rolling plant	280	Preparations for commencement of works
Wires and bars deep processing project for parts used in high-end automobiles and rail transit of Magang	268	Equipment installment and commissioning
Flue gas desulfurization and denitrification project for 7# and 8# coking furnaces in the Coking Plant	150	7# coking furnace was completed and put into operation while 8# coking furnace was under preparation for commencement of works
Total	8,932	/

IV. Report of the Board (Continued)

Project construction fund of the Company comes from the Company's own fund and bank loans.

(3) Financial assets measured at fair value

See "10. Items Measured at Fair Value" in Section II of this report.

(7) DURING THE REPORTING PERIOD, THERE WAS NO SIGNIFICANT DISPOSAL OF THE COMPANY'S ASSETS OR EQUITY.

(8) ANALYSIS OF THE GROUP'S MAJOR SUBSIDIARIES AND INVESTEEES

1. *Controlling subsidiary*

- (1) Anhui Changjiang Steel Co., Ltd. has a registered capital of RMB1,200 million, in which the Company holds a direct stake of 55%. It is mainly engaged in the production and distribution of ferrous metallurgy, screw threaded steel, round steel, section steel, angle steel, deformed steel, wire and rod; as well as the sales, import and export of iron ore, iron ore fines and scrap steel. The net profit for the reporting period amounted to RMB1,157 million. At the end of the reporting period, its total assets and net assets amounted to RMB10,494 million and RMB5,541 million, respectively.

In 2019, the revenue of Changjiang Steel from principal operation was RMB15,734 million, the profit therefrom was RMB2,352 million, and the net profit was RMB1,157 million or down 45% year-on-year, mainly resulting from the decrease in the average sales price of steel products, the increase in costs of raw materials and the accrued fixed assets impairment provision.

- (2) Magang Group Finance Co. Ltd. has a registered capital of RMB2,000 million, in which the Company holds a direct stake of 91%. Its business scope is as follows: financial and financing consultancy and relevant consultancy as well as agency business to members of the Group; guarantee provided; bill acceptance and discounting, loans and finance leasing to members of the Group; engagement in inter-bank borrowing; assisting members of the Group in the collection and payment of transaction amount; approved insurance agency business; handling entrusted loans, internal transfer and bill settlement, design of settlement and liquidation plans for members of the Group, and accepting deposits from member entities. The net profit for the reporting period amounted to RMB281 million. At the end of the reporting period, its total assets and net assets amounted to RMB21,909 million and RMB3,147 million, respectively.

IV. Report of the Board (Continued)

Indicator	Standard Ratio	Actual Ratio for the year
	(%)	(%)
Capital adequacy ratio	≥10.5	21.27
Liquidity ratio	≥25	67.50
Non-performing asset ratio	≤4	–
Non-performing loan ratio	≤5	–
Loan loss reserves adequacy ratio	≥100	260.82
Loans from other banks ratio	≤100	41.61

- (3) Ma Steel (Hefei) Iron & Steel Co., Ltd. has a registered capital of RMB2,500 million, in which the Company holds a direct stake of 71%. It is mainly engaged in metallurgy and extended processing of ferrous metals and sales of resulting products and by-products; production and sales of coke and coke chemical products and energy, extended processing of iron and steel products, production and distribution of metallic products. The net profit for the reporting period amounted to RMB113 million. At the end of the reporting period, the total assets and net assets amounted to RMB4,810 million and RMB2,323 million, respectively.
- (4) MG-VALDUNES, a wholly-owned subsidiary of the Company, has a registered capital of EUR130.2 million, and is mainly specialized in design, manufacturing, processing, putting into production, repairing and maintaining of all kinds of products and facilities applied in railway transportation, urban transportation and mechanical industry; sales, import and export of various shapes of steel products. In the reporting period, the net losses amounted to RMB191 million; at the end of reporting period, the total assets and the net assets were RMB738 million and RMB400 million, respectively.
- (5) The Company's wholly-owned subsidiary Maanshan Iron & Steel (Australia) Proprietary Limited has a registered capital of AUD21.7379 million and is mainly engaged in investment and trading. The net profit for the reporting period amounted to RMB52 million. At the end of the reporting period, it had total assets amounting to RMB265 million and net assets of RMB243 million.
- (6) The Company's wholly-owned subsidiary Ma Steel (Hong Kong) Co., Ltd. has a registered capital of HK\$350 million, and is mainly engaged in trading of steel products and pig iron. The net profit for the reporting period amounted to RMB50 million. At the end of the reporting period, it had total assets amounting to RMB3,193 million and net assets of RMB371 million.

IV. Report of the Board (Continued)

2. Major investees

- (1) Henan Jinma Energy Co. Ltd. has a registered capital of RMB535.421 million and the Company directly holds 26.89% of its equity. Its main businesses include coke, coal tar, crude benzene, ammonium sulfate, coke oven gas production and sales; coke oven gas power generation, heat production. The net profit for the reporting period was approximately RMB628 million. At the end of the reporting period, its total assets and net assets were RMB5,490 million and RMB3,401 million, respectively.
- (2) Anhui Magang Chemical & Energy Technology Co., Ltd. has a registered capital of RMB1,333.33 million and the Company directly holds 45% of its equity. It's mainly engaged in recycling, processing and distribution of scrap metal. The net profit for the reporting period was approximately RMB132 million. At the end of the reporting period, its total assets and net assets were RMB1,719 million and RMB1,628 million, respectively.
- (3) Maanshan Masteel Scrap Steel Co., Ltd., renamed as Ouye Lianjin Renewable Resources Co., Ltd. on 19 February 2020, has a registered capital of RMB400 million and the Company directly holds 45% of its equity. It's mainly engaged in recycling, processing and distribution of scrap metal. The net profit for the reporting period was approximately RMB103 million. At the end of the reporting period, the total assets and net assets were RMB4,142 million and RMB1,029 million, respectively.
- (4) Shenglong Chemical Co., Ltd. has a registered capital of RMB568.8 million and the Company directly holds 31.99% of its equity. It's mainly engaged in the production and sales of coke, ammonium sulfate, and coal coke chemical products (excluding other dangerous chemicals); maintenance and processing of mechanical equipment (excluding special equipment). The net profit for the reporting period was approximately RMB509 million. At the end of the reporting period, the total assets and net assets were RMB3,264 million and RMB2,551 million, respectively.
- (5) Maanshan BOC-Ma Steel Gases Company Limited has a registered capital of RMB468 million and the Company directly holds 50% of its equity. It's mainly engaged in the production and distribution of air or liquid form of air products as well as the preparation for other industrial gas products. During the reporting period, the net profit amounted to RMB177 million. At the end of reporting period, the total assets and net assets were RMB609 million and RMB543 million, respectively.

(9) DURING THE REPORTING PERIOD, THE COMPANY HAD NO STRUCTURED ENTITY

II. OUTLOOK FOR FUTURE DEVELOPMENT

(1) Industry Landscape and Trend

Looking forward to 2020, the global economy growth will continue to slow down, and the feature of “three lows and two highs”, that is low growth, low inflation, low interest rate, high debt, high risk, will be further highlighted. In terms of domestic development, the influence of the “overlapping of three periods” will be further deepened while the impact of COVID-19 on economy and society will increase the downward pressure on the economy. The State will adhere to the general principle of pursuing progress while ensuring stability; continue to apply the new development philosophy; continue to pursue supply-side structural reform as our main task; continue to take reform and opening up as our driving force; continue to work for high-quality development; continue the three critical battles; implement the “six stability” in an all-round way, make coordinated efforts to maintain stable growth, advance reform, make structural adjustments, improve living standards, guard against risks, and ensure stability; and keep major economic indicators within an appropriate range.

Having completed the five-year goal of resolving excess capacity ahead of schedule, the iron and steel industry shall correctly understand and properly handle the relationship between “capacity, output, and products” under the pressure of stringent environment protection standards. The iron and steel enterprises shall adhere to green development, promote and lead the green revolution in the whole industry chain, and significantly improve the green development level of the sector by continuously and vigorously boosting ultra-low emission moderation.

(2) Corporate Development Strategy

Against a complex and fast-changing domestic and international environment, the Company shall maintain strategic focus, treat national development and industry changes from a comprehensive, dialectical and long-term perspective, unswervingly implement the new development philosophy and the overall development strategy of China Baowu, and pursue high quality development.

1. The Company will follow the general idea for a “better, stronger and bigger” high-quality growth, focus on three types of products of “wheels and axles, steel plates, premium long products”, and highlight the development of rail transit (wheels and axles), automobile plates, home electrical appliances plates, H beams, and premium special steel.
2. The Company will implement a strategy of “premium product + scale”, making wheels and axles become the number one in comprehensive competitiveness at home and abroad, the comprehensive competitiveness of steel plates enter the tier 1 in China, H-beam products become the number one in comprehensive competitiveness at home, the Special Steel Company a production base for premium special steel and wire rod, and the Changjiang Steel a production base for important premium construction materials.

IV. Report of the Board (Continued)

3. The Company will adhere to the purpose and requirements of the “four principles for intelligent production”, advance big data, AI, IOT, block chain and similar technologies and apply them into intelligent equipment, intelligent plant and intelligent operation to improve the level of intelligent manufacturing.
4. The Company will vigorously promote new processes, new technologies, new equipment, and new standards in terms of ultra-low emission, energy saving and environmental protection, enhance green development, integrate into the high-quality steel ecosystem created by China Baowu, and create a green, intelligent and premium urban steel plant demonstration base.

(3) Business Plan

In 2020, while adhering to the general tone of steady progress and implementing the new development philosophy, the Company will highlight China Baowu's performance guidance of “surpassing yourself, leading the industry, pursuing excellence”, achieve goals via implementing the principle of “high tech, high market share rate, high efficiency, ecologization, internationalization”, take reform as its driving force, promote innovation-driven development, focus on consolidation and integration, align with higher standards to find out gaps, and strive to create a new chapter for its high-quality development. In 2020, the Group plans to produce pig iron of 18.20 million tons, crude steel of 20.20 million tons and steel of 19.10 million tons which will increase by 0.55%, 1.81% and 1.81% respectively, compared with the production in 2019. Among which, the Company plans to produce pig iron of 14.40 million tons, crude steel of 15.90 million tons and steel of 14.66 million tons, which will increase by 2.49%, 3.92% and 2.95% respectively, compared with the production in 2019. The major measures to be taken are as follows:

1. Thoroughly implement the overall development strategy of China Baowu and prepare the new round of development plan. The Company, orientated as per the development strategy of China Baowu as well as product and production line, on three types of products of wheels and axles, steel plates, premium long products and professionalized products, actively plan the adjustment and upgrade of strategy planning in iron and steel industry by focusing on realizing the target of helping the comprehensive competitiveness of steel plates enter the leading place in the industry, that of wheels and axles as well as H beams become the number one at home and abroad as well as at home respectively, and building Special Steel Company into a premium production base of quality steel rods and wires to effectively align with the overall planning of China Baowu.
2. Continue to improve aligning mechanism with China Baowu and exert cooperative benefits. According to the requirements of “unified language, unified rules, unified platforms”, the Company will accelerate its profound integration with China Baowu advance an all-round collaboration in R&D, procurement, manufacturing, sales, capital, management and industrial chain extension, focus on the implementation of 9 technological support projects and 14 management support projects to effectively achieve breakthroughs in high-end product technologies, improve abilities of management system, and strive to achieve an annual cooperative benefit of RMB1.6 billion.

IV. Report of the Board (Continued)

3. Adhere to the filling of liquid iron supply gaps in the northern area and the professionalized production in the southern area to create new competitive advantages. The Company will implement supporting projects in the northern area in a fast way; perfect the production capability layout of No.1 Steel Rolling Plant and Special Steel Company; systematically resolve the problem of imbalanced iron-sinter-coke supply and iron & steel process via speeding up technology transform, strengthen the professionalized abilities of the southern area to promote the achievement of China Baowu being a leader in global iron and steel industry.
4. Keep enhancing manufacturing abilities and further exert scale advantage. Centering on blast furnaces, the Company will step forward to perfect their examination and risk alert mechanism, strengthen the linkage between different systems, consolidate the foundation for a stable and effective performance of blast furnaces to achieve smooth production under a higher level; optimize iron to steel ratio, intensify efforts to increase the utilisation rate of production capacity and order fulfillment rate to improve volume, revenue and efficiency.
5. Align with higher standards in an all-round way to find out gap and pursue for excellence and efficiency. The Company will stick to its dos and don'ts, accelerate to implement supporting systems to quickly increase system efficiency; align with higher standards in all aspects to find out differences, take the increase of key technological and economic indexes as the assessment guidance for the main channel of decreased cost and improved efficiency and the average level of the best three months in previous year as a starting point, further clarify the classification of production line, and pursue high efficiency and excellent to further improve indexes, optimize structure, organize production effectively, and decrease cost.
6. Build a green steel plant and create an intelligent steel enterprise. Taking the 2021 China Baowu Green Development • Intelligent Manufacturing Conference held in Magang as an opportunity, the Company will, as per the deployment of China Baowu, satisfy the requirements of its environmental protection principles and the guideline of “ultra-low emission of waste gas, zero emission of waste water, no shipping out of solid wastes, cleanness, greening, beautifying and culture”, draft and carry out working plans, speed up the implementation of ultra-low emission moderation projects, significantly increase the green development index of Magang. As per the requirements of the “four principles for intelligent production”, the Company will conduct a batch of intelligent manufacturing sample project to support the consistency, stability, and reliance of product quality for the optimization of safety, efficiency, environment and organization.

IV. Report of the Board (Continued)

7. Focus on its major business of iron and steel and continue to intensify efforts to cut production and maintain healthy development. By professional integration and capital operation, the Company will focus on its principle operation in iron and steel, reduce the proportion of trade receivables and deposits to further increase the efficiency of assets, capitals and human resources, and further decrease legal persons by taking input-output benefits as measurement.
8. Reform remuneration system and highlight incentive orientation. In a new environment, the Company will further perfect corporate governance, explore long-term motivation methods, establish, improve and carry out continuous and stable motivation and constrain mechanism to fully exert the initiative of core talents and excellent cadre, and ensure the implementation of business plans by strengthening performance assessment orientation and focusing on key indicators.

The above business plans do not constitute a performance commitment of the Company towards investors. The realization of such business plans is subject to market changes and other factors with certain uncertainties, so investors shall be prudent in investment.

(4) Potential Risks

Right now, the growth of global economy including China is slowing and economic globalization is faced with challenges. Domestic iron and steel production capacity has a huge potential, the iron and steel capacity in coastal areas will be increased significantly, the increase of downstream demand will be impacted in a certain period due to COVID-19, the supply-end pressure will be increased, and the competition will become fierce. The price of major raw materials and fuels such as iron ore, scrap steel and coal used for iron and steel production is still high; meanwhile, corporate comprehensive costs including environmental protection will be increased with the implementation of environmental protection policies. The Company's response measures are described in the "business plan" in the preceding paragraph.

III. THE COMPANY DID NOT FAIL TO COMPLY WITH DISCLOSURE DUE TO INAPPLICABLE STANDARDS OR SPECIFIC REASONS SUCH AS STATE SECRETS, TRADE SECRETS, ETC.

IV. Report of the Board (Continued)

IV. OTHERS

1. The service contracts and contractual interests of Directors and Supervisors

The Company has signed service contracts with its Directors and Supervisors. No Director or Supervisor of the Company signed any service contract the Company is disallowed to terminate without compensation within one year (excluding statutory compensation).

During the reporting period, no Director or Supervisor of the Company had any material interests, either directly or indirectly, in any contract signed by the Group, the Holding or any affiliate of the Holding.

During the reporting period and up to the issuing date of this report, no approved indemnity provisions were or are now effective to benefit the Directors (including former Directors) of the Company or any director (including former director) of an associated company thereof.

Subject to relevant laws and regulations, the Company can provide appropriate protection in a proper manner to Directors who are faced with certain legal actions.

2. Details of tax are set out in Note IV “Tax”, “19. Deferred Tax Assets/Liabilities”, “30. Tax Payable”, and “61. Income Tax Expenses” of Note V of the financial statements.
3. Details of land leasing, property, plant and equipment are set out in “18. Intangible Assets” and “15. Fixed Assets” of Note V of the financial statements.
4. Details of various reserves and their changes are set out in the “Consolidated Statement of Changes in Equity” and “42. Special Reserve” in Note V of the financial statements.
5. During the reporting period, the Group had complied with relevant laws and regulations having significant impact on the Company.
6. As of 31 December 2019, no Director, Supervisor or Senior Management of the Company had any interest in any business that constitutes or may constitute competition against the Company, either directly or indirectly.
7. As of 31 December 2019, no financial, business, family relationship or any other substantive relationship existed among the Directors, Supervisors and Senior Management of the Company other than working relationships.

V. Significant Events

1. PROPOSAL OF PROFIT DISTRIBUTION FOR ORDINARY SHARES OR PROPOSAL OF TRANSFERRING CAPITAL RESERVE TO SHARE CAPITAL

(1) Formulation, implementation and adjustment of a cash dividend policy

According to the Articles of Association of the Company, based on the principle of giving proper regard to both the need to generate reasonable investment return for shareholders and the need to fulfill reasonable funding requirements of the Company, the distribution of dividends will be given priority to cash to shareholders in proportion to their shareholdings, and the Company's cash dividend policy should be maintained on a continuous and stable basis while the conditions and procedures for the adjustment and changes of the dividend distribution policy in line with regulations and transparent. During the reporting period, the Company implemented the above-mentioned regulations effectively and there was no change in the cash dividend policy. In the process of formulating the profit distribution plan, the Independent Directors issued independent opinions. The proportion of cash dividends complied with the provisions of the Company's Articles of Association, effectively protecting the legitimate rights and interests of the majority of small and medium investors.

(2) Plan or Proposal of Profit Distribution for Ordinary Shares, Plan or Proposal of Transferring Capital Reserve to Share Capital for the Past Three Years (including the Reporting Period)

Unit: million RMB

Year of Distribution	Bonus Shares Distributed Every Ten Shares (share)	Dividends Distributed Every Ten Shares (tax included) (RMB)	Transferred Shares Every Ten Shares (share)	Amount of Cash Dividends (tax included)	Net profit attributable to ordinary shareholders of Listed Company in Consolidated Financial Statements in the Year of Distribution	Ratios to Net Profits attributable to ordinary shareholders of Listed Company in Consolidated Financial Statements (%)
2019	-	0.80	-	616.1	1,128.1	54.6
2018	-	3.60	-	2,772.2	5,943.3	46.6
2017	-	1.65	-	1,270.6	4,128.9	30.8

The Board suggests 2019 final dividend of RMB0.08 per share (tax included) shall be distributed and retained earnings will be carried forward to the year of 2020. No capital reserve shall be transferred to share capital. The distribution plan is going to be submitted to the Annual General Meeting for approval.

V. Significant Events (Continued)

2. PERFORMANCE OF UNDERTAKINGS

(1) Undertakings made by actual holder, shareholders, related parties, acquirers and the company during the reporting period or subsisting to the reporting period

1. The Holding undertook in 2015 to further acquire A Shares of Magang Stock for no less than RMB409 million at an appropriate price through Magang Investment Limited in a way complying with applicable laws and regulations, and promised the shares acquired would not be sold within six months subsequent to the completion of the further acquisition.

The Holding will redouble its de-leveraging efforts in 2020 in response to the de-leveraging drive of the iron and steel industry, which increase the cash pressure of the Holding. In addition, the Holding is undergoing industry integration with a large capital demand. The Holding has not yet raised enough funds to increase the equity holdings.

While ensuring the normal operation and capital management, the Holding will make more efforts to strengthen financing to implement the acquisition and disclose the development in a legitimate and compliance manner.

2. During the period when applying to CSRC for redemption for cash offer acquisition of the A shares of the Company in 2019, to avoid horizontal competition, China Baowu issued the “Commitment Letter on Avoiding Horizontal Competition” and undertook:

“(1) As for the situation of partial overlap of business between Baosteel and Magang Stock after this acquisition, according to the requirements of current laws, regulations and relevant policies, the Company will, within 5 years after the issuance of this Letter, try its best to steadily promote the integration of relevant businesses in the shortest time period to solve horizontal competition via comprehensive application of various methods such as assets restructuring, business adjustment, and entrusted management, based on the principle of benefiting the development of listed companies and protecting the interests of shareholders, especially minority shareholders, and according to the requirements of the competent securities regulatory authority as well as that of applicable laws, regulations and relevant regulatory rules at that time.

The above mentioned methods include but are not limited to:

- 1) Assets restructuring: Organize and restructure the assets with overlapping businesses in Baosteel and Magang Stock to eliminate such overlap by way of purchasing assets via cash consideration, issuance of share consideration and other different ways allowed by relevant laws and regulations, asset replacement, asset transfer and other feasible restructuring methods;
- 2) Business adjustment: Organize the business boundary between Baosteel and Magang Stock, and make the utmost efforts to achieve differentiated operation between the two listed companies, for example, divide operation by way of assets transactions and business division, including but not limited to business composition, product grade, application, targeted customers and other aspects;

V. Significant Events (Continued)

- 3) Entrusted management: The decision-making right and management right of relevant assets operation with overlapping businesses of one party are totally entrusted to the other party for unified management by way of signing trust agreements.
 - 4) Other feasible solutions within the range permitted by laws, regulations and relevant policies. The implementation of the above measures shall comply with the necessary review procedures for listed companies and the approval procedures of the securities regulatory authority and relevant competent authorities in accordance with relevant laws and regulations.
- (2) The Company has not yet formulated specific implementation plans and time schedule for solving the overlapping businesses between Baosteel and Magang Stock. The Company will timely perform its information disclosure obligation according to relevant laws and regulations after specific feasible plans are issued.
- (3) Save as the above situation, when the Company or its subsidiaries obtain business opportunities that may compete with the business of Magang Stock, the Company will try its best to give the right of priority of such opportunities and the pre-emptive right of projects to Magang Stock, promote the price of relevant transactions to be fair and reasonable, and take the commercial practices followed for conducting general commercial transactions with independent third parties as its pricing basis.
- (4) The Company undertakes to strictly comply with laws, regulations, the articles of association of listed companies and provisions of relevant management rules, not to seek unjustified interests by taking advantage of its status as an indirect controlling shareholder of listed companies to further impair the rights and interests of other shareholders of the listed companies.
- (5) The above commitments made by the Company are valid throughout the period when China Baowu has control over the Company. If any loss is caused to the rights and interests of Magang Stock due to the non-performance of the above commitments, China Baowu shall assume corresponding liabilities for compensation."

During the reporting period, China Baowu didn't violate the above commitments.

3. During the period when applying to CSRC for redemption for cash offer acquisition of the A Shares of the Company in 2019, to regulate and reduce the related party transactions between China Baowu and the Company, China Baowu issued the "Commitment Letter on Regulating and Reducing Related Party Transactions" and undertook:
- "(1) China Baowu will ensure the business independence and asset integrity of Magang Stock with an system of independent and complete production, supply, distribution and other auxiliary and supporting services.

V. Significant Events (Continued)

- (2) China Baowu and other enterprises controlled thereby will not seek to close deals with Magang Stock and its subsidiaries in priority by taking advantage of its control over Magang Stock.
- (3) China Baowu and other enterprises controlled thereby shall avoid and reduce unnecessary transactions with Magang Stock and its affiliates. If there are necessary and unavoidable transactions, China Baowu and other enterprises controlled thereby shall conclude agreements with Magang Stock and its affiliates based on the principle of equity, fairness and pay in equal value, perform legal procedures, fulfill information disclosure obligation and follow relevant internal decisions and report and approval procedures according to the requirements of relevant laws, regulations, and regulatory documents as well as the provisions of the “Articles of Association of Maanshan Iron and Steel Company Limited”, and not conduct transactions with Magang Stock and its affiliates under the conditions that are obviously unfair compared to market price, nor infringe the legal interests and rights of Magang Stock and its shareholders by using such transactions.
- (4) If violating the above commitments, China Baowu will bear legal liabilities and compensate for the losses caused to Magang Stock therefrom.”

During the reporting period, China Baowu didn't violate the commitments.

- 4. During the period when applying to CSRC for redemption for cash offer acquisition of the A shares of the Company in 2019, to keep the independence of the Company, China Baowu issued the “Commitment Letter on Ensuring the Independence of Listed Companies” and undertook:
 - “(1) China Baowu ensures to keep separate from Magang Stock in terms of assets, personnel, finance, institutions and businesses, and strictly comply with the relevant regulations of CSRC about the independence of listed companies, and will not violate Magang Stock's standard operation procedures, intervene in Magang Stock's management decision-making procedures, or infringe the legal rights and interests of Magang Stock and its shareholders. China Baowu and its subsidiaries undertake not to occupy the funds of Magang Stock and its subsidiaries in any way.
 - (2) The above commitments remain effective during the period when China Baowu has control over Magang Stock. If any loss is caused to Magang Stock due to the non-performance of the above commitments, China Baowu shall assume corresponding liabilities for compensation.”

During the reporting period, China Baowu didn't violate the above commitments.

- (2) **NO EXPLANATION OR REASON ON WHETHER THE COMPANY HAS ACHIEVED PROFIT FORECAST ISSUED UNDER THE REPORTING PERIOD ON ITS ASSETS OR PROJECTS WAS NEEDED.**

V. Significant Events (Continued)

3. **NO APPROPRIATION OF FUND ON A NON-OPERATING BASIS BY THE CONTROLLING SHAREHOLDER OR ITS RELATED PARTIES WAS FOUND DURING THE REPORTING PERIOD, THUS NO APPROPRIATION OF FUND ON A NON-OPERATING BASIS WAS FOUND.**
4. **NO EXPLANATION FROM THE BOARD OF THE COMPANY ON THE “NON-STANDARD AUDIT OPINIONS” ISSUED BY THE AUDITORS WAS NEEDED.**
5. **ANALYSIS AND EXPLANATION OF THE COMPANY ON THE REASONS FOR AND THE IMPACT OF THE CHANGES TO ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND MATERIAL ACCOUNTING ERRORS**

- (1) Analysis and Explanation of the Company on the Reasons for and the Impact of the Changes to Accounting Policies and Accounting Estimates

- *Changes to Accounting Policy*

The Ministry of Finance has promulgated the newly revised “Accounting Standard for Business Enterprises No. 21 – Leases” (“New Leases Standard”) on 7 December 2018. According to the New Leases Standard, the lessee should recognize the right-of-use assets and lease liability for the leases. The Company has implemented the New Leases Standard since 1 January 2019.

According to the New Leases Standard, the Company has recognized the right-of-use assets and lease liabilities for all the leases (except for short-term leases and leases of low-value assets which subject to simplified treatment) as per the present value of minimum lease payments for future rent payable, and also recognized the expenses for depreciation and unrecognized financing without restating comparative information since 1 January 2019. The change of this accounting policy increased the opening balance of right-of-use assets and lease liabilities of the Group by RMB443,424,793 and RMB443,424,793, respectively, and increased those of the Company by RMB388,795,738 and RMB388,795,738. The New Leases Standard had no influence on the opening balance of retained earnings and shareholders’ equity of the Group and the Company, nor significant influence on the net profit attributable to owners of the parent and the shareholders’ equity attributable to owners of the parent of the Group in 2019.

V. Significant Events (Continued)

- *Changes to Format of Financial Statements*

To meet the requirements of the Notice on Revising and Issuing Format of 2019 Financial Statements for General Business Enterprises (Cai Kuai [2019] No.6) and the Notice on Revising and Issuing Format of Consolidated Financial Statements (2019 Edition) (Cai Kuai [2019] No.16), in the balance sheet, the amount previously presented in “notes and trade receivable” shall be presented separately in “notes receivable” and “trade receivable”; the amount previously presented in “notes and trade payables” shall be presented separately in “notes payable” and “accounts payable”; the notes at fair value through other comprehensive income previously presented in “other current assets” are separately presented in “financing receivables”; the “interests receivable” in “other receivables” is changed to reflect only the outstanding interests on financial instruments that expired and can be collected at the balance sheet date (the interests on the financial instrument accrued using the effective interest method are included in the outstanding amount of the corresponding financial instrument); the “interests payable” in “other payables” is changed to reflect only the outstanding interests on financial instruments that expired and should be paid at the balance sheet date (the interests on the financial instrument accrued using the effective interest method are included in the outstanding amount of the corresponding financial instrument). The Group has retrospectively adjusted the comparative amounts correspondingly. The changes in accounting policies have had no impact on the net profit and equity in the consolidated and company financial statements.

(2) During the reporting period, there was no correction due to material accounting errors.

6. APPOINTMENT AND REMOVAL OF AUDITORS

Unit: RMB ten thousands

Current Auditors		
Name of auditors in the PRC	Ernst & Young Hua Ming LLP	
Remuneration of auditors in the PRC	538.5 (including internal control audit fee of RMB600,000)	
Tenure of auditors in the PRC (year)	26	
	Name	Remuneration
Internal control auditors	Ernst & Young Hua Ming LLP	60

As Ernst & Young Hua Ming LLP, the auditors, had developed a thorough understanding of the Company throughout the years, and their work has been conscientious and detailed, the Audit Committee has recommended re-appointing the firm as the auditors for 2019. The Board of Directors has approved the re-appointment and the related resolution was approved at the 2018 Annual General Meeting held on 12 June 2019.

V. Significant Events (Continued)

7. **THERE WAS NO INSOLVENCY OR RESTRUCTURING RELATED MATTERS DURING THE REPORTING PERIOD.**
8. **THERE WERE NO MAJOR LITIGATION OR ARBITRATION CASES DURING THE REPORTING PERIOD.**
9. **NO PUNISHMENT OR RECTIFICATION ON THE COMPANY AND ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, CONTROLLING SHAREHOLDERS, ACTUAL HOLDER AND ACQUIRERS WAS MADE DURING THE REPORTING PERIOD.**
10. **NO EXPLANATION OF THE CREDIBILITY OF THE COMPANY, ITS CONTROLLING SHAREHOLDERS AND ACTUAL HOLDER DURING THE REPORTING PERIOD WAS NEEDED.**
11. **SUBSTANTIAL RELATED PARTY TRANSACTIONS**

(1) RELATED PARTY TRANSACTIONS RELATED TO NORMAL OPERATIONS

The transactions between the Group and the Holding together with its subsidiaries were carried out in the daily course of business and were settled in cash or notes. The details of which are as follows:

(1) *The continuing related party transactions under the 2019-2021 "Sale and Purchase of Ore Agreement"*

In 2018, the Company and the Holding signed the 2019-2021 "Sale and Purchase of Ore Agreement", as approved at the shareholders' general meeting. From 1 January 2019 to 31 December 2019, the amount of related party transactions under the Agreement was as follows:

Unit: RMB'000

	Amount	Proportion of transaction of the same category (%)
Purchase of iron ore, limestone and dolomite	4,099,308	21

The prices per ton of iron ore, limestone and dolomite the Group purchases from the Holding and its affiliates every year are negotiated between the parties on arm's length by referring to comparable market prices and determined as per general commercial terms during the term of the agreement.

V. Significant Events (Continued)

All Directors of the Board (including Independent Non-executive Directors) who are not associated with the Holding considered that those transactions were carried out in the daily course of business under general commercial terms or favorable terms and according to relevant agreement. The transactions and terms were fair and reasonable to the Company, and in the whole interest of the Company and its shareholders. During the reporting period, the total amount of such transactions was under the annual cap of 2019 specified in the “Sale and Purchase of Ore Agreement”, amounting to RMB5,233 million.

(2) *The continuing related party transactions under the 2019-2021 “Energy Saving and Environmental Protection Agreement”*

In 2018, the Company and the Environmental Protection Company signed the 2019-2021 “Energy Saving and Environmental Protection Agreement”, as approved at the shareholders’ general meeting. From 1 January 2019 to 31 December 2019, the amount of transactions under the Agreement was as follows:

Unit: RMB’ ten thousands

	Amount	Proportion of transaction of the same category (%)
Energy saving and environmental protection engineering and services	638,593	11
Sales of power, energy medium and finished goods, etc.	55,988	19
Total	694,581	

The price the Group receives annually from the Environmental Protection Company for the provision of energy conservation and environmental protection engineering and services, as well as the price for the sales of available resources to the Environmental Protection Company, are negotiated between the parties on arm’s length by referring to comparable market prices and determined as per general commercial terms during the term of the agreement.

All Directors of the Board (including Independent Non-executive Directors) who are not associated with the Holding or the Environmental Protection Company considered that those transactions were carried out in the daily course of business under general commercial terms or favorable terms and according to relevant agreement. The transactions and terms were fair and reasonable to the Company, and in the whole interest of the Company and its shareholders. During the reporting period, the total amount of such transactions was under the annual cap of 2019 specified in the “Energy Saving and Environmental Protection Agreement”, amounting to RMB985 million.

V. Significant Events (Continued)

(3) *The continuing related party transactions under the 2019-2021 “Continuing Related Party Transaction Agreement”*

In 2018, the Company and the Holding signed the 2019-2021 “Continuing Related Party Transaction Agreement”, as approved at the shareholders’ general meeting. From 1 January 2019 to 31 December 2019, the amount of related party transactions under the Agreement was as follows:

Unit: RMB’000

	Amount	Proportion of transaction of the same category (%)
Steel products, measuring services, and other products and services purchased by the Holding from the Company	489,427	1
Fixed assets, building services, and other products and services purchased by the Company from the Holding	4,841,022	17
Total	5,330,449	

The purchase or sales of such products and services conducted by the Group from or for the Holding and its affiliates took government guided prices or market prices as the pricing benchmark and the terms of such transactions were no less favorable to the Company than the general commercial terms.

All Directors of the Board (including Independent Non-executive Directors) who are not associated with the Holding considered that those transactions were carried out in the daily course of business under general commercial terms or favorable terms and according to relevant agreement. The transactions and terms were fair and reasonable to the Company, and in the whole interest of the Company and its shareholders. During the reporting period, the total amount of such transactions was under the annual cap of 2019 specified in relevant transaction agreements, amounting to RMB7,177 million.

(4) *The continuing related party transactions under the 2019-2021 “Financial Service Agreement”*

In 2018, Masteel Finance and the Holding signed the 2019-2021 “Financial Service Agreement”, as approved at the shareholders’ general meeting.

V. Significant Events (Continued)

From 1 January 2019 to 31 December 2019, the amount of transactions under the Agreement was as follows:

Unit: RMB'000

Business Nature		Amount of loan or deposit	Interest income/expenses	
Deposit	Maximum daily deposit	14,688,263	Interest expenses	58,520
	Monthly average maximum daily deposit	7,403,844		
	Maximum daily loan	2,787,000	Interest income	155,122
Loan	Monthly average maximum daily loan	2,684,097		
	Other income			
Net income from handling fee and commission				1,411
Income from discount interest				21,596

When Masteel Finance provides deposit services to the Holding and its affiliates, the interest rate paid on the deposit shall not be higher than the benchmark interest rate and floating range of the same type of deposit set by the People's Bank of China in the same period, nor be higher than the interest rate offered by other independent commercial banks in China to the Holding and its affiliates for the same type of deposit in the same period. When Masteel Finance provides loan services to the Holding and its affiliates, the interest rate charged on the loan shall not be lower than the interest rate range set by the People's Bank of China for the same type of loan in the same period, nor be less than the interest rate charged by other independent commercial banks in China to the Holding and its affiliates for the same type of loan interest in the same period. When Masteel Finance provides other financial services to the Holding and its affiliates, the fees shall not be lower than the standard fees published by the People's Bank of China for the same type of financial services in the same period (if applicable), nor be less than the fees charged by other independent commercial banks in China for providing the Holding and its affiliates with other financial services of the same type in the same period.

All Directors of the Board (including Independent Non-executive Directors) who are not associated with the Holding considered that those transactions were carried out in the daily course of business under general commercial terms or favorable terms and according to relevant agreement. The transactions and terms were fair and reasonable to the Company, and in the whole interest of the Company and its shareholders. During the reporting period, the total amount of such transactions was under the annual cap of 2019 specified in the "Financial Service Agreement", with the maximum daily loan balance amounting to RMB3,170 million while the interest, handling fee and service fee amounting to RMB200 million.

V. Significant Events (Continued)

(5) *The continuing related party transactions under the 2019-2021 “Continuing Related Party Transaction Agreement” (Masteel Scrap)*

In 2018, the Company and Masteel Scrap signed the 2019-2021 “Continuing Related Party Transaction Agreement (Masteel Scrap)”, as approved at the shareholders’ general meeting. From 1 January 2019 to 31 December 2019, the amount of related party transactions under the Agreement was as follows:

Unit: RMB’000

	Amount	Proportion of transaction of the same category (%)
Raw scrap steel materials and other products purchased by Masteel Scrap from the Company	17,119	100
Scrap steel, agency services, and other products and services purchased from Masteel Scrap	3,106,960	53
Total	3,124,079	

The transactions between the Group and Masteel Scrap took government guided prices or market prices as the pricing benchmark and the terms of such transactions were no less favorable to the Company than general commercial terms.

All Directors of the Board (including Independent Non-executive Directors) who are not associated with the Holding and Masteel Scrap considered that those transactions were carried out in the daily course of business under general commercial terms or favorable terms and according to relevant agreement. The transactions and terms were fair and reasonable to the Company, and in the whole interest of the Company and its shareholders. During the reporting period, the total amount of such transactions was under the annual cap of 2019 specified in relevant transaction agreements, amounting to RMB3,347 million.

V. Significant Events (Continued)

(6) *The continuing related party transactions under the 2019-2021 “Continuing Related Party Transaction Agreement” (Magang Chemicals & Energy)*

In 2018, the Company and Magang Chemicals & Energy signed the 2019-2021 “Continuing Related Party Transaction Agreement (Magang Chemicals & Energy)”, as approved at the shareholders’ general meeting. From 1 January 2019 to 31 December 2019, the amount of related party transactions under the Agreement was as follows:

Unit: RMB’000

	Amount	Proportion of transaction of the same category (%)
Water, electricity, and by-products purchased by Magang Chemicals & Energy from the Company	1,754,513	45
Coke oven gas and coke tar purchased by the Company from Magang Chemicals & Energy	1,450,774	100
Waste water treatment services accepted by the Company from Magang Chemicals & Energy	1,982	56
Total	3,207,269	

The transactions between the Group and Magang Chemicals & Energy took government guided prices or market prices as the pricing benchmark and the terms of such transactions were no less favorable to the Company than general commercial terms.

All Directors of the Board (including Independent Non-executive Directors) who are not associated with the Holding and Magang Chemicals & Energy considered that those transactions were carried out in the daily course of business under general commercial terms or favorable terms and according to relevant agreement. The transactions and terms were fair and reasonable to the Company, and in the whole interest of the Company and its shareholders. During the reporting period, the total amount of such transactions was under the annual cap of 2019 specified in relevant transaction agreements, amounting to RMB3,759 million.

V. Significant Events (Continued)

(7) *The continuing related party transactions under the 2019-2021 “Continuing Related Party Transaction Agreement” (MaSteel K. Wah)*

In 2018, the Company and MaSteel K. Wah signed the 2019-2021 “Continuing Related Party Transaction Agreement (MaSteel K. Wah)”, as approved at the shareholders’ general meeting. From 1 January 2019 to 31 December 2019, the amount of related party transactions under the Agreement was as follows:

Unit: RMB’000

	Amount	Proportion of transaction of the same category (%)
Water granulated slag and other products purchased by MaSteel K. Wah from the Company	733,723	78

The transactions between the Group and MaSteel K. Wah took government guided prices or market prices as the pricing benchmark and the terms of such transactions were no less favorable to the Company than general commercial terms.

All Directors of the Board (including Independent Non-executive Directors) who are not associated with the Holding and MaSteel K. Wah considered that those transactions were carried out in the daily course of business under general commercial terms or favorable terms and according to relevant agreement. The transactions and terms were fair and reasonable to the Company, and in the whole interest of the Company and its shareholders. During the reporting period, the total amount of such transactions was under the annual cap of 2019 specified in relevant transaction agreements, amounting to RMB738 million.

V. Significant Events (Continued)

(8) *The continuing related party transactions under the “Integrated Support Services Agreement” in 2019*

In December 2018, the Company and the Holding signed the 2019 “Integrated Support Services Agreement” as approved by the Board of Directors of the Company. From 1 January 2019 to 31 December 2019, the amount of transactions under the Agreement was as follows:

Unit: RMB'000

	Amount	Proportion of transaction of the same category (%)
Energy, technical support and other products or services purchased by the Holding from the Company	2,434	0.3
Products, printing services and other professional services purchased from the Holding by the Company	132,893	2
Total	135,327	

The price at which the Company purchases relevant commodities and professional services such as printing from the Holding each year, as well as the price at which it sells commodities such as energy and provides technical services to the Holding are negotiated between the parties on arm's length by referring to comparable market prices and determined as per general commercial terms during the term of the agreement.

All Directors of the Board (including Independent Non-executive Directors) who are not associated with the Holding considered that those transactions were carried out in the daily course of business under general commercial terms or favorable terms and according to relevant agreement. The transactions and terms were fair and reasonable to the Company, and in the whole interest of the Company and its shareholders. During the reporting period, the total amount of such transactions was under the cap specified in the “Integrated Support Services Agreement”, amounting to RMB331 million.

V. Significant Events (Continued)

(9) *The continuing related party transactions under the “Daily Related Party Transaction Agreement” in 2019*

In September 2019, the Company and China Baowu signed the 2019 “Daily Related Party Transaction Agreement”, as approved by the Board of Directors of the Company. From 19 September 2019 to 31 December 2019, the amount of transactions under the Agreement was as follows:

Unit: RMB'000

	Amount	Proportion of transaction of the same category (%)
Steel and other products purchased by China Baowu from the Company	12,158	0.02
Technical services and testing services purchased by China Baowu from the Company	683	2
Ore and other products purchases by the Company from China Baowu	142,473	1
Infrastructure technology moderation and other services purchased by the Company from China Baowu	39,861	1
Total	195,175	

The price at which the Group purchases iron ore commodities and professional services such as infrastructure technology moderation from China Baowu each year, as well as the price at which it sells commodities such as steel products and provides services such as testing services to China Baowu are negotiated between the parties on arm's length by referring to comparable market prices and determined as per general commercial terms during the term of the agreement.

All Directors of the Board (including Independent Non-executive Directors) who are not associated with China Baowu considered that those transactions were carried out in the daily course of business under general commercial terms or favorable terms and according to relevant agreement. The transactions and terms were fair and reasonable to the Company, and in the whole interest of the Company and its shareholders. During the reporting period, the total amount of such transactions was under the cap specified in the “Daily Related Party Transaction Agreement”, amounting to RMB330 million.

The aforesaid continuing related party transactions constitute continuing connected transactions as defined in 14A.56 of the Listing Rules for the Main Board of The Stock Exchange of Hong Kong.

V. Significant Events (Continued)

Ernst & Young Hua Ming LLP, the Company's auditor, was engaged to assure the Group's continuing connected transactions of this year in accordance with Hong Kong Standards on Assurance Engagements 3000 (Revised)-Assurance Engagements Other than Audits or Reviews of Historical Financial Information, with reference to Practice Note 740 Auditor's Letter on Continuing Connected Transactions under the Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. The Board of Directors of the Company declares that Ernst & Young Hua Ming LLP has issued an unqualified conclusion in respect of the continuing connected transactions disclosed above by the Group in accordance with 14A.56 of the Listing Rules of the Hong Kong Stock Exchange. A copy of the auditors' letter will be submitted to the Hong Kong Stock Exchange by the Company.

(2) RELATED PARTY TRANSACTIONS IN RESPECT OF ACQUISITION AND DISPOSAL OF ASSETS OR EQUITY

1. *Matters disclosed in extraordinary announcements without progress or change in the follow-up implementation*

Summary of matter	Index of documents
The purchase of part of the assets of the Holding and its affiliates	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2019-07-23/600808_20190723_3.pdf
The purchase of the land and ground assets of Magang Chemicals & Energy	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2019-08-30/600808_20190830_5.pdf
Public acceptance of transaction terms and commitment of acquisition of certain additional shares of Phima Intelligence	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2019-09-20/600808_20190920_5.pdf ; http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2019-11-30/600808_20191130_1.pdf

(3) SUBSTANTIAL RELATED PARTY TRANSACTIONS IN RESPECT OF JOINTLY INVESTMENT

1. *Matters disclosed in extraordinary announcements without progress or change in the follow-up implementation*

Summary of matter	Index of documents
Capital increase in Ma Steel (Shanghai) Commercial Factoring Co., Ltd.	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2019-06-13/600808_20190613_5.pdf
Capital increase in Masteel Scrape and joint investment in establishing Magang Hongfei Power Energy Co., Ltd.	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2019-06-13/600808_20190613_3.pdf

V. Significant Events (Continued)

(4) OTHERS

1. As of 31 December 2019, there were no obligations or debts between the Company and its related parties except for daily business activities.
2. Significant contracts concluded with the controlling shareholder

Other than mentioned above, on 30 December 2019, the Company and China Baowu signed the "Daily Related Party Transaction Agreement" concerning daily related party transactions in 2020, as approved by the Board. Saved for the above, the Company or any of its affiliates concluded no significant contracts with China Baowu or the Holding at anytime for the year ended 31 December 2019.

12. MATERIAL CONTRACTS AND EXECUTION THEREOF

(1) DURING THE REPORTING PERIOD, THERE WAS NO SUBSTANTIAL ENTRUSTMENT, CONTRACTING AND LEASING MADE BY THE COMPANY

(2) MAJOR GUARANTEES

Unit: RMB100 million

Guarantees Offered by the Company (excluding guarantees offered to subsidiaries)

Total amount guarantees incurred in the reporting period (excluding guarantees offered to subsidiaries)	–
Total ending balance of guarantees (excluding guarantees offered to subsidiaries) (A)	–

Guarantees Offered to Subsidiaries

Total amount of guarantees newly offered to subsidiaries during the reporting period	–
Total ending balance of guarantees offered to subsidiaries (B)	34.78

Total Amount of Guarantees Offered by the Company (including guarantees offered to subsidiaries)

Total amount of guarantees (A+B)	34.78
Total amount of guarantees as a percentage of net assets of the Company (%)	11.28
of which:	
Amount of guarantees offered to shareholders, actual holder and their related parties (C)	–
Amount of debt guarantees offered to those with asset-liability ratio exceeding 70%, directly or indirectly (D)	30.00
The portion of total guarantees in excess of 50% of net assets (E)	–
Total amount of the preceding three types of guarantees (C+D+E)	30.00

V. Significant Events (Continued)

Explanation on guarantees The Company provided its wholly-owned subsidiary MG-Valdunes with a guarantee of EUR42 million (equivalent to approximately RMB328 million), and the actual amount thereof at the end of the reporting period was Nil; and provided its wholly-owned subsidiary Ma Steel (Hong Kong) with a guarantee for banking facilities of RMB3 billion for its trade financing, and the actual amount thereof at the end of the reporting period was approximately RMB1.988 billion. The asset-liability ratio of MaSteel (Hong Kong) exceeded 70%, and such guarantee was approved by the shareholders' general meeting. Changjiang Steel, a controlling subsidiary of the Company, provided its wholly-owned subsidiaries with a guarantee of RMB150 million, and the actual amount thereof at the end of the reporting period was RMB36 million.

Pursuant to the requirements of the CSRC, the independent directors of the Company carried out due diligence process in relation to the external guarantees offered by the Company, and considered:

- (1) As of 31 December 2019, the approval procedures of all external guarantees offered by the Company complied with related regulations and procedures.
- (2) As of 31 December 2019, the Company did not provide any guarantees to controlling shareholders or other related parties in which the Company held less than 50% equity interest, unincorporated entities or individuals.
- (3) As of 31 December 2019, the total amount of guarantees provided by the Company accounted for less than 50% of the net assets as stated in its consolidated financial statements of the most recent year.

(3) DURING THE REPORTING PERIOD, NO ENTRUSTED CASH ASSET MANAGEMENT WAS MADE BY THE COMPANY

13. ACTIVE FULFILLMENT OF SOCIAL RESPONSIBILITY

(1) POVERTY RELIEF WORK

1. Targeted poverty relief planning

- (1) The Company established a long-term mechanism for education and poverty relief by showing care to the growth of children into useful people, proactively promoting Magang's student grant policy to poverty-stricken households and ten types of marginal households, and timely awarding student grants to the homes of people in need. The Company also strengthened the dynamic management of children attending school, and provided general information on the accurate award of student grants for the next year to make sure that Magang's education and poverty relief measures were available on a long-term and continuous basis.

V. Significant Events (Continued)

- (2) The Company partnered with cadre-reserved households to help fight poverty. All of these cadres strengthened contact with poverty-stricken households through different channels by visiting and expressing sympathy to partnered poverty-stricken households, acquiring timely information on the living and production conditions of these households, and helping these households to solve practical difficulties and problems.
- (3) The Company helped to expand the role of the resident poverty-relief team in the village in providing targeted poverty relief assistance.

Magang's resident poverty-relief team in the village assisted village committees in strengthening the establishment of grassroots organizations, regulating the "three committees and one lesson" system and improving the party spirit and quality of grassroots party members. It expanded the role of old party members in environmental sanitation, planning and development to boost the build-up of beautiful villages. It continued to recruit outstanding young people with advanced thinking, high quality and upward mobility to join the team.

The Company proactively promoted the policy spirit of the central, provincial and municipal governments at various levels; encouraged poverty-stricken households to actively participate in the development of industries, skills, etc. based on their own characteristics; put an end to the "waiting, relying, and demanding" bad behaviors; and get rid of poverty from thoughts by means of positive energy propaganda. It also helped poverty-stricken households to implement various national poverty relief policies.

The Company stepped up the attention to ten types of marginal households by establishing archives for these households in the villages based on the poverty-relief principle that work units partnered with villages and cadres partnered with households, so as to get everyone rid of poverty with the provision of poverty-relief assistance by villages, towns, counties and the Company.

2. *Overview of annual targeted poverty relief*

In 2019, the Company successfully completed the annual goals and tasks set at the beginning of the year for targeted poverty relief.

As the selected cadres of the seventh batch, the two comrades of the Company were arranged to offer poverty-relief assistance in the Malou Village of Wangyan Town and Liji Village of Dicheng Town in Funan County, both of which were under the partnership of Magang. Wang Sen served as the captain for the resident poverty-relief team in Malou Village and the first secretary of this village, while Mao Jianzhong served as a member of the resident poverty-relief task force in Liji Village. Together with the members of the resident team, they assisted the two committees of the villages in strengthening the building of party branches, and fully expanding the role of party building to boost poverty relief. On the one hand, by leading party members to conduct political theory studies, they organized party members to revisit the pledge of joining the party, convened party member symposiums to listen to opinions and the effective implementation of the "three committees and one lesson" system so as to raise party members' awareness and consciousness, dramatically changing the mental attitude of party members and cadres. In particular, Comrade Wang Sen organized the party branch of

V. Significant Events (Continued)

Malou Village and the Company's poverty-relief functional department as well as Zhangzhuang Mining to carry out the three-party joint activities of the party branch, and promoted the standardization of the party branch of Malou Village through resource sharing, interconnection and mutual assistance. On the other hand, they led members of the two committees to expand the role of the village affairs supervisory committee and the villager business committee, carried out democratic management and implemented the decision-making system for "making decisions on major events, appointing and removing important cadres, arranging important projects and using large amounts of funds" to get various services done for poverty-stricken households. By publicizing and implementing the "Top Ten Poverty Relief Projects", poverty-stricken households should be totally entitled to the national policies on industry, finance, employment, education, health and ecology.

3. Results of targeted poverty relief efforts

Unit: RMB ten thousands

Indicator	Figures and Progress
I. Summary	
1. Funds	22.8
2. Number of persons getting rid of poverty (person)	995
II. Breakdown	
1. Poverty relief by industries	
1.1 Number of persons getting rid of poverty (person)	815
2. Poverty relief by employment transfer	
2.1 Number of persons receiving vocational skills training (person/time)	83
2.2 Number of persons achieving employment (person)	50
3. Poverty alleviation by education	
3.1 Amount of subsidy for poverty-stricken students	22.8
3.2 Number of students receiving subsidies (person)	63
4. Bottom protection	
4.1 Number of "three kinds of persons left-behind" getting help (person)	8
4.2 Number of persons with disabilities in poverty getting help (person)	62
III. Awards (Content and level)	Mr. Wang Sen was awarded as "Good Man in Funan" (county level)

V. Significant Events (Continued)

(2) ENVIRONMENTAL INFORMATION

1. NOTES ON ENVIRONMENTAL PROTECTION BY THE COMPANY AND ITS KEY SUBSIDIARIES LISTED AMONG KEY POLLUTION PRODUCERS BY THE ENVIRONMENT AUTHORITY

(1) Pollutant emission information

The Company, Masteel Hefei and Changjiang Steel operate in highly polluting industries identified by the state environment authority. Main pollutants are waste water, waste gases and solid wastes. Details are as follows:

Name of Company	Pollutant Category	Typical Pollutants	Way of Discharge	Processing Equipment	Number and Distribution of Discharge Outlets
Magang Stock	Waste gases	Dust, NOX, SO ₂ , etc.	Emitted into the air via chimney stack after dust elimination, desulfidation and denitration	246 sets	309 distributed along the production lines
	Waste water	SS, COD, oil, ammonia nitrogen, etc.	Discharged after up-to-standard processing	66 sets	25
	Solid wastes	Iron dust, iron oxide scale, metallurgical slag, etc.	Recycled totally	15 sets	–
Changjiang Steel	Waste gases	Dust, NOX, SO ₂ , etc.	Discharged after up-to-standard processing	45 sets	50 distributed along the production lines
	Waste water	SS, COD, oil, ammonia nitrogen, etc.	Discharged after up-to-standard processing	10 sets	1
	Solid wastes	Iron dust, iron oxide scale, metallurgical slag, etc.	Treatment by qualified service providers	–	–
Masteel Hefei	Waste gases	Dust, acid fog, alkali fog, oil fog	Discharged after up-to-standard processing	10 sets	11 distributed along the production lines
	Waste water	Acid and alkali, oil, etc.	Discharged after up-to-standard processing	4 sets	1
	Hazardous wastes	Emulsified liquid slag, oil sludge, used oil, etc.	Treatment by qualified service providers	–	–

All the above key pollutant-discharging enterprises have achieved zero discharge of solid wastes. The total emission amount of other main typical pollutants during the reporting period and the approved annual emission permit limit are as follows:

V. Significant Events (Continued)

Name of Company	Pollutant Category	Typical Pollutants	Emission Permit Limit (Ton/Year)	Total Emissions During the Reporting Period (Ton)
Magang Stock	Waste gases	Dust	34,498.33	4,424
		SO ₂	21,069.82	6,941
		NOX	39,568.21	15,992
	Waste water	COD	1,565.28	520
		Ammonia nitrogen	124.56	24
Changjiang Steel	Waste gases	Dust	10,682.51	2,064.09
		SO ₂	4,462.12	1,429.38
		NOX	7,420.48	4,319.32
	Waste water	COD	270	2.63
		Ammonia nitrogen	27	0.064
Masteel Hefei	Waste gases	Dust	51.90	7.59
		SO ₂	6.04	1.50
		NOX	38.06	32.24
	Waste water	COD	106.82	17.09
		Ammonia nitrogen	16.10	0.74
	Hazardous wastes	Emulsified liquid slag	Unspecified emission permit limits	631.34
		Oil sludge	Unspecified emission permit limits	544.26
		Bottom residue	Unspecified emission permit limits	54.70
		Used oil	Unspecified emission permit limits	42.38

All the key pollutant-discharging enterprises mentioned above implemented the series emission standards for steel industry.

(2) Construction and operation of pollution prevention and control facilities

In 2019, the Company continued to implement ultra-low emission moderation projects, and registered 17 projects including the No. 3 sintering machine desulfurization project. As of the end of the year, 23 projects (including carryovers) were completed, and 21 were still in progress.

V. Significant Events (Continued)

The Company's various pollution prevention and control facilities were fully equipped, technically feasible and operating normally in 2019. On-line surveillance and monitoring facilities were installed at the main discharge outlets of waste water and waste gases, and were networked in accordance with government requirements. Industrial solid waste disposal facilities were available, while facilities for silencing, noise reduction as well as sound insulation and isolation were provided in each production process to effectively control ambient noise.

Pollution prevention and control facilities were constructed for all the production processes of Changjiang Steel in accordance with the EIA requirements. They were running synchronously with the main production lines, and were operating in good condition.

The waste gas treatment facilities of Masteel Hefei were all operating online, launched along with the operation of the production lines, and were all operating normally. The waste water pollution prevention and control facilities were operating normally on-line for 24 hours.

(3) Environmental impact assessment of construction projects and other environmental protection administrative licenses

By conducting environment assessment in advance, the Company took measures such as organizing preliminary appraisal procedure to speed up the environment approval assessment. In 2019, as per relevant regulations, the Company conducted environment impact assessment in 41 construction projects, completed the environment approval assessment of 11 projects including the new silo construction project, registered the environmental impact of 20 projects, and orderly carried out the environment assessment work in 10 projects.

Sewage discharge permits were obtained for the self-provided power plants as well as coking and steel operations of the Company.

Changjiang Steel obtained environmental impact assessment reports and approvals for all its production facilities as well as pollutant discharge permits for the iron & steel industry and thermal power industry. In 2019, Changjiang Steel received environmental impact assessment approvals for 9 projects including the 140-tonne electric furnace steelmaking project and the environmental upgrade and renovation project for raw materials store yard.

The production facilities of Masteel Hefei obtained environmental impact assessment reports and approvals as well as pollutant discharge permits for the steel & iron industry.

V. Significant Events (Continued)

(4) Prepared Environment Emergency Response Plans

The Company, Changjiang Steel and Masteel Hefei have compiled the “Prepared Environment Emergency Response Plans” according to national requirements and filed these documents with the local environment authority.

(5) Environmental self-monitoring program

The Company, Changjiang Steel and Masteel Hefei have compiled the “Prepared Environment Emergency Response Plans” according to national requirements and filed these documents with the local environment authority.

The Company used continuous auto-monitoring and manual monitoring for self-monitoring in its self-monitoring program. At present, the Company has 222 sets of online monitoring devices. By realizing continuous auto-monitoring at the discharge points, the data was transferred to the environment protection department and published in real-time. In respect of factors undetectable by online monitoring, manual monitoring will be carried out according to self-monitoring program. The data will be published in the same month after monitoring.

(6) Other environmental information that should be disclose

In 2019, three entities of the Company participated in the enterprise environmental credit assessment carried out by the Department of Ecology and Environment of Anhui Province, of which, one was awarded the title of “Integrity Enterprise” while two won the honor of “Good Enterprise”. Due to accidental discharges in an unorganized manner, the Company was fined RMB750,000, and rectification was completed.

2. *No explanation on environmental protection situation of companies except the key pollutant producers.*

(3) **SOCIAL RESPONSIBILITY WORK**

Further details are stated in “Maanshan Iron & Steel Company Limited Social Responsibility Report 2019”. Information sources: www.sse.com.cn, www.hkex.com.hk.

V. Significant Events (Continued)

14. OTHER MAJOR EVENTS

According to the “Securities Law”, the “Rules Governing Information Disclosure of Listed Companies”, and relevant regulations, major events of the Company happened during the reporting period were disclosed as interim reports on the websites of SSE and the Hong Kong Stock Exchange. Relevant search index and date by published are set out as follows:

Items	Date by published
Announcement of Foreign Investment and Connected Transactions	2019.4.26
Informative Announcement in Relation to the Free Transfer of 51% Equity of the Holding from the SASAC of Anhui to China Baowu and the Change of the Actual Holder of the Company	2019.6.3
Announcement of Foreign Investment and Connected Transactions	2019.6.13
Announcement in Relation to the Approval of the SASAC of the State Council for the Free Transfer of 51% Equity of the Holding from the SASAC of Anhui to China Baowu	2019.6.28
Announcement of the Implementation of the 2018 Annual Equity Distribution	2019.7.6
Announcement of Connected Transactions	2019.7.23
Informative Announcement in Relation to the Possible Acquisition of All Issued H Shares of the Company by Baosteel Hong Kong Investment Company Limited, the Wholly-owned Subsidiary of China Baowu, by Way of Mandatory Conditional Cash Offer	2019.7.23
Announcement in Relation to the Free Transfer of 51% Equity of the Holding from the SASAC of Anhui to China Baowu Passing Antitrust Review in Germany and South Korea	2019.7.31
Announcement in Relation to the Reply of Feedback on Application of China Baowu for Exemption from the Obligation to Acquire the Company's A Shares by Cash Offer	2019.8.27
Announcement in Relation to the Free Transfer of 51% Equity of the Holding from the SASAC of Anhui to China Baowu Passing Antitrust Review in China	2019.8.30
Announcement of Changes in Accounting Policies	2019.8.30
Announcement of Connected Transactions	2019.8.30
Announcement in Relation to the Possible Acquisition of All Issued H Shares of the Company by China Baowu through its Wholly-owned Subsidiary Baosteel Hong Kong Investment by Way of Mandatory Conditional Cash Offer Filed by the National Development and Reform Commission of the PRC	2019.9.4

V. Significant Events (Continued)

Items	Date by published
Announcement in Relation to China Baowu's Receipt of the Approval of the CSRC for Exemption from the Obligation of Cash Offer Acquisition	2019.9.5
Announcement of Connected Transactions in Relation to the Conclusion of "Daily Related Party Transaction Agreement" with China Baowu	2019.9.20
Announcement in Relation to Public Acceptance of Transaction Terms and Commitment of Subscription of Part of the Additional Shares of Phima Intelligence Technology Co., Ltd. and Connected Transactions	2019.9.20
Announcement in Relation to the Completion of Change Registration in the Industrial and Commercial Authority of the Free Transfer of 51% Equity of the Holding from the SASAC of Anhui to China Baowu Passing and Change of Actual Holder	2019.9.20
Announcement in Relation to the Result about the Cash Offer Acquisition of All Issued H Shares of the Company by Baosteel Hong Kong Investment (A Wholly-owned Subsidiary of China Baowu)	2019.11.12
Announcement in Relation to Public Acceptance of Transaction Terms and Commitment of Subscription of Part of the Additional Shares of Phima Intelligence Technology Co., Ltd. and Progress in Connected Transactions	2019.11.30
Announcement of Connected Transactions in Relation to the Conclusion of "Daily Related Party Transaction Agreement" with China Baowu	2019.12.31
Announcement in Relation to the Changes in Senior Management Personnel	2019.12.31

All of the preceding announcements were published on Shanghai Securities News, the official site of Shanghai Stock Exchange (<http://www.sse.com.cn>) and that of the HKEx (<http://www.hkex.com.hk>) at the same time. The publishing date is the date of publication on Shanghai Securities News.

VI. Movements in Share Capital and Shareholders

1. TABLE ON ORDINARY SHARE MOVEMENTS

Unit: Share

	Before the change		Increase/(decrease) during the year					After the change	
	Number of shares	Percentage (%)	New shares issued	Bonus shares	Shares converted from surplus reserve	Others	Sub-total	Number of shares	Percentage (%)
A. Shares with selling restriction	-	-	-	-	-	-	-	-	-
B. Shares without selling restriction	7,700,681,186	100	-	-	-	-	-	7,700,681,186	100
1. RMB ordinary shares	5,967,751,186	77.5	-	-	-	-	-	5,967,751,186	77.5
2. Foreign shares listed domestically	-	-	-	-	-	-	-	-	-
3. Foreign shares listed overseas	1,732,930,000	22.5	-	-	-	-	-	1,732,930,000	22.5
4. Other shares	-	-	-	-	-	-	-	-	-
C. Total	7,700,681,186	100	-	-	-	-	-	7,700,681,186	100

During the reporting period, there was no movement in the total number of ordinary shares and the structure of share capital.

2. SHAREHOLDERS AND ACTUAL HOLDERS

(1) TOTAL SHAREHOLDERS

Numbers of Shareholders as end of the reporting period (<i>unit</i>)	203,898
Numbers of Shareholders as end of last month prior to the report date (<i>unit</i>)	197,388

VI. Movements in Share Capital and Shareholders (Continued)

(2) SHAREHOLDING OF THE TOP TEN SHAREHOLDERS AND THE TOP TEN TRADABLE-SHARE HOLDER (OR SHAREHOLDERS WITHOUT SELLING RESTRICTIONS) AT THE END OF THE REPORTING PERIOD

Unit: Share

Shareholding of the top ten shareholders							
Name of Shareholder (Full Name)	Increase/ Decrease within the Reporting Period	No. of Shares at the End of Period	Percentage (%)	No. of Shares under Restricted Condition for Sales	Pledged or Frozen Situations		Shareholder Nature
					Share Status	Number	
Magang (Group) Holding Co., Limited	–	3,506,467,456	45.54	–	None	–	State-owned shareholder
Baosteel Hong Kong Investment Company Limited (Note)	Unknown	894,718,458	11.62	–	Unknown	Unknown	State-owned shareholder
Hong Kong Securities Clearing Company (Nominees) Limited (Note)	-894,210,208	822,352,592	10.68	–	Unknown	Unknown	Unknown
Central Huijin Investment Ltd.	–	142,155,000	1.85	–	Unknown	Unknown	State-owned shareholder
Hong Kong Securities Clearing Company Ltd.	Unknown	115,225,937	1.50	–	Unknown	Unknown	Unknown
Fujian Gunxueqiu Investment Management Co., Ltd. – Jiayao Gunxueqiu Securities Investment Fund No.1	Unknown	55,604,486	0.72	–	Unknown	Unknown	Unknown
Bank of China Ltd. – Fullgoal CSI SOE One Belt One Road ETF	Unknown	34,038,300	0.44	–	Unknown	Unknown	Unknown
Tibet Futongda Investment Co., Ltd.	Unknown	29,610,600	0.38	–	Unknown	Unknown	Unknown
China Merchants Bank Ltd. – SSE Dividend Index ETF	Unknown	29,521,813	0.38	–	Unknown	Unknown	Unknown
Agriculture Bank of China Ltd. – CSI 500 ETF	Unknown	29,348,549	0.38	–	Unknown	Unknown	Unknown

VI. Movements in Share Capital and Shareholders (Continued)

Top Ten Shareholders with unrestricted selling condition			
Name of Shareholder	The number of unrestricted outstanding shares held	Type and Quantity of Shares	
		Type	Quantity
Magang (Group) Holding Co., Limited	3,506,467,456	Ordinary shares in RMB	3,506,467,456
Baosteel Hong Kong Investment Company Limited <i>(Note)</i>	894,718,458	Overseas listed shares	894,718,458
Hong Kong Securities Clearing Company (Nominees) Limited <i>(Note)</i>	822,352,592	Overseas listed shares	822,352,592
Central Huijin Investment Ltd.	142,155,000	Ordinary shares in RMB	142,155,000
Hong Kong Securities Clearing Company Ltd.	115,225,937	Ordinary shares in RMB	115,225,937
Fujian Gunxueqiu Investment Management Co., Ltd. – Jiayao Gunxueqiu Securities Investment Fund No.1	55,604,486	Ordinary shares in RMB	55,604,486
Bank of China Ltd. – Fullgoal CSI SOE One Belt One Road ETF	34,038,300	Ordinary shares in RMB	34,038,300
Tibet Futongda Investment Co., Ltd.	29,610,600	Ordinary shares in RMB	29,610,600
China Merchants Bank Ltd. – SSE Dividend Index ETF	29,521,813	Ordinary shares in RMB	29,521,813
Agriculture Bank of China Ltd. – CSI 500 ETF	29,348,549	Ordinary shares in RMB	29,348,549

Notes on the above shareholders' affiliated relation or concerted action

At the end of the reporting period, the controlling shareholder of both Magang (Group) Holding Company Limited and Baosteel Hong Kong Investment Company Limited is China Baowu, hence they are persons acting in concerted action. In addition, Magang (Group) Holding Company Limited has no affiliated relation with any of the other foregoing shareholders, nor is a person acting in concerted action; however, it is not in the knowledge of the Company whether there is any affiliated relation among other foregoing shareholders and whether they are persons acting in concerted action.

Note: At the end of the reporting period, Baosteel Hong Kong Investment Company Limited, a wholly-owned Subsidiary of China Baowu, held 896,387,958 H Shares of the Company in total, approximately accounting for 11.64% of total share capital of the Company, among which, 894,718,458 shares are directly held by itself, and 1,669,500 shares are held through Hong Kong Securities Clearing Company (Nominees) Limited. Hong Kong Securities Clearing Company (Nominees) Limited held 822,352,592 H Shares of the Company, which were held on behalf of its customers.

During the reporting period, no other shares held by the Magang (Group) Holding Company Limited were pledged, frozen or hosted. However, the Company was unaware whether shares held by other shareholders who have 5% and above of the total were pledged, frozen or hosted.

Hong Kong Securities Clearing Company (Nominees) Limited held 822,352,592 H Shares of the Company, which were held on behalf of its customers.

VI. Movements in Share Capital and Shareholders (Continued)

(3) Interests or short positions recorded according to the Securities and Futures Ordinance

As at 31 December 2019, the Company was aware of below interests or short positions recorded according to the Securities and Futures Ordinance.

Name of Shareholder	Identity held or deemed to be interested	Number of shares held or deemed to be in equity of the Company's issued H shares (shares)	Approximate percentage of the Company's issued H shares (%)
Baosteel Hong Kong Investment Company Limited	Beneficial holder	896,387,958 (Long position)	51.73
The Goldman Sachs Group, Inc.	The interests of the corporation controlled by the major shareholder	84,379,331 (Long position) 79,353,863 (Short position)	4.87 4.58
Citigroup Inc.	The interests of the corporation controlled by the major shareholder	85,240,224 (Long position) 9,663,130 (Short position)	4.91 0.55
UBS Group AG	Approval of lending agent The interests of the corporation controlled by the major shareholder	74,757,584 (Shares available for lending) 67,736,393 (Long position)	4.31 3.91
Credit Suisse Group AG	The interests of the corporation controlled by the major shareholder	30,271,597 (Short position) 61,251,196 (Long position)	1.75 3.53
		36,367,078 (Short position)	2.10

As at 31 December 2019, none of the directors, supervisors, or senior management had any interests or short positions in the share capital or relevant share capital and bonds of the Company or any of its associated corporations (definition refers to the Securities and Futures Ordinance).

Save as disclosed above, as at 31 December 2019, the Company was no aware of any interests or short positions recorded according to the Securities and Futures Ordinance.

VI. Movements in Share Capital and Shareholders (Continued)

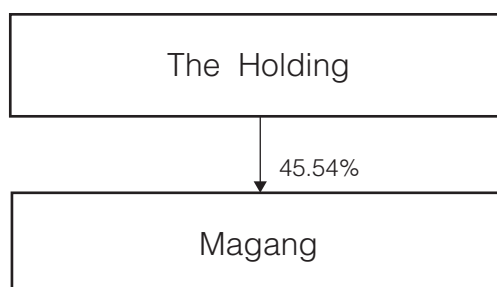
3. SUBSTANTIAL SHAREHOLDERS AND ACTUAL HOLDER

(1) CONTROLLING SHAREHOLDERS

1. Legal Person

Name	Magang (Group) Holding Co., Limited
Head of unit or legal representative	Wei Yao
Date of Incorporation	1 September 1993
Major business operations	Mining and sorting of mineral products; construction, construction materials, machine manufacturing, maintenance and design; external trading; domestic trading; distribution and storage of materials; property management; consulting service; rental services; agriculture and forestry.
Equity in other domestic and overseas listed companies controlled or partially owned during the reporting period	At the end of the reporting period, in addition to the Company's stock, Magang (Group) Holding Company Limited also held 11.0067 million shares of Huaibei Mining, with a shareholding ratio of 0.52%; holding 1.5999 million shares of Huishang Bank, with a shareholding ratio of 0.014%. During the reporting period, the substantial shareholders did not control or partially own any other domestic and overseas listed company.

2. Block Diagram of Property Rights and Control Relationships between the Company and Controlling Shareholder



(2) ACTUAL HOLDER

1. Legal Person

At the end of 2019, the actual holder of the Company is the SASAC of the State Council.

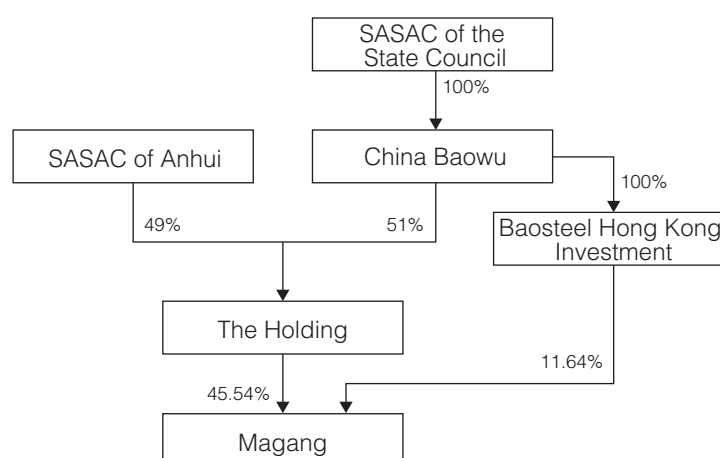
During the reporting period, the actual holder of the Company was changed. On 19 September 2019, the SASAC of Anhui transferred its 51% equity in the Holding to China Baowu according to the equity transfer agreement signed with China Baowu on 31 May

VI. Movements in Share Capital and Shareholders (Continued)

2019. After such equity transfer, China Baowu became the controlling shareholder of the Holding by holding 51% of its equity, and indirectly held 45.54% of the Company's equity via the Holding, obtaining its control over the Company. Given China Baowu is wholly owned by the SASAC of the State Council, the actual holder of the Company was changed from the SASAC of Anhui to the SASAC of the State Council. The proportion of the Holding's equity held by the SASAC of Anhui was decreased from 100% to 49%. The direct controlling shareholder of the Company remained the same, being the Holding, which held 45.54% of the Company's shares.

Name	China Baowu Steel Group Corporation Limited
Head of unit or legal representative	Chen Derong
Date of Incorporation	1 January 1992
Major business operations	Operation of state-owned assets within the range authorized by the State Council; operation and investment of state-owned capital
Equity in other domestic and overseas listed companies controlled or partially owned during the reporting period	As of the end of 2019, the listed companies with over 5% shares being held by China Baowu directly or indirectly were as follows: Baosteel Co., Ltd. (64.12%), Bayi Iron & Steel (50.02%), SGIS Songshan Co., Ltd. (53.05%), Baosight Software (50.81%), Baosteel Packaging (59.89%), CPIC (14.93%), NCI (12.09%), Shougang (15%).
Other information	None

2. Block Diagram of Property Rights and Control Relationships between the Company and Actual Holders



Note: Baosteel Hong Kong Investment, a company limited by shares and incorporated in Hong Kong on 11 April 2016, is wholly owned by China Baowu with its person in charge being Liu Wenxin. It has a registered capital of HKD4 million and mainly acts as a platform for China Baowu's overseas investment and financing.

VI. Movements in Share Capital and Shareholders (Continued)

4. PUBLIC FLOAT

Based on the data accessible for the Company and to the best knowledge of the Board of Directors, as of the date of this report, the Company meets relevant requirements about public holdings in Securities Listing Rules of the Stock Exchange of Hong Kong Limited.

5. PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the reporting period, the Group didn't purchase, sell or redeem any listed shares of the Company.

6. PREFERRED SHARES ISSUANCE AND PRE-EMPTIVE RIGHTS

During the reporting period, the Company didn't issue preferred shares. When new shares are offered, the Company is not required under the law of China or the Articles of Association to ask its existing shareholders to buy new shares in the currency of their share holdings first.

7. TRANSACTIONS INVOLVING ITS OWN SECURITIES

For the year ended 31 December 2019, the Group didn't issue or grant any convertible securities, options, equity warrants or other similar warrants. At the end of the reporting period, the Group had no redeemable securities.

8. TAX RELIEF OF HOLDERS OF LISTED SECURITIES

For the year ended 31 December 2019, holders of the Company's listed securities were not eligible for tax relief by holding such securities according to their Chinese legal status.

VII. Directors, Supervisors, Senior Management and Employees

1. CHANGES IN SHAREHOLDING AND EMOLUMENTS

(1) CHANGES IN SHAREHOLDING HELD BY AND EMOLUMENTS FOR INCUMBENT AND RESIGNED DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT IN THE REPORTING PERIOD

Unit: RMB ten thousands

Name	Position	Gender	Age	Date of term commencement	Date of term termination	Annual emoluments before tax during the reporting period	Receive emoluments from the Company's related parties
Ding Yi	Chairman	Male	56	2013-8-9	2020-11-30	–	Yes
Wang Qiangmin	Director	Male	50	2020-3-5	2020-11-30	–	Yes
	General Manager	Male	50	2019-12-30	2020-11-30	–	Yes
Qian Haifan	Director	Male	59	2011-8-31	2020-11-30	84.76	No
	General Manager	Male	59	2011-7-14	2019-12-30		No
Zhang Wenyang	Director	Male	52	2017-11-30	2020-11-30	65.83	No
	Deputy General Manager	Male	52	2017-2-14	2020-11-30		No
Ren Tianbao	Director	Male	56	2011-8-31	2020-11-30	–	Yes
Zhang Chunxia	Independent Director	Female	57	2017-11-30	2020-11-30	10.00	No
Zhu Shaofang	Independent Director	Female	56	2017-11-30	2020-11-30	10.00	No
Wang Xianzhu	Independent Director	Male	40	2017-11-30	2020-11-30	10.00	No
Zhang Xiaofeng	Chairman of Supervisory Committee	Male	58	2008-8-31	2020-11-30	76.60	No
Zhang Qianchun	Supervisor	Male	58	2017-11-30	2020-11-30	–	Yes
Yan Kailong	Supervisor	Male	55	2015-12-1	2020-11-30	52.63	No
Qin Tongzhou	Independent Supervisor	Male	50	2017-11-30	2020-11-30	7.37	No
Yang Yada	Independent Supervisor	Female	64	2017-11-30	2020-11-30	7.37	No
Tian Jun	Deputy General Manager	Male	59	2017-2-14	2020-11-30	67.13	No
Fu Ming	Deputy General Manager	Male	53	2017-10-11	2020-11-30	65.60	No
He Hongyun	Secretary of the Board of Directors	Female	48	2018-4-19	2020-11-30	41.39	No
Lu Kecong	Deputy General Manager	Male	56	2011-7-14	2019-12-30	76.60	No
Total	/	/	/	/	/	575.28	/

Explanation: During the reporting period, Qian Haifan, Zhang Xiaofeng and Lu Kecong were managed by the SASAC of Anhui. The annual emoluments of such persons were fulfilled according to the standards approved by the SASAC of Anhui; personal income tax from the annual emoluments of Independent Directors and Independent Supervisors were withheld by the company. The annual emoluments after tax of Independent Directors and Independent Supervisors were RMB80,000 and RMB60,000 respectively.

VII. Directors, Supervisors, Senior Management and Employees (Continued)

During the reporting period, none of the Directors, Supervisors and Senior Management held any share of the Company. The Company's current Directors, Supervisors and Senior Management and their working experiences are as follows:

Name	Working Experience
Ding Yi	Mr. Ding is the current Chairman of the Company. He served as the Deputy General Manager of the Company from January 2004. From July 2011, he served as the Deputy General Manager of the Holding and no longer served as the Deputy General Manager of the Company since then. Effective from June 2013, he served as the General Manager of the Holding. Effective from August 2013, he served as the Chairman of the Company. In addition, Mr. Ding also serves as the Chairman of Magang Group Finance Co., Ltd. and the Director of Magang Group Investment Ltd.
Wang Qiangmin	Mr. Wang is the current Director and General Manager of the Company. He served as the Deputy General Manager and General Manager of Meishan Company, the Chairman of Meisheng Company, the General Manager of Meishan Company, the Executive Deputy General Manager and General Manager of Meigang. From January 2018 to February 2019, he served as the General Manager and Deputy Secretary of the Party Committee of Meigang (Meishan) Company. From February 2019 to December 2019, he served as the General Manager of Iron & Steel Industry Development Center of China Baowu. Effective from 30 December 2019, he served as the General Manager of the Company. Effective from 5 March 2020, he served as a Director of the Company. From September 2019 to March 2020, Mr. Wang also served as a Director of Baoshan Iron & Steel Co., Ltd.
Qian Haifan	Mr. Qian is the current Director of the Company. He was appointed the General Manager of the Company in July 2011, Director of the Company in August 2011, and Director of the Holding in August 2012. He served as the Deputy General Manager (Executive) of the Holding in December 2019 and resigned the General Manager of the Company. Mr. Qian also serves as the Director and General Manager of Magang Group Investment Limited.
Zhang Wenyang	Mr. Zhang is the current Director and Deputy General Manager of the Company. He served as the Deputy Manager of the Company's Marketing Department from August 2011, the Manager of the Company's Marketing Department from July 2012, the Manager of the Company's Production Department from December 2013, and the Assistant to the Company's General Manager and the Manager of the Manufacturing Department from August 2015. He was appointed as the Company's Deputy General Manager on 14 February 2017, and served as a Director of the Company from 30 November 2017.
Ren Tianbao	Mr. Ren is the current Director of the Company. He sequentially served as the Deputy General Manager, the Director, and the Secretary to the Board of the Company in July 2011, August 2011, and February 2012, respectively. In May 2015, he resigned as the Deputy General Manager and the Secretary to the Board of the Company and served as the Deputy General Manager of the Holding. In December 2019, he resigned as the Deputy General Manager of the Holding. On 5 March 2020, Mr. Ren was appointed by the Board of the Company as a Director of Ma-Steel Rail Transportation Material Technology Co., Ltd. a wholly-owned subsidiary of the Company, and recommended as the Chairman thereof.

VII. Directors, Supervisors, Senior Management and Employees (Continued)

Name	Working Experience
Zhang Chunxia	Ms. Zhang is the current Independent Director of the Company. In January 2006, she served as a professor-level senior engineer and doctoral supervisor in the State Key Laboratory of Advanced Steel Processes and Materials of the Central Iron and Steel Research Institute. She served as an Independent Director of the Company on 30 November 2017. In addition, Ms. Zhang is also a member of the Expert Committee of the China Society of Metals and is the deputy editor of "Steel" Magazine.
Zhu Shaofang	Ms. Zhu is the current Independent Director of the Company. From February 1999 to October 2016, she was the audit manager and partner of Deloitte Touche Tohmatsu Certified Public Accountants LLP and the managing partner of Nanjing Branch. She served as an Independent Director of the Company on 30 November 2017.
Wang Xianzhu	Mr. Wang is the current Independent Director of the Company. From March 2012 to September 2013, he served as the Vice President of the School of Economics, Anhui University of Technology. From September 2013 to November 2015, he served as the Vice President of the School of Business of Anhui University of Technology. From November 2015 to September 2019, he served as the Secretary of the Communist Youth League Committee of Anhui University of Technology. From November 2016 to October 2018, he served as the Standing Committee Member of the Huashan District Party Committee of Maanshan City and the Deputy Head of the district government (serving temporary positions). In September 2019, he was the Executive Vice President of the School of Postgraduate of Anhui University of Technology. On 30 November 2017, he was an Independent Director of the Company.
Zhang Xiaofeng	Mr. Zhang is the current Chairman of the Company's Supervisory Committee. In August 2008, he served as the Chairman of the Holding and the Company's Labor Union. He assumed the Chairmanship of the Company's Supervisory Committee from 31 August 2008. In addition, Mr. Zhang also serves as the Chairman of Masteel Group Kangtai Land Development Co., Ltd.
Zhang Qianchun	Mr. Zhang is currently the Supervisor of the Company. In July 2009, he became the Manager of the Company's Plan Finance Department. In December 2013, he became the Manager of the Financial Department of Magang (Group) Holding Company Limited. In September 2014, he became the Deputy Chief Accountant of Magang (Group) Holding Company Limited, as was appointed as a Supervisor of the Company on 30 November 2017. In addition, Mr. Zhang is also a Director of Magang Group Investment Limited, Anhui Masteel Engineering Technology Group Co., Ltd. and Magang Group Finance Co., Ltd.
Yan Kailong	Mr. Yan is the current Supervisor of the Company. In May 2012, he was appointed as the Director of the Equipment Protection Department of the Company's No. 1 Steel Rolling Mill and Senior Technical Director of the Company. In May 2014, he was appointed the Deputy Director of the Company's No. 1 Steel Rolling Mill, and in December 2014, he was the Vice Director of the Company's No.1 Cold Rolling Plant. From November 2015, Mr. Yan served concurrently as the Vice Chairman of the Maanshan General Labor Union. In December 2015, he served as an Employee Supervisor of the Company.

VII. Directors, Supervisors, Senior Management and Employees (Continued)

Name	Working Experience
Qin Tongzhou	Mr. Qin is currently the Independent Supervisor of the Company. He is also the CFO of China Fire & Security Group Inc. ("CFSG") and Deputy Manager of Sureland Industrial Firefighting Limited, a wholly owned subsidiary of CFSG. Having years of audit experience, Mr. Qin was engaged in audit work in Ernst & Young Hua Ming from March 2001 to March 2010. He was appointed the Deputy General Manager of Sureland Industrial Firefighting Limited of CFSG in March 2010 and CFO of CFSG in July 2010. Mr. Qin was appointed the Independent Director of the Company on 31 August 2011, and the Independent Supervisor of the Company on 30 November 2017.
Yang Yada	Ms. Yang is currently the Independent Supervisor of the Company. She is also the Professor, Master Instructor of School of Business of Anhui University of Technology. Ms. Yang was appointed the Professor of School of Business of Anhui University of Technology in September 2002. She sequentially served as the Head of Business Administration Department, Deputy Dean and Dean of School of Management of Anhui University of Technology. She was elected as a member of the 10th, 11th and 12th National People's Congress. Ms. Yang was appointed the Independent Director and the Independent Supervisor of the Company on 31 August 2011 and 30 November 2017, respectively.
Tian Jun	Mr. Tian is currently the Deputy General Manager of the Company. He was appointed as the Manager and Deputy Secretary of the Party Committee of No.1 Energy Plant of the Company in February 2011. He was then appointed as the Manager of Facilities Department of the Company in April 2014 and Assistant to General Manager and Manager of Facilities Department of the Company in August 2015. He served as the Deputy General Manager of the Company on 14 February 2017. In addition, Mr. Tian serves as the Director of CFHI Maanshan Heavy Industry Co., Ltd. and MG Trading and Development Gambit in Germany.
Fu Ming	Mr. Fu is currently the Deputy General Manager of the Company. In February 2012, he was appointed as the Manager of the Company's Production Department. Since December 2013, he has been the Director and Deputy Party Secretary of the Company's Second Ironmaking Plant. He was appointed as the Deputy General Manager of the Company on 11 October 2017.
He Hongyun	Ms. He is currently the Secretary of the Board of the Company. In November 2010, she was the Secretary of the Board of Office Secretary; in June 2015, securities affairs representative office; in April 2017, the Deputy Director of the secretariat of the Board. On 19 April 2018, she became the Secretary of the Board of the Company. In addition, Ms. He serves as the Director of Ma Steel (Hefei) Iron & Steel Co., Ltd., Ma Steel (Hefei) Steel Plates Co., Ltd., and Masteel Finance Co., Ltd.

VII. Directors, Supervisors, Senior Management and Employees (Continued)

- (2) NO DIRECTORS AND SENIOR MANAGERS' EQUITY INCENTIVES GRANTED DURING THE REPORTING PERIOD.

2. CURRENT AND RESIGNED DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

- (1) POSITIONS IN SHAREHOLDERS' COMPANY

Name	Name of shareholders' company	Position in shareholders' company
Ding Yi	Magang (Group) Holding Co., Limited	Chairman, General Manager, Deputy Secretary of the Party Committee
Zhang Xiaofeng	Magang (Group) Holding Co., Limited	Chairman of the Labor Union, Standing Committee Member of the Party Committee
Wang Qiangmin	Magang (Group) Holding Co., Limited	Standing Committee Member of the Party Committee
Qian Haifan	Magang (Group) Holding Co., Limited	Director, Deputy General Manager (Executive)
Zhang Qianchun	Magang (Group) Holding Co., Limited	Deputy Chief Accountant, Finance Director

- (2) POSITIONS IN OTHER ENTITIES

Name	Name of other entities	Position in other entities
Zhang Chunxia	Central Iron & Steel Research Institute	PhD Supervisor
Zhang Chunxia	The Chinese Society for Metals	Committee Member
Zhang Chunxia	"Steel" Magazine	Deputy Editor
Yan Kailong	Maanshan Federation of Trade Unions	Deputy Chairman
Qin Tongzhou	China Fire & Security Group Inc. ("CFSF")	CFO
Yang Yada	Anhui University of Technology	Professor of Business School

VII. Directors, Supervisors, Senior Management and Employees (Continued)

3. EMOLUMENTS FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Decision-making process of emoluments for Directors, Supervisors and Senior Management

1. The Remuneration Committee of the Board is responsible for organizing the performance assessment of Executive Directors and Senior Management. The Committee evaluates the Senior Management in terms of performing duties in accordance with the operating target status, and reports the yearly performance assessment to the Board. After the consideration and approval from the Board, the result is reported to the AGM.
2. The annual remuneration of the non-independent supervisors who receive remuneration from the Company shall be determined by the Board of Supervisors provided that the total annual remuneration shall not be exceeded those approved at the general meeting of shareholders. The result is decided by appraisal results and reported to shareholders at the Annual General Meeting.
3. Independent Directors and Independent Supervisors of the Company received a fixed amount of emoluments during their term of office.

Basis for determination of Directors, Supervisors and Senior Management

Appraisals.

Actual payment to Directors, Supervisors and Senior Management

Please refer to the previous section "Changes in Shareholding and Emoluments".

Total actual payment to Directors, Supervisors and Senior Management at the end of reporting period

During the reporting period, the total salaries for Directors, Supervisors and Senior Management who received emoluments or allowances from the Company amounted to RMB5.7528 million (tax included).

VII. Directors, Supervisors, Senior Management and Employees (Continued)

4. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Movement	Reasons of movement
Wang Qiangmin	General Manager	Appointment	Board appointment
Qian Haifan	General Manager	Resignation	Job change
Lu Kecong	Deputy General Manager	Resignation	Job change

On 30 December 2019, the Board of the Company approved Mr. Qian Haifan and Mr. Lu Kecong to resign from the position of the General Manager and the Deputy General Manager of the Company, respectively, and appointed Mr. Wang Qiangmin as the General Manager of the Company. Detailed information please refer to the announcement of the Company at below address of http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2019-12-31/600808_20191231_4.pdf.

5. THE COMPANY WAS NEVER PUNISHED BY SECURITIES REGULATORY AGENCIES IN THE PAST THREE YEARS.

6. EMPLOYEES IN THE PARENT COMPANY AND ITS MAJOR SUBSIDIARIES

(1) EMPLOYEES

The number of current employees of the parent company	21,110
The number of current employees of the major subsidiaries	5,109
Total number of current employees	26,219
Number of retired employees whose parent company and major subsidiaries are required to bear expenses	22,179

Professional constitution

	Number of staff of Profession constitution
Profession category	
Production Line	21,897
Sales representative	317
Technician	2,878
Financial staff	159
Administrative Staff	968
Total	26,219

VII. Directors, Supervisors, Senior Management and Employees (Continued)

Educational level	
Education	Number of staff
Postgraduate	756
Graduate	4,073
Junior College	6,450
Vocational secondary or below	14,940
<hr/>	
Total	26,219

(2) REMUNERATION POLICY

In 2019, the Company adopted the form of assessing and determining the base number of total wages as well as linking and adjusting such wages with the core indicators, and established the package method of annual total wages for all second level units by strengthening the management mechanism of total wages to link the package number of staff of total wages with optimization purposes and encourage all units to improve employee income by increasing human resources efficiency. Meanwhile, the Company conducted a whole-process control over remuneration distribution by way of establishing a transfer payment and balance application process. In 2019, to further protect the rights and interests of employees, the Company increased the protective wages and optimized the wage structure by adjusting and increasing seniority wages.

(3) TRAINING PROGRAM

The Company scientifically formulates annual training plans by precisely recognizing training needs and makes full use of external and internal training resources to provide training opportunities for the growth of employees of different professions. In 2019, the Company carried out about 1.092 million class hours in total with 8,011 person-times of management personnel, 12,415 person-times of technical personnel and 37,232 person-times of operation maintenance personnel receiving training.

VIII. Corporate Governance

1. RELATED INFORMATION OF CORPORATE GOVERNANCE

In accordance with the requirements of relevant laws and regulations, the Company has set up a check-and-balance corporate governance structure since its listing on the Hong Kong Stock Exchange in 1993 and on the Shanghai Stock Exchange in 1994, consisting of the shareholders' general meeting, the Board, the Supervisory Committee and the General Manager. The division of work and responsibilities among the shareholders' general meeting, the Board, the Supervisory Committee and the General Manager were clear and unambiguous.

During the reporting period, the Company continued to commit itself to the standard operation, strengthened the construction of fundamental system and improved its corporate governance. Pursuant to the requirements of "the Company Law", as well as the relevant provisions of the "Governance Guidelines for Listed Companies" and "Administrative Measures for Equity Incentives of Listed Companies" issued by CSRC, the Board amended "The Articles of Association" according to the actual situations of the Company with the revised contents covering repurchase of shares, constitution of the Board, the responsibilities of the special committee of the Board, etc.

1. CORPORATE GOVERNANCE REPORT

To the best knowledge of the Board, the Company complied with all the requirements of the Code on Corporate Governance (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange in 2019. The information is summarized as follows:

(1) DIRECTORS

Directors and the composition of the Board

At the end of the reporting period, the ninth session of the Board of the Company comprised seven Directors, of whom Chairman Ding Yi, Mr. Qian Haifan and Mr. Zhang Wenyang were Executive Directors while Mr. Ren Tianbao, Ms. Zhang Chunxia, Ms. Zhu Shaofang, and Mr. Wang Xianzhu were Non-executive Directors. Among the Non-executive Directors, Ms. Zhang Chunxia, Ms. Zhu Shaofang, and Mr. Wang Xianzhu were Independent Directors, accounting for three-seventh of the members of the Board. Two female directors made up two-seventh of the board.

On 5 March 2020, as approved by the first extraordinary general meeting held by the Company in 2020, Mr. Wang Qiangmin was elected as the director of the ninth session of the Board of the Company. On the same day, the Board announced Mr. Wang Qiangmin as Executive Director, re-designated Mr. Qian Haifan from Executive Director to Non-executive Director and Mr. Ren Tianbao from Non-executive Director to Executive Director. As at the issuing date of this report, the ninth session of the Board of the Company comprised eight Directors, of whom, there were four Executive Directors and four Non-executive Directors. Among the four Non-executive Directors, three of them were Independent Directors, accounting for three-eighth of the members of the Board. Two female directors made up one-fourth of the board.

VIII. Corporate Governance (Continued)

The ninth session of the Board of the Company achieves diversity. All of its Executive Directors and one Non-Executive Director are veterans in the iron and steel industry. They are experienced in the production, operation and management of iron & steel, and are capable of making rational decisions on the matters to be resolved by the Board. Among the three Independent Directors, Ms. Zhu Shaofang is the senior member of the Chinese Institute of Certified Public Accountants (CICPA), with years of experience in the auditing profession; Ms. Zhang Chunxia is a doctoral tutor in the State Key Laboratory of Advanced Steel Processes and Materials of the Central Iron and Steel Research Institute and also a member of the Expert Committee of the China Society of Metals, who mainly involves in the R&D of steel metallurgical process engineering and environmental engineering and is knowledgeable and experienced in the steel industry and environmental protection; Mr. Wang Xianzhu has served as the Vice-Dean of School of Economics and School of Business of Anhui University of Technology, with a profound knowledge of economics.

All Independent Directors of the ninth Board of Directors of the Company are fully capable of evaluating internal control and reviewing financial reports. The composition of the Board of Directors fully meets the requirements of domestic and foreign laws, regulations and regulatory documents. The names of all Directors are announced in the company newsletter and the Independent Directors are specifically noted.

During the reporting period, as far as the Board is aware of, there were no relationships, including relationships with respect to finance, business, family aspects or other relevant relationship, existing among members of the Board (including Chairman and General Manager) that were required to be disclosed.

All of the Directors of the Company confirmed in written form that they had complied with the requirements stipulated by the Model Code for Securities Transactions by Directors of Listed Companies in Appendix 10 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

The Company received the independence confirmation letters from all Independent Directors, which were submitted in accordance with Rule 3.13 of Chapter 3 “Authorized Representatives, Directors, Board Committees and Company Secretary” in the the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange. The Board of the Company was therefore of the opinion that all Independent Directors were all independent.

Chairman and General Manager

The positions of the Company’s Chairman and General Manager are assumed by different individuals. The Chairman of the Company is Mr. Ding Yi. During the reporting period, the Board approved the resignation of Mr. Qian Haifan as the General Manager of the Company and brought such resignation into effect on 30 December 2019, and appointed Mr. Wang Qiangmin as the General Manager of the Company on the same day.

VIII. Corporate Governance (Continued)

The Chairman is the authorized representative of the Company, and shall be elected or removed by a simple majority of all Directors in the Board. The Chairman is responsible for corporate planning and strategic decisions, leading the work of the Board, ensuring that the Board will consider all matters involved in an appropriate manner, and facilitating an effective operation of the Board.

The Chairman is entitled to chair the shareholders' general meetings, to convene and chair board meetings, to review the implementation of resolutions by the Board, and to sign the issue of the Company's securities and other important documents. With the authorization by the Board, the Chairman may convene the shareholders' general meetings. Between sessions of the board meetings, the Chairman shall give guidance to the major business activities of the Company. In the event of force majeure, the Chairman is authorized to adjudicate on and dispose of the affairs of the Company.

The General Manager is appointed or removed by the Board, and shall be accountable to the Board. The General Manager leads the Management, is responsible for the usual course of operation in production and management, and organizes the implementation of various resolutions by the Board. The General Manager shall regularly report to the Board or the Supervisory Committee on the signing and execution of the Company's material contracts, as well as the application of funds and profit and loss situation pursuant to the requirements of the Board or the Supervisory Committee.

Non-executive director

The term of office of the Company's four Non-executive Directors (including Independent Directors) is three years. Please refer to Section VII "Directors, Supervisors, Senior Management, and Employees" of this report for further details of names and incumbency.

In order to protect the legal rights and interests of the minority shareholders and the stakeholders, the Company established the "Work System of Independent Directors". The system specifies in detail the appointment criteria and nomination procedures of Independent Directors and working conditions that the Company shall provide to Independent Directors. It also stipulates that Independent Directors shall issue independent opinions on matters such as connected transactions and external guarantees.

Duties and authorities of the Board and the Management

The Board performs the duties and authorities conferred by the laws and regulations as well as the Articles of Association, mainly including:

- To guide, lead and monitor the Company's affairs to ensure the company's long-term success;
- To develop strategic goals and pay due attention to value creation and risk management;

VIII. Corporate Governance (Continued)

- To convene the shareholders' general meetings and to execute the resolutions thereof;
- To decide on the annual operating plans and key investment proposals of the Company;
- To formulate the financial budget, the profit appropriation plan, the fundamental management system and substantial acquisitions or disposal plans of the Company;
- To decide on the establishment of specialized committees, and appointment and removal of their persons-in-charge;
- To appoint or remove the Company's General Manager, and to appoint or dismiss the Company's Senior Management such as Deputy General Managers and Financial Officers-in-charge pursuant to the General Manager's nomination;
- To appoint or remove the Secretary to the Board;
- To manage information disclosure matters of the Company, ensuring transparency;
- Accountability. Directors are responsible for their actions or omissions and should consider the opinions of shareholders and stakeholders when appropriate in the decision-making process;
- To ensure that the company has enough resources, qualifications and experience in accounting, internal auditing, financial reporting and other functions;
- To propose to the shareholders' general meeting the re-appointment or change of the Company's auditors;
- To receive the report from the Company's General Manager and to review the work of the General Manager;
- To approve the Company's external investments, leasing of assets, pledges of assets and other guarantees, entrusted operations and wealth management within the limit as stipulated in the Articles of Association;
- There are four committees under the Board, namely the Strategic Development Committee, the Audit Committee, the Nomination Committee and the Remuneration Committee. Please refer to "4" of this section for the composition of these committees. Please refer to "5, 6, 7, 8" of this section for the major duties of the committees.

The Board acknowledges its responsibility to prepare accounts.

VIII. Corporate Governance (Continued)

The Company's Management performed their major responsibilities in accordance with the duties and authorities conferred by the Articles of Association, mainly including:

- To provide necessary documents to directors to assist them to identify potential issues as soon as possible;
- To organize the implementation of the Company's annual operating plans and investment proposals;
- To propose the establishment schemes of the Company's internal management structure;
- To propose the Company's fundamental management systems;
- To formulate the Company's basic constitutions;
- To appoint or remove the officers-in-charge other than those who are appointed or removed by the Board;
- To decide on the rewards and penalty, promotions and demotions, increase and decrease of salaries, appointment, recruitment or removal and termination of the Company's staff;
- To deal with the important external businesses of the Company on its behalf;
- To propose the convening of extraordinary Board meetings.

The Board Meeting

The Board convenes four regular meetings annually, and notifies Directors about the time and date, location and agenda of a regular Board meeting 14 days in advance so as to ensure all Directors could attend the meetings. All Directors are given opportunities to raise matters for discussion and such matters will be included in the agenda of the regular meetings. If required by the Directors, the Management is able to provide adequate information timely to the Directors and such information can help the Directors make appropriate decisions. All or most of the Directors shall attend each regular Board meeting in person. When the Board vote on connected transactions, the connected Directors shall abstain from voting and the connected transactions shall be approved by the non-connected Directors. All Directors are entitled to and have the opportunity to access to the minutes of the Board meetings.

The Secretary to the Board is responsible for organizing and preparing the Board meetings and assists the Chairman in ensuring that the procedures for the meetings comply with the requirements of relevant laws, regulations and regulatory documents.

VIII. Corporate Governance (Continued)

(2) REMUNERATION OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors' remuneration

The annual aggregate remuneration of all Directors of the ninth session of the Board of the Company shall not exceed RMB2.80 million (tax inclusive) during their term of office. Each of the Independent Directors receives a fixed annual remuneration of not more than RMB80,000 (tax exclusive) from the Company. The Company has adopted an annual salary system for the remaining Directors who receive remuneration from the Company. Considering the performance of the Company and the Directors' personal contribution, the Remuneration Committee of the Board of the Company proposes the appraisal and distribution opinion according to the "Remuneration Assessment Method (Trial) for Directors and Senior Management" and the annual salaries will be implemented accordingly subject to the Board' approval. No director may determine his/her own remuneration.

Supervisors' remuneration

The annual aggregate remuneration of all Supervisors of the ninth session of the Company's Supervisory Committee shall not exceed RMB1.60 million (tax inclusive) during their term of office. Each of the Independent Supervisors receives a fixed annual remuneration of not more than RMB60,000 (tax exclusive) from the Company. As for the remaining Supervisors who receive annual remunerations from the Company, their annual remunerations shall be determined by the Supervisory Committee according to the appraisal results within the annual aggregate remuneration for Supervisors approved by the shareholders' general meeting and be reported to the shareholders' general meetings.

Senior Management's remuneration

The Company has adopted an annual salary system for the Senior Management. Taking into account the performance of the Company and the Senior Management members' personal contribution, the Remuneration Committee of the Board of the Company proposes the appraisal and distribution opinion according to the "Remuneration Assessment Method (Trial) for Directors and Senior Management" and the annual salaries of the Senior Management will be implemented accordingly subject to the Board's approval.

(3) NOMINATION OF DIRECTORS

A new session of the Board of the Company shall be elected every three years. The term of office of all Directors is the same as the term of office of the Board for such session. Upon the expiry of the session, re-election must be held.

VIII. Corporate Governance (Continued)

Candidates for Directors are nominated by the Company's Board, the Supervisory Committee or shareholder(s) severally or jointly holding more than 3% of the issued shares of the Company. Candidates for Independent Directors are nominated by the Company's Board, the Supervisory Committee or shareholder(s) severally or jointly holding more than 1% of the issued shares of the Company.

The nomination of a Director by the Company has taken into adequate consideration of the nominee's situation including his/her career, academic background, job title, detailed work experience and all concurrent posts, with the consent of the nominee obtained in advance. With respect to the nomination of an Independent Director, the Board will give its opinion on the nominee's qualifications and independence of holding the position of Independent Director. The nominee will also issue a public statement indicating that there is no relationship between him/her and the Company that may affect his/her independent and objective judgment. Prior to convening the relevant shareholders' general meeting, the Company will submit the related materials about the candidates for Independent Directors to the SSE.

(4) THE COMPOSITION OF THE PROFESSIONAL COMMITTEES OF THE BOARD OF DIRECTORS

The company's Board of Directors has four professional committees: the Strategic Development Committee, the Audit Committee, the Nomination Committee, and the Remuneration Committee.

The composition of each professional committee of the ninth Board of Directors of the Company is as follows:

Committee Directors	Strategic Development Committee	Audit Committee	Nomination Committee	The Remuneration Committee
Mr. Ding Yi	Chairman		member	
Mr. Ren Tianbao				member
Ms. Zhang Chunxia	member	member	Chairman	member
Ms. Zhu Shaofang	member	Chairman	member	member
Mr. Wang Xianzhu	member	member	member	Chairman

(5) THE STRATEGIC DEVELOPMENT COMMITTEE

The Strategic Development Committee has four members, including Mr. Ding Yi, Chairman of the Company and Independent Directors Ms. Zhang Chunxia, Ms. Zhu Shaofang, and Mr. Wang Xianzhu, of whom, Ding Yi is the Chairman of such Committee. The Committee mainly has the following duties:

- Research and make suggestions on long-term development strategy and important investment decisions of the Company;

VIII. Corporate Governance (Continued)

- Research and make suggestions on long- and medium-term planning for strategic development of the Company;
- Monitor the implementation of strategic development plan of the Company and report any significant deviation from the development strategy to the Board of Directors;
- Research material changes in economic situation, industrial policies, technological advances, industry conditions, and force majeure, and make suggestions to the Company as to adjustments to its development strategy;
- Research and make suggestions on other material issues affecting development of the Company;
- Other duties granted by the Board of Directors.

In 2019, the Strategic Development Committee of the Board of Directors totally held four meetings, with committee members (Mr. Ding Yi, Ms. Zhang Chunxia, and Ms. Zhu Shaofang) attending in person. Mr. Wang Xianzhu attended the meetings in person for three times and by proxy for one time. The agenda of the meetings were as follows: 1) reviewed the 2018 Strategy Implementation Assessment Report, 2018 Operation Improvement, 2019 Working Plans, and 2018 Duty Performance Report of the Strategic Development Committee, and submitted to the Board of Directors for consideration; 2) discussed the 2019 Production and Operation Direction of the Company; 3) debriefed the key projects and human resources optimization; 4) reviewed 18 projects including the capability upgrade and renovation project for No. 1 galvanizing line of cold rolling plant and submitted to the Board of Directors for consideration.

All convening procedures of meetings held by the Strategic Development Committee complied with relevant laws, regulations, the Articles of Association and Code of Practice of the Strategic Development Committee of the Board of Directors. All committee members truthfully performed their duty of confidentiality for reports heard in the meeting according to relevant regulations; no unauthorized disclosure of related information happened.

(6) *AUDIT COMMITTEE*

The Audit Committee has three members, including Independent Directors Ms. Zhu Shaofang, Ms. Zhang Chunxia, Mr. Wang Xianzhu, of whom, Ms. Zhu Shaofang is the Chairman of such Committee. The major duties of the Audit Committee are:

- To propose the appointment or change of external auditors;
- To monitor the Company's internal audit system and its implementation;
- To be responsible for the communication between the internal and external audit;

VIII. Corporate Governance (Continued)

- To review the Company's financial information and its disclosure;
- To review the Company's risk management and internal control system.

Furthermore, in order to fully leverage on the role of the Audit Committee, the Company has also specifically worked out "Annual Report Work Rules of the Audit Committee", which has streamlined the duties of the Audit Committee in the process of the preparation of annual report and the disclosure thereof.

The Audit Committee held six meetings in 2019, with committee members Zhu Shaofang and Zhang Chunxia attending all meetings in person. Wang Xianzhu attended the meetings in person for five times and by proxy for one time. Details of the meetings were as follows:

- Discussed the unaudited 2018 financial statement with the senior management and the financial department, to scrutinize issues concerned, to approve submission of the financial statement for audit by external accounting firm, and to determine the working schedule for the audit of the financial statement together with the external accounting firm.
- Debriefed the internal control work on a periodic basis to urge improvement.
- Considered the resolution on the changes in accounting policies.
- Reviewed the audited 2018 financial statement, discussed and communicated with the Company's audit department and external accounting firm on the statement, concluding that the Company complied with the Enterprise Accounting Rules in all major aspects and made full information disclosure without major omission.
- Reviewed the Company's 2018 profit distribution plan.
- Reviewed the summary report on the Company's auditing work in 2018 conducted by the external accounting firm.
- Following deliberations, approved the payment of RMB5.385 million to Ernst & Young Hua Ming LLP in 2018, which included an annual audit fee of RMB4.80 million (including an internal control audit fee of RMB600,000) and a fee of RMB585,000 for the agreed-upon procedures on interim financial statements.
- Considered and agreed that Ernst & Young Hua Ming LLP would be re-appointed as the Company's auditors for 2019.

VIII. Corporate Governance (Continued)

- Following deliberations, confirmed that the connected transactions contemplated under the “Sale and Purchase of Ore Agreement”, the “Continuing Connected Transaction Agreement” and “Supplementary Agreement of Continuing Connected Transactions”, “Energy Saving and Environmental Protection Agreement” and “Supplementary Agreement of Energy Saving and Environmental Protection”, “Financial Services Agreement”, and “Integrated Support Services Agreement” of the Company in 2018 were concluded during the daily course of business, and carried out under general commercial terms and relevant agreements which were fair and reasonable to the Company, and in the whole interest of the Company and its shareholders. The amount of all relevant transactions was under the annual cap of 2018 specified in the various relevant agreements.
- Following deliberations, confirmed that all external guarantees provided by the Company in 2018 were compliant with the laws and regulations.
- Considered and passed the 2018 Report on Internal Control Assessment of the Company.
- Considered and approved the Report on the Discharge of Duties by the Audit Committee for 2018.
- Reviewed the Company’s unaudited first quarterly, interim and third quarterly financial statement of 2019 and was of the opinion that the Company had complied with the requirements of the Accounting Standards for Business Enterprises in every material respect and had made adequate disclosure without any material omissions.
- Discussed and determined the Annual Audit Plan for 2019 with external accounting firm.

All the procedures for convening and holding the Committee’s meetings as well as voting and resolutions made thereat were in compliance with the provisions of relevant laws and regulations, the Articles of Association and the Work Rules of the Audit Committee. In 2019, all the members of the Committee faithfully fulfilled their confidentiality obligations towards the matters discussed at the meetings of the Committee in accordance with the relevant rules without any unauthorized disclosure of relevant information.

(7) *NOMINATION COMMITTEE*

The Nomination Committee has four members, including three Independent Directors Ms. Zhang Chunxia, Ms. Zhu Shaofang, and Mr. Wang Xianzhu, as well as Mr. Ding Yi, of whom, Ms. Zhang Chunxia is the Chairman of such Committee. The major duties of the Committee are:

- To regularly evaluate the structure and number of members of the Board, and the skills, knowledge and experience needed for Directors based on the shareholding structure and development strategies of the Company, and to make recommendations to the Board on any prospective changes;

VIII. Corporate Governance (Continued)

- To consider and make recommendations on the selection criteria and procedures for Directors, General Manager and Secretary to the Board;
- To seek candidates for Directors, General Manager and Secretary to the Board, and to nominate the relevant candidates for Directors, General Manager and Secretary to the Board according to the Company's needs after reviewing their qualifications and abilities, and make recommendations to the Board in this regard;
- To examine the independence of Independent Directors;
- To make recommendations to the Board on matters related to the appointment and reappointment of Directors, and on succession plans for Directors (including Chairman), General Manager and Secretary to the Board.

In 2019, the Nomination Committee held two meetings. Committee members Zhang Chunxia, Zhu Shaofang, and Ding Yi presented each meeting in person while Wang Xianzhu attended once in person and once by proxy. The agenda of the meetings were as follows: 1) promoted the diversity of the Board and discussed the proper number of members and structure of the Board; 2) reviewed the Report on the Discharge of Duties of Nomination Committee for 2018; 3) reviewed the candidates for the General Manager and concluded that Mr. Wang Qiangmin meets the qualifications and is recommended to the Board for appointment; 4) advised electing and nominating Mr. Wang Qiangmin as the candidate for the Director of the ninth session of the Company's Board of Directors.

The procedures for convening and holding all the meetings of the Committee as well as the voting and resolutions made thereat were in compliance with the requirements of relevant laws and regulations, the Articles of Association and the Work Rules of the Nomination Committee of the Board of Directors. All members of the Committee faithfully fulfilled the obligation of confidentiality in accordance with the relevant rules towards the matters discussed at the meetings of the Committee without any unauthorized disclosure of relevant information.

(8) REMUNERATION COMMITTEE

The Remuneration Committee has four members, including three Independent Directors Mr. Wang Xianzhu, Ms. Zhang Chunxia, and Ms. Zhu Shaofang, as well as Mr. Ren Tianbao, of whom Mr. Wang Xianzhu is the Chairman of such Committee. The major duties of the Committee are:

- To recommend to the Board with respect to the remuneration policies for all Directors and Senior Management of the Company, and the procedures of formulating such policies in a proper and transparent manner;
- To review the remuneration of the Directors and Senior Management in accordance with the corporate objectives formulated by the Board;

VIII. Corporate Governance (Continued)

- To review the compensation to be paid to the Directors or Senior Management with respect to their removal or appointment;
- To ensure that none of the Directors nor their associates could decide on their own remuneration;
- Other responsibilities as delegated by the Board.

In 2019, the Remuneration Committee held one meeting. All members (Mr. Wang Xianzhu, Ms. Zhang Chunxia, Ms. Zhu Shaofang and Mr. Ren Tianbao) attended the meeting in person. The details of the meeting were as follows: 1) conducted appraisals on business results in 2018 on Executive Directors and Senior Management who receive pay from the Company, and estimated remuneration based on the results of work performance appraisals and actual working months; 2) reviewed and approved the Remuneration Committee's Report on Discharge of Duties for 2018.

All the procedures for convening and holding the Remuneration Committee's meetings as well as voting and resolutions made thereat were in compliance with relevant laws and regulations, the Articles of Association and the Work Rules of the Remuneration Committee. When the remuneration of Directors and Senior Management Staff were discussed at the meetings, none of the directors was involved in deciding their own remuneration. All the members of the Committee faithfully fulfilled their confidentiality obligations towards the matters discussed at the meetings of the Committee in accordance with the relevant rules without any unauthorized disclosure of relevant information.

(9) CONTINUING PROFESSIONAL DEVELOPMENT OF DIRECTORS

During the reporting period, the Company enrolled the directors for training classes and workshops organized by stock market regulators, associations of listed companies and other organizations, kept them updated regularly with latest developments of laws and regulations, as well as market and regulatory dynamics and information gathered by the Company, and created opportunities of continuing professional development as appropriate. By these means, Directors Mr. Ding Yi, Mr. Qian Haifan, Mr. Ren Tianbao, Mr. Zhang Wenyang, Ms. Zhang Chunxia, Ms. Zhu Shaofang and Mr. Wang Xianzhu developed and updated their knowledge and skills, and were informed of the Company's business performance and the market environment, and well understood their responsibilities and obligations under listing rules and other applicable regulatory rules, and were therefore equipped with the capabilities to make continuous contribution to the Board. For example: during the reporting period, Ms. Zhang Chunxia participated in the fourth session of subsequent training for independent directors of listed companies organized by the Shanghai Stock Exchange in 2019; Mr. Wang Xianzhu participated in the training of directors, supervisors and senior management personnel organized by the Association of Listed Companies of Anhui Province.

VIII. Corporate Governance (Continued)

(10) RISK MANAGEMENT AND INTERNAL CONTROL

The Board of the Company undertakes to be responsible for the availability and fine-tuning, as well as effective enforcement of a system of risk management and internal controls at the Company, and for a review of the effectiveness of this system. The Board would like to point out that this system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Company measures the impact of the remaining risks on the Company in accordance with the “Risk Evaluation” of the “Internal Control Manual”, based on the extent of impact of controls on inherent risks and the degree of effective control over the likelihood of occurrence, and identifies key risk exposures according to the results of such evaluation. In “Risk Control and Management Measures”, the Company requires the office of internal controls to manage risks, define risk criteria and priorities, carry out risk evaluation, and come up with countermeasures. A well-established risk ownership structure is in place to guide all departments and entities to manage risks properly. The departments, subsidiaries and branches are responsible for managing risks associated with their activities. The Department of Business Management shall go through all potential risks the Company may meet with in achieving its business objectives and produce a risk report on a quarterly basis. The Supervision and Audit Department shall carry out a test of internal controls and request other departments and entities to submit a summary report on risks, along with an inventory of risks and a tabulated list of risks identified and assessed on a quarterly basis. Key topics therein are whether all risk exposures have been identified, pertinent countermeasures have been taken, the owners of risks have been accurately defined and the risk management department has carried out regular review.

The Company should maintain a system of risk management and internal controls, which is overarching and applies to the whole life cycle of business processes and every staff member, so as to rule out the possibility of any gap or loophole; which is focused on high-risk business fields and significant risks that need to be identified and managed in a proactive manner; which works in a cost-effective way to achieve effective risk control in reasonable cost and is checked for effectiveness on a regular basis and improved constantly; which is designed with checks and balances to form a well-knit organization and sound business environment with reciprocal constraints and supervision in terms of governance structure, organization setup, division of duties and business processes, with equal importance given to efficiency; which complies with the applicable laws and regulations, and fits well into the scale and scope of business scale, scope and objectives, risks of the Company and the environment in which the Company operates.

The Supervision and Audit Department reviews the effectiveness of risk countermeasures, risk management and its results, and files a Report on Risk Monitoring and Evaluation to the Board every year. During the reporting period, the Company maintained proper control over strategic risk, financial risk, market risk, operational risk, legal risk and environmental risk to keep all risks under control.

VIII. Corporate Governance (Continued)

The Company organizes and carries out an annual review of internal controls and prepares and submits a Report on Internal Control Assessment to the Board according to good practices of internal controls and the Company's Internal Control Manual. As of the reporting date for internal control assessment (31 December 2019), the Company was free from any material defect in internal controls over financial reporting, based on the identification of material defects in internal controls over financial reporting. In the opinion of the Board, the Company maintained effective internal controls over financial reporting in all material aspects as required by good practices of internal controls and relevant rules. As of the reporting date for internal control assessment, no material deficiency in internal controls other than over financial reporting was found, based on the identification of material deficiency in internal controls other than over financial reporting. Ernst & Young Hua Ming LLP audited the Company's internal controls related to financial reporting in 2019 and issued an Internal Control Audit Report with standard opinion.

(11) Remunerations of the Auditor

During the year, Ernst & Young Hua Ming LLP was appointed as the auditors of the Company and had issued audit report on financial statements and internal control audit report with declaration on its reporting responsibilities in these reports. The remuneration for Ernst & Young Hua Ming LLP amounted to RMB5.385 million (tax exclusive), including annual audit fee of RMB4.80 million (including internal control audit fee of RMB600,000) and the fees for agreed upon procedures on interim financial statements of RMB585,000. The aforementioned audit fees, agreed-upon procedures fees and other professional services were already inclusive of disbursements incurred by the auditors. Meal and accommodation expenses incurred by auditors while performing professional services at the Company were borne by the Company.

As of 31 December 2019, Ernst & Young Hua Ming LLP has provided auditing services to the Group for 26 consecutive years. Ms. An Xiuyan and Mr. Gong Wei were the certified public accountants who had signed the Company's 2019 auditors' reports. Ms. An Xiuyan has provided auditing services to the Company for five consecutive years, while Mr. Gong Wei provided auditing services to the Company for the first time.

In addition, Ernst & Young Tax Services Limited provided profit tax reporting services in Hong Kong for the Group with services fee of HK\$45,000 (tax exclusive), which was a non-audit service.

(12) Company Secretaries

Ms. He Hongyun and Ms. Rebecca Chiu are joint company secretaries of the Company. All Directors of the Company are entitled to obtain advice and services from company secretaries. Company secretaries report to the Chairman on board governance matters, are responsible for ensuring the compliance with the procedure of the Board, and promote the information exchange and communication between directors as well as between directors and shareholders and the management.

VIII. Corporate Governance (Continued)

(13) *SHAREHOLDERS' RIGHTS*

Any shareholder who holds shares carrying 10% or more of the voting rights in the Company, either individually or jointly, has the right to demand an extraordinary general meeting or Shareholders' Class Meetings according to the Articles of Association. When the Company convenes the Annual General Meeting, any shareholder who meets the conditions specified in the Articles of Association is entitled to file a new bill with the Company in writing. Shareholders may send inquiries and comments to the Board by mail to the Company's office in Maanshan, Anhui (No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC).

(14) *INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS*

– Investor Relations Management

The company has been using multi-channels to proactively enhance the communication with local and overseas institutional investors. During the reporting period, the company organized one press conference, one results presentation, one investor/analyst explanation session for China Baowu's acquisition of the Company, two roadshows in Hong Kong, and one roadshow in Singapore, with more than 200 investors attended and visited; joined strategic meeting seven times, conducted many one-to-one or one-to-many discussion meetings. With those visits and meetings, the understanding of investors towards the company has further enhanced.

– Effective Communication

The Board maintains a smooth communication channel with the shareholders, striving to maintain communication with shareholders and encouraging them to attend the shareholders' general meetings.

During the reporting period, the Company stated clearly in the notices of 2018 Annual General Meeting that A shareholders holding the Company's A shares as at the market closing in the afternoon of the respective register dates and registered in the register of members maintained by the Shanghai branch of CSDCC, and H shareholders holding the Company's H shares on the same date and registered in the register of members maintained by the Hong Kong Registrars Limited were eligible for attending the respective shareholders' general meetings after completing the registration procedures for attending the meetings. The Chairman attended the shareholders' general meeting in person and served as the chairman of the meetings. At the shareholders' general meetings, the chairman of the meetings proposed individual resolutions for each independent matter. Details of the 2018 Annual General Meeting are set out in "2. SHAREHOLDERS' GENERAL MEETING" of this section.

VIII. Corporate Governance (Continued)

The information available on the Company's website, together with annual reports, semi-annual reports, quarterly reports and announcements and circulars released by the Company, provide shareholders of the Company with a variety of accesses to the Company's information.

– Type of Shareholders and Shareholding

As of 31 December 2019, the Company had 202,894 A shareholders with a total of 5,967,751,186 shares; 1,004 H shareholders with a total of 1,732,930,000 shares.

– Market Value

On 31 December 2019, the closing price of the Company's A Shares was RMB2.99, and the market value was RMB17.844 billion; the closing price of the Company's H Shares was HKD3.16, and the market value was HKD5.476 billion. The total market value was equivalent to about RMB22.749 billion.

(15) SEPARATION OF THE COMPANY AND CONTROLLING SHAREHOLDERS IN PERSONNEL, ASSETS, FINANCE, ORGANIZATION AND BUSINESS

- a) With respect to personnel, the Company's production, technical, financial and sales personnel are independent of controlling shareholders; general manager, deputy general manager and other senior managers are paid by the Company.
- b) With respect to assets, the Company has its separate production system, auxiliary system and supporting facilities and has separate industry property, trademark and non-patented technologies; purchasing and sales systems are also independently owned by the Company.
- c) With respect to finance, the Company has an independent financial department, and has established an independent accounting system and comprehensive financial management system.
- d) With respect to organization, the Company has established a sound organization system; the Board of Directors and the Board of Supervisors operate separately, while other internal organizations and functional departments of controlling shareholders have no subordination relationships.
- e) With respect to business, the Company has independent and complete business operation and independent management ability.

The Holding, the direct controlling shareholder of the Company, hasn't carried out horizontal competition with the Company. For the horizontal competition between Baoshan Iron & Steel Co., Ltd. ("Baosteel Co., Ltd."), a controlling subsidiary of China Baowu which is the indirect controlling shareholder of the Company, please refer to "6. Horizontal Competition between the Company and Controlling Shareholders" in this section.

VIII. Corporate Governance (Continued)

(16) OTHER PROVISIONS AS SET OUT IN THE CODE APART FROM THE ABOVE

- ◆ The directors of the Company acknowledged their obligation to prepare annual accounts for the year ended 31 December 2019; these annual accounts presented a fair and true overview of the Company's financial position, business results and cash flows. Ernst & Young Hua Ming LLP, the auditor, also acknowledged their responsibilities as the auditor of the Company in the Auditors' Report.
- ◆ As Ernst & Young Hua Ming LLP has developed a thorough understanding of the Company throughout the years, and their work has been conscientious and detail-oriented, the Audit Committee under the Board recommended reappointing the firm as the auditors for the Company for year 2019. The Board did not have any contrary opinion and the relevant resolutions were considered and approved at the 2018 annual general meeting held on 12 June 2019.
- ◆ In order to regulate its management on people with access to insider information, the Company has formulated the "Registration and Management System for People with Access to the Company's Insider Information" and amended regularly. During the reporting period, as far as the Board was aware of, the Company did not discover any trading in the Company's shares by insiders using insider information before the Company disclosed any material price-sensitive information; nor was there any investigation or rectification carried out by the regulatory departments. As such, the above-mentioned system was executed effectively.

No significant variance exists between the corporate governance and relevant requirements of CSRC.

2. SHAREHOLDERS' GENERAL MEETING

Session of Meeting	Date of Meeting	Specified Website for Publishing Resolutions	Publishing Date of Resolution
2018 Annual General Meeting	2019-6-12	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2019-06-13/600808_20190613_5.pdf	2019-6-13

The above general meeting took place in the Company's office building, located at No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province. Announcements detailing resolutions made at these meetings were released on Shanghai Securities News, the website of SSE (<http://www.sse.com.cn>) and that of the HKEx (<http://www.hkex.com.hk>).

VIII. Corporate Governance (Continued)

3. PERFORMANCE OF DIRECTORS

(1) ATTENDANCE OF DIRECTORS IN THE BOARD MEETINGS AND SHAREHOLDERS' GENERAL MEETING

Name of Director	Independent Director	Attendance of directors in the board meetings						Attendance in the General Meeting
		Required attendance during the year	Attendance in person	Attendance by way of correspondence	Attendance by proxy	Absence	Two consecutive personal absence	In the General Meeting Attendance
Ding Yi	No	10	7	3	0	0	No	1
Wang Qiangmin	No	0	0	0	0	0	No	0
Qian Haifan	No	10	5	3	2	0	Yes	0
Zhang Wenyang	No	10	7	3	0	0	No	1
Ren Tianbao	No	10	6	3	1	0	No	1
Zhang Chunxia	Yes	10	7	3	0	0	No	1
Zhu Shaofang	Yes	10	7	3	0	0	No	1
Wang Xianzhu	Yes	10	6	3	1	0	No	1

Mr. Qian Haifan, the Director, was unable to attend the board meetings held on 25 April 2019 and 12 June 2019 due to other official duties. Mr. Qian entrusted Mr. Ding Yi, the Chairman, to attend such meetings and vote on his behalf.

Except for the above situation, other directors of the company were not absent from the board meetings for two consecutive times during the reporting period.

Number of meetings held by the Board during the reporting year	10
Of which: Number of face-to-face meetings	7
Number of meetings by teleconferencing	3
Number of face-to-face meetings combined with teleconferencing	0

(2) DURING THE REPORTING PERIOD, THE INDEPENDENT DIRECTORS HAVE NO OBJECTION TOWARD MATTERS OF THE COMPANY, AND PUT FORWARD SEVERAL GOOD ADVICE FOR THE COMPANY'S ENVIRONMENTAL PROTECTION, INTERNAL CONTROL AND OPERATION MANAGEMENT.

4. THE SPECIAL COMMITTEE UNDER THE BOARD OF DIRECTORS HAD NO SIGNIFICANT ADVICE AND SUGGESTIONS WHEN PERFORMING DUTIES DURING THE REPORTING PERIOD.

VIII. Corporate Governance (Continued)

5. DURING THE REPORTING PERIOD, THE SUPERVISORY COMMITTEE SUPERVISED THE DISCHARGE OF DUTIES OF DIRECTORS AND SENIOR MANAGEMENT PERSONAL AS WELL AS THE LEGAL OPERATION OF THE COMPANY, HAD NO OBJECTION TOWARD ITS SUPERVISION AND FOUND NO RISKS IN THE COMPANY.

6. HORIZONTAL COMPETITION BETWEEN THE COMPANY AND CONTROLLING SHAREHOLDERS

With respect to product type, application, and major sales areas, etc. there are certain overlaps and market competition between the Company and Baosteel Co., Ltd., a controlling subsidiary of China Baowu, the indirect controlling shareholder of the Company, in terms of its main business of iron and steel. Apart from Baosteel Co., Ltd., there are differences between enterprises, engaged in the iron and steel industry and controlled by China Baowu, and the Company in terms of major sales areas, product type, performance and application, without substantial horizontal competition.

To avoid horizontal competition, China Baowu issued the “Commitment Letter on Avoiding Horizontal Competition” on 26 August 2019. Details of the Commitment are set out in “2. PERFORMANCE OF COMMITMENTS” of Section V “SIGNIFICANT EVENTS” in this report.

7. ESTABLISHMENT AND IMPLEMENTATION OF APPRAISAL MECHANISM AND INCENTIVE MECHANISM FOR THE SENIOR MANAGEMENT DURING THE REPORTING PERIOD

The Company has established an evaluation mechanism for senior executive salaries related to company performance and individual performance. During the reporting period, the mechanism worked effectively. Details of senior executive salaries are set out in Section VII “Directors, Supervisors, Senior Management and Employees”.

8. WHETHER TO DISCLOSE THE REPORT ON INTERNAL CONTROL SELF-ASSESSMENT

Report on Internal Control Assessment of the Company in 2019 was discussed and approved by the Thirtieth Session of the Ninth Board of Directors of the Company on 30 March 2020, confirming that the Company’s internal control in 2019 was effective. Search the following websites for the Report on Internal Control Assessment at: www.sse.com.cn, www.hkex.com.cn.

There was no material deficiency in internal control during the reporting period.

9. PRESENTATION OF RELEVANT CONDITIONS CONCERNING THE AUDITING REPORT ON INTERNAL CONTROL

Ernst & Young Hua Ming LLP audited the effectiveness of relevant internal controls on financial reports in 2019 and issued Auditing Report on Internal Control with standard opinion. Search the following websites for the Auditing Report on Internal Control: www.sse.com.cn, www.hkex.com.cn.

Independent Auditor's Report



Ernst & Young Hua Ming (2020) Shen Zi No. 60438514_A01
Maanshan Iron & Steel Company Limited

To the shareholders of Maanshan Iron & Steel Company Limited

1. OPINION

We have audited the financial statements of Maanshan Iron & Steel Company Limited, which are comprised of the consolidated and company statements of financial position as of 31 December 2019, and the consolidated and company income statements, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements.

In our opinion, the accompanying financial statements of Maanshan Iron & Steel Company Limited present fairly, in all material respects, the consolidated and company financial position of Maanshan Iron & Steel Company Limited as of 31 December 2019 and their financial performance and cash flows for the year then ended in accordance with China Accounting Standards for Business Enterprises.

2. BASIS FOR OPINION

We conducted our audit in accordance with China Standards on Auditing ("CSAs"). Our responsibilities under those standards are further described in the *Auditors' responsibilities for the audit of the financial statements* section of our report. We are independent of Maanshan Iron & Steel Company Limited in accordance with the *Code of Ethics for Chinese Certified Public Accountants*, and we have fulfilled our other ethical responsibilities. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

3. KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditors' responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Independent Auditor's Report (Continued)

3. KEY AUDIT MATTERS (CONTINUED)

Key audit matter

How our audit addressed the key audit matter

Impairment of inventories

As of 31 December 2019, inventories amounted to RMB11,229,839,815 with an impairment of RMB281,989,596 in the consolidated financial statements. Management performed impairment testing of inventories and if the cost is in excess of the net realisable value, impairment of inventories is recognised. Net realisable value is determined based on the estimated selling price on normal business terms deducted by the estimated costs to completion, the estimated selling expenses and related taxes. During the process, the management needs to make significant judgement and estimation regarding the future selling price, production costs, selling expenses, related taxes, etc.

The disclosures related to the net realisable value of inventories of Maanshan Iron & Steel Company Limited are disclosed in Notes III.10, III. 33 and V.7 to the financial statements.

We obtained an understanding and tested internal controls related to the net realisable value of inventories. We reviewed the management's model, method and related parameters for the net realisable value of inventories, specifically the future selling price, production costs, selling expenses, related taxes, etc. In addition, we also reviewed the disclosures regarding the net realisable value of inventories in the financial statements.

Expected credit losses

As of 31 December 2019, financial assets measured at amortized cost in the consolidated financial statements included trade receivables, other receivables, financial assets purchased under agreements to resell, loans and advances to customers and debt instruments investment. The carrying amount of financial assets measured at amortized cost was RMB11,643,708,077 with an impairment of RMB585,882,521. Based on the expected credit losses model and adopting a simplified approach, the management measured and recognised the impairment of trade receivables at an amount equal to lifetime expected credit losses. As for other receivables, financial assets purchased under agreements to resell, loans and advances to customers and debt instruments investment, the management adopted a general expected credit losses model to calculate the impairment. Management needs to make significant judgement and estimation regarding the determination of appropriate expected credit losses model, the determination and application of key parameters and assumptions as well as the prospective adjustments factors.

The disclosures related to the impairment of financial assets measured at amortized cost of Maanshan Iron & Steel Company Limited are disclosed in Notes III.9, III.33, V.3, V.6, V.8, V.9, V.11, and VIII.4 to the financial statements.

We obtained an understanding and tested internal controls related to expected credit losses. According to the historical losses, industry practice and prospective information, we reviewed the appropriateness of the expected credit losses model adopted by the management, assessed the reasonableness of the key parameters and assumptions adopted in the expected credit losses model, including the default probability, the loss rate in case of default, the default risk exposure, etc. In addition, we also reviewed the disclosure relating to the impairment of financial assets measured at amortized cost in the financial statements.

Independent Auditor's Report (Continued)

4. OTHER INFORMATION

The management of Maanshan Iron & Steel Company Limited is responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditors' report thereon.

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

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

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

5. RESPONSIBILITIES OF THE MANAGEMENT AND GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with China Accounting Standards for Business Enterprises, and designing, implementing and maintaining internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the management is responsible for assessing Maanshan Iron & Steel Company Limited's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless either intend to liquidate Maanshan Iron & Steel Company Limited or to cease operations or have no realistic alternative but to do so.

The Governance is responsible for overseeing Maanshan Iron & Steel Company Limited's financial reporting process.

6. AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are usually considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with CSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Maanshan Iron & Steel Company Limited's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements according to the CSAs or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause Maanshan Iron & Steel Company Limited to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Maanshan Iron & Steel Company Limited to express an opinion on the financial statements. We are responsible for the guidance, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent Auditor's Report (Continued)

6. AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

We communicate with the Governance regarding the planned scope, timing of the audit and significant audit findings, including deficiencies worth of attention in internal control that we identify during our audit.

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

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

Ernst & Young Hua Ming LLP

An Xiu Yan (Engagement Partner)
Chinese Certified Public Accountant

Beijing, the People's Republic of China

Gong Wei
Chinese Certified Public Accountant

30 March 2020

Consolidated Statement of Financial Position

31 December 2019

Renminbi Yuan

ASSETS	Note V	31 December 2019	31 December 2018
CURRENT ASSETS			
Cash and bank balances	1	9,517,313,695	9,762,844,718
Financial assets held for trading	2	2,126,112,194	2,084,414,075
Trade receivables	3	1,092,930,122	1,121,768,976
Financing receivables	4	11,098,699,421	4,970,113,847
Prepayments	5	981,443,575	712,340,548
Other receivables	6	156,291,851	147,965,534
Inventories	7	10,947,850,219	11,053,918,748
Financial assets purchased under agreements to resell	8	2,369,966,754	2,432,279,109
Loans and advances to customers	9	4,256,415,190	2,845,298,103
Non-current assets due within one year	10	—	101,201,184
Other current assets	11	3,975,034,798	3,173,122,975
Total current assets		46,522,057,819	38,405,267,817
NON-CURRENT ASSETS			
Long-term equity investments	12	3,546,219,668	2,809,063,381
Other equity instruments investments	13	278,576,509	263,122,364
Investment properties	14	64,697,688	55,804,755
Property, plant and equipment	15	30,045,743,674	31,545,176,835
Construction in progress	16	3,259,704,984	1,662,672,077
Right-of-use assets	17	418,879,903	—
Intangible assets	18	1,973,126,962	1,855,265,330
Deferred tax assets	19	213,036,331	275,626,734
Total non-current assets		39,799,985,719	38,466,731,476
TOTAL ASSETS		86,322,043,538	76,871,999,293

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Financial Position (Continued)

31 December 2019

Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	Note V	31 December 2019	31 December 2018
CURRENT LIABILITIES			
Deposits and balances from banks and other financial institutions	21	400,031,889	900,366,111
Customer deposits	22	10,964,896,002	4,915,309,311
Repurchase agreements	23	1,386,580,448	1,133,772,377
Short-term loans	24	12,880,053,159	10,917,293,181
Financial liabilities held for trading	25	2,258,750	8,012,670
Notes payable	26	7,313,729,148	2,638,271,437
Trade payables	27	6,130,327,006	7,703,736,542
Contract liabilities	28	3,765,254,551	3,572,594,400
Payroll and employee benefits payable	29	691,976,938	563,642,908
Taxes payable	30	547,209,418	1,325,517,987
Other payables	31	4,294,496,279	3,530,746,914
Non-current liabilities due within one year	32	1,677,068,898	1,470,868,462
Accrued liabilities	33	22,664,675	29,997,521
Other current liabilities	34	—	1,026,897,260
Total current liabilities		50,076,547,161	39,737,027,081
NON-CURRENT LIABILITIES			
Long-term loans	35	3,468,200,000	3,596,387,552
Lease liabilities	36	411,432,835	—
Long-term employee benefits payable	37	101,327,703	157,371,474
Deferred revenue	38	1,402,283,687	1,364,795,555
Deferred tax liabilities	19	21,500,325	24,066,311
Total non-current liabilities		5,404,744,550	5,142,620,892
Total liabilities		55,481,291,711	44,879,647,973

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Financial Position (Continued)

31 December 2019

Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY (Continued)	Note V	31 December 2019	31 December 2018
SHAREHOLDERS' EQUITY			
Share capital	39	7,700,681,186	7,700,681,186
Capital reserve	40	8,353,499,761	8,352,287,192
Other comprehensive income	41	(99,760,804)	(112,702,163)
Special reserve	42	35,484,176	31,037,123
Surplus reserve	43	4,651,252,494	4,571,901,256
General reserve	44	325,786,322	224,841,404
Retained earnings	45	5,966,218,930	7,405,577,274
Equity attributable to owners of the parent		26,933,162,065	28,173,623,272
Non-controlling interests		3,907,589,762	3,818,728,048
Total shareholders' equity		30,840,751,827	31,992,351,320
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		86,322,043,538	76,871,999,293

The financial statements were signed by the following persons:

Legal Representative:
Ding Yi

Chief Accountant:
Wang Qiangmin

Head of Accounting:
Xing Qunli

The accompanying notes are an integral part of these financial statements.

Consolidated Income Statement

For the year ended 31 December 2019

Renminbi Yuan

	Note V	2019	2018
Revenue	46	78,262,846,004	81,951,813,488
Less: Cost of sales	46	71,315,481,915	69,794,982,119
Taxes and surcharges	47	580,515,703	810,322,306
Selling expenses	48	949,844,233	959,718,246
General and administrative expenses	49	2,378,932,727	1,379,991,907
R&D expenses	50	846,472,355	801,240,784
Financial expenses	51	784,811,228	960,457,412
including: Interest expense		788,151,024	879,897,330
Interest income		79,269,218	54,228,185
Add: Other income	52	117,373,339	185,350,836
Investment income	53	815,067,777	1,090,099,779
including: Share of profits of associates and joint ventures		575,520,895	657,410,287
Gain from derecognition of financial assets measured at amortized cost		67,796,079	57,877,322
Gain/(loss) on the changes in fair value	54	9,598,445	(10,213,369)
Credit impairment losses	55	(15,592,865)	(41,876,945)
Assets impairment losses	56	(424,598,573)	(754,443,431)
(Loss)/gain from disposal of assets	57	(77,058,351)	371,280,264
Operating profit		1,831,577,615	8,085,297,848
Add: Non-operating income	58	469,913,966	160,098,567
Less: Non-operating expenses	59	3,735,871	6,472,487
Profit before tax		2,297,755,710	8,238,923,928
Less: Income tax expenses	61	583,837,841	1,180,935,234
Net profit		1,713,917,869	7,057,988,694
Categorized by operation continuity			
Net profit from continuing operations		1,713,917,869	7,057,988,694
Categorized by ownership			
Net profit attributable to owners of the parent		1,128,148,980	5,943,286,585
Net profit attributable to non-controlling interests		585,768,889	1,114,702,109

The accompanying notes are an integral part of these financial statements.

Consolidated Income Statement (Continued)

For the year ended 31 December 2019

Renminbi Yuan

	Note V	2019	2018
Other comprehensive income, net of tax		12,941,359	(20,906,601)
Other comprehensive income attributable to owners of the parent, net of tax	41	12,941,359	(20,906,601)
Other comprehensive income that will not be reclassified to profit or loss:		9,340,609	(11,838,378)
Changes in fair value of other equity instruments investments		9,340,609	(11,838,378)
Other comprehensive income that may be reclassified to profit or loss:		3,600,750	(9,068,223)
Other comprehensive income using equity method that may be reclassified to profit or loss		–	(2,745,469)
Exchange differences on translation of foreign operations		3,600,750	(6,322,754)
Other comprehensive income attributable to non-controlling interests, net of tax		–	–
Total comprehensive income		1,726,859,228	7,037,082,093
Attributable to:			
Owners of the parent		1,141,090,339	5,922,379,984
Non-controlling interests		585,768,889	1,114,702,109
EARNINGS PER SHARE:			
Basic earnings per share (cent/share)	62	14.65	77.18
Diluted earnings per share (cent/share)	62	14.65	77.18

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

Renminbi Yuan

2019

	Attributable to owners of the parent								Non-controlling interests	Total shareholders' equity
	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	General reserve	Retained earnings	Sub-total		
	(Note V 39)	(Note V 40)	(Note V 41)	(Note V 42)	(Note V 43)	(Note V 44)	(Note V 45)			
1. Balance at the end of previous year	7,700,681,186	8,352,287,192	(112,702,163)	31,037,123	4,571,901,256	224,841,404	7,405,577,274	28,173,623,272	3,818,728,048	31,992,351,320
1) Changes in accounting policies	-	-	-	-	-	-	-	-	-	-
2. Balance at the beginning of the year	7,700,681,186	8,352,287,192	(112,702,163)	31,037,123	4,571,901,256	224,841,404	7,405,577,274	28,173,623,272	3,818,728,048	31,992,351,320
3. Increase/(decrease) during the year										
1) Total comprehensive income	-	-	12,941,359	-	-	-	1,128,148,980	1,141,090,339	585,768,889	1,726,859,228
2) Shareholders' contributions and reduction in capital										
(i) Capital contributions by shareholders	-	-	-	-	-	-	-	-	58,375,000	58,375,000
(ii) Acquisition of non-controlling interests	-	1,212,569	-	-	-	-	-	1,212,569	(14,270,769)	(13,058,200)
3) Profits appropriation										
(i) Transfer to surplus reserve	-	-	-	-	79,351,238	-	(79,351,238)	-	-	-
(ii) Transfer to general reserve	-	-	-	-	-	100,944,918	(100,944,918)	-	-	-
(iii) Distribution to shareholders	-	-	-	-	-	-	(2,387,211,168)	(2,387,211,168)	(539,403,487)	(2,926,614,655)
4) Special reserve										
(i) Additions	-	-	-	123,900,345	-	-	-	123,900,345	11,467,106	135,367,451
(ii) Utilisation	-	-	-	(123,668,575)	-	-	-	(123,668,575)	(13,075,025)	(136,743,600)
(iii) Changes in the share of associates and joint ventures' special reserve, net	-	-	-	4,215,283	-	-	-	4,215,283	-	4,215,283
4. Balance at the end of the year	7,700,681,186	8,353,499,761	(99,760,804)	35,484,176	4,651,252,494	325,786,322	5,966,218,930	26,933,162,065	3,907,589,762	30,840,751,827

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Changes in Equity (Continued)

For the year ended 31 December 2019

Renminbi Yuan

2018

	Attributable to owners of the parent								Non-controlling interests	Total shareholders' equity
	Share capital (Note V. 39)	Capital reserve (Note V. 40)	Other comprehensive income (Note V. 41)	Special reserve (Note V. 42)	Surplus reserve (Note V. 43)	General reserve (Note V. 44)	Retained earnings (Note V. 45)	Sub-total		
1. Balance at the end of previous year	7,700,681,186	8,352,287,192	(124,156,060)	31,929,722	4,100,007,341	191,546,668	3,643,443,763	23,895,739,812	3,341,524,501	27,237,264,313
1) Changes in accounting policies	-	-	32,360,498	-	-	-	(20,317,968)	12,042,530	(7,887,756)	4,154,774
2. Balance at the beginning of the year	7,700,681,186	8,352,287,192	(91,795,562)	31,929,722	4,100,007,341	191,546,668	3,623,125,795	23,907,782,342	3,333,636,745	27,241,419,087
3. Increase/(decrease) during the year										
1) Total comprehensive income	-	-	(20,906,601)	-	-	-	5,943,286,585	5,922,379,984	1,114,702,109	7,037,082,093
2) Shareholders' contributions and reduction in capital										
(i) Capital contributions by shareholders	-	-	-	-	-	-	-	-	5,625,000	5,625,000
(ii) Disposal of subsidiaries	-	-	-	-	-	-	-	-	(33,622,763)	(33,622,763)
2) Profits appropriation										
(i) Transfer to surplus reserve	-	-	-	-	471,893,915	-	(471,893,915)	-	-	-
(ii) Transfer to general reserve	-	-	-	-	-	33,294,736	(33,294,736)	-	-	-
(iii) Distribution to shareholders	-	-	-	-	-	-	(1,655,646,455)	(1,655,646,455)	(599,962,724)	(2,255,609,179)
3) Special reserve										
(i) Additions	-	-	-	111,418,123	-	-	-	111,418,123	13,344,579	124,762,702
(ii) Utilisation	-	-	-	(114,169,275)	-	-	-	(114,169,275)	(14,994,898)	(129,164,173)
(iii) Changes in the share of associates and joint ventures' special reserve, net	-	-	-	1,858,553	-	-	-	1,858,553	-	1,858,553
4. Balance at the end of the year	7,700,681,186	8,352,287,192	(112,702,163)	31,037,123	4,571,901,256	224,841,404	7,405,577,274	28,173,623,272	3,818,728,048	31,992,351,320

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

Renminbi Yuan

	Note V	2019	2018
1. Cash flows from operating activities			
Cash received from sale of goods and rendering of services		85,381,943,471	88,099,085,582
Tax refunds received		39,778,743	89,627,633
Net decrease in deposits in central bank		270,559,928	–
Net increase in repurchase agreements		252,808,071	825,671,421
Net decrease in financial assets purchased under agreements to resell		63,112,150	–
Net increase in customer deposits and balances from banks and other financial institutions		5,549,252,469	2,668,035,812
Cash received for interest charges, fees and commissions		237,844,273	155,169,236
Cash received relating to other operating activities	63(1)	583,464,714	352,495,095
Sub-total of cash inflows		92,378,763,819	92,190,084,779
Cash paid for purchases of goods and services		(73,614,093,642)	(65,851,612,316)
Net increase in deposits in central bank		–	(272,649,256)
Net increase in financial assets purchased under agreements to resell		–	(1,228,499,181)
Net increase in loans and advances to customers		(1,445,182,560)	(1,639,933,298)
Cash paid to or on behalf of employees		(5,624,533,684)	(4,812,499,475)
Taxes and surcharges paid		(2,835,616,971)	(3,999,110,989)
Cash paid for interest charges, fees and commissions		(115,077,983)	(72,592,692)
Cash paid relating to other operating activities	63(2)	(878,301,855)	(442,757,466)
Sub-total of cash outflows		(84,512,806,695)	(78,319,654,673)
Net cash flows from operating activities	64(1)	7,865,957,124	13,870,430,106
2. Cash flows from investing activities			
Cash received from disposal of investments		45,901,020,088	55,669,149,428
Cash received from investment income		273,187,446	336,315,552
Proceeds from disposal of items of property, plant and equipment, intangible assets, and other non-current assets		73,150,394	303,112,930
Cash received relating to other investing activities	63(3)	–	131,408,596
Sub-total of cash inflows		46,247,357,928	56,439,986,506

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2019

Renminbi Yuan

	Note V	2019	2018
2. Cash flows from investing activities (Continued)			
Purchases of property, plant and equipment, intangible assets and other non-current assets		(4,851,962,970)	(2,572,133,839)
Cash paid for investments		(46,128,478,911)	(57,685,087,518)
Acquisition of non-controlling interests		(13,058,200)	–
Cash paid relating to other investing activities	63(4)	(47,067,231)	(194,468,349)
Sub-total of cash outflows		(51,040,567,312)	(60,451,689,706)
Net cash flows used in investing activities		(4,793,209,384)	(4,011,703,200)
3. Cash flows from financing activities			
Cash received from borrowings		17,391,616,546	16,920,506,859
Cash received from bond issuance		–	1,000,000,000
Cash received from investors		58,375,000	5,625,000
Including: capital injection from a subsidiary's non-controlling interests		58,375,000	5,625,000
Sub-total of cash inflows		17,449,991,546	17,926,131,859
Repayment of borrowings		(16,279,489,866)	(20,778,250,231)
Cash paid for distribution of dividends or profits and for interest expenses		(3,771,643,051)	(3,175,196,250)
Including: dividends or profits paid to non-controlling interests by subsidiaries		(539,063,187)	(602,443,934)
Cash paid relating to other financing activities	63(5)	(221,551,502)	–
Sub-total of cash outflows		(20,272,684,419)	(23,953,446,481)
Net cash flows used in financing activities		(2,822,692,873)	(6,027,314,622)
4. Effect of foreign exchange rate changes on cash and cash equivalents		55,419,991	162,261,477
5. Net increase in cash and cash equivalents		305,474,858	3,993,673,761
Add: cash and cash equivalents at the beginning of the year		6,934,175,776	2,940,502,015
6. Cash and cash equivalents at the end of the year	64(3)	7,239,650,634	6,934,175,776

The accompanying notes are an integral part of these financial statements.

Statement of Financial Position

31 December 2019

Renminbi Yuan

ASSETS	Note XIV	31 December 2019	31 December 2018
CURRENT ASSETS			
Cash and bank balances		3,187,001,428	5,993,538,669
Financial assets held for trading		3,573,580	–
Trade receivables	1	3,154,416,565	2,460,866,900
Financing receivables		9,796,502,361	4,692,435,408
Prepayments		693,109,995	997,856,384
Other receivables	2	94,415,995	63,844,132
Inventories		6,633,161,943	7,108,599,357
Other current assets		354,016,165	272,152,842
Total current assets		23,916,198,032	21,589,293,692
NON-CURRENT ASSETS			
Long-term equity investments	3	11,477,691,872	10,146,271,956
Other equity instruments investments		275,508,859	263,122,364
Investment properties		64,570,817	55,593,723
Property, plant and equipment		22,357,559,485	23,828,190,594
Construction in progress		2,770,963,397	1,382,508,379
Right-of-use assets		368,857,495	–
Intangible assets		1,088,324,048	987,387,010
Deferred tax assets		125,314,560	192,801,687
Total non-current assets		38,528,790,533	36,855,875,713
TOTAL ASSETS		62,444,988,565	58,445,169,405

The accompanying notes are an integral part of these financial statements.

Statement of Financial Position (Continued)

31 December 2019

Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	31 December 2019	31 December 2018
CURRENT LIABILITIES		
Short-term loans	10,776,844,475	6,570,000,000
Financial liabilities held for trading	2,258,750	8,012,670
Notes payable	5,085,093,096	1,022,148,850
Trade payables	7,478,411,251	10,288,909,379
Contract liabilities	2,455,027,803	2,382,469,502
Payroll and employee benefits payable	540,612,797	428,093,317
Taxes payable	232,319,349	479,009,037
Other payables	3,793,893,919	2,967,729,141
Non-current liabilities due within one year	3,612,706,920	1,345,513,152
Other current liabilities	—	1,026,897,260
Total current liabilities	33,977,168,360	26,518,782,308
NON-CURRENT LIABILITIES		
Long-term loans	4,098,200,000	6,296,387,552
Lease liabilities	363,877,690	—
Long-term employee benefits payable	71,919,779	130,803,630
Deferred revenue	736,754,692	721,934,242
Total non-current liabilities	5,270,752,161	7,149,125,424
Total liabilities	39,247,920,521	33,667,907,732
SHAREHOLDERS' EQUITY		
Share capital	7,700,681,186	7,700,681,186
Capital reserve	8,358,017,477	8,358,017,477
Other comprehensive income	22,196,339	12,906,467
Special reserve	13,711,365	9,496,082
Surplus reserve	3,814,465,907	3,735,114,669
Retained earnings	3,287,995,770	4,961,045,792
Total shareholders' equity	23,197,068,044	24,777,261,673
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	62,444,988,565	58,445,169,405

The accompanying notes are an integral part of these financial statements.

Income Statement

For the year ended 31 December 2019

Renminbi Yuan

	Note XIV	2019	2018
Revenue	4	64,351,035,109	67,232,862,477
Less: Cost of sales	4	60,672,829,845	60,301,176,864
Taxes and surcharges		434,407,490	594,037,306
Selling expenses		396,816,540	431,922,944
General and administrative expenses		1,921,159,099	977,633,833
R&D expenses		704,163,255	733,213,870
Financial expenses		684,401,816	839,073,012
including: Interest expense		713,486,648	760,470,881
Interest income		78,303,360	69,756,208
Add: Other income		85,785,078	125,182,466
Investment income	5	1,444,663,878	1,783,607,075
including: Share of profits of associates and joint ventures		560,233,499	654,348,579
Gain/(loss) on the changes in fair value		6,945,620	(10,976,670)
Credit impairment losses		25,141,942	(4,004,617)
Assets impairment losses		(862,906,925)	(694,051,720)
Gain from disposal of assets		251,573,164	267,685,982
Operating profit		488,459,821	4,823,247,164
Add: Non-operating income		370,221,091	158,250,867
Less: Non-operating expenses		778,025	3,043,411
Profit before tax		857,902,887	4,978,454,620
Less: Income tax expenses		64,390,503	259,515,465
Net profit		793,512,384	4,718,939,155
Categorized by operation continuity			
Net profit from continuing operations		793,512,384	4,718,939,155
Other comprehensive income, net of tax		9,289,872	(14,583,847)
Other comprehensive income that could not be reclassified to profit or loss:		9,289,872	(11,838,378)
Changes in fair value of other equity instruments investments		9,289,872	(11,838,378)
Other comprehensive income that may be reclassified to profit or loss:		—	(2,745,469)
Other comprehensive income using equity method that may be reclassified to profit or loss		—	(2,745,469)
Total comprehensive income		802,802,256	4,704,355,308

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2019

Renminbi Yuan

2019

	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	Total shareholders' equity
1. Balance at the end of previous year	7,700,681,186	8,358,017,477	12,906,467	9,496,082	3,735,114,669	4,961,045,792	24,777,261,673
1) Changes in accounting policies	-	-	-	-	-	-	-
2. Balance at the beginning of the year	7,700,681,186	8,358,017,477	12,906,467	9,496,082	3,735,114,669	4,961,045,792	24,777,261,673
3. Increase/(decrease) during the year							
1) Total comprehensive income	-	-	9,289,872	-	-	793,512,384	802,802,256
2) Capital contributions and reduction in capital	-	-	-	-	-	-	-
3) Profit appropriation							
(i) Transfer to surplus reserves	-	-	-	-	79,351,238	(79,351,238)	-
(ii) Distribution to shareholders	-	-	-	-	-	(2,387,211,168)	(2,387,211,168)
4) Special reserve							
(i) Additions	-	-	-	83,367,505	-	-	83,367,505
(ii) Utilisation	-	-	-	(83,367,505)	-	-	(83,367,505)
(iii) Changes in the share of associates and joint ventures' special reserve, net	-	-	-	4,215,283	-	-	4,215,283
4. Balance at the end of the year	7,700,681,186	8,358,017,477	22,196,339	13,711,365	3,814,465,907	3,287,995,770	23,197,068,044

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Equity (Continued)

For the year ended 31 December 2019

Renminbi Yuan

2018

	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	Total shareholders' equity
1. Balance at the end of previous year	7,700,681,186	8,358,017,477	–	7,637,529	3,249,950,725	2,310,981,515	21,627,268,432
1) Changes in accounting policies	–	–	27,490,314	–	–	–	27,490,314
2. Balance at the beginning of the year	7,700,681,186	8,358,017,477	27,490,314	7,637,529	3,249,950,725	2,310,981,515	21,654,758,746
3. Increase/(decrease) during the year							
1) Total comprehensive income	–	–	(14,583,847)	–	–	4,718,939,155	4,704,355,308
2) Capital contributions and reduction in capital							
(i) Disposal of subsidiaries	–	–	–	–	13,270,029	58,665,492	71,935,521
3) Profits appropriation							
(i) Transfer to surplus reserve	–	–	–	–	471,893,915	(471,893,915)	–
(ii) Distribution to shareholders	–	–	–	–	–	(1,655,646,455)	(1,655,646,455)
4) Special reserve							
(i) Additions	–	–	–	73,716,562	–	–	73,716,562
(ii) Utilisation	–	–	–	(73,716,562)	–	–	(73,716,562)
(iii) Changes in the share of associates and joint ventures' special reserve, net	–	–	–	1,858,553	–	–	1,858,553
4. Balance at the end of the year	7,700,681,186	8,358,017,477	12,906,467	9,496,082	3,735,114,669	4,961,045,792	24,777,261,673

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2019

Renminbi Yuan

	2019	2018
1. Cash flows from operating activities		
Cash received from sale of goods and rendering of services	66,365,520,791	63,876,096,169
Tax refunds received	33,929,000	57,458,403
Cash received relating to other operating activities	509,681,352	446,026,579
Sub-total of cash inflows	66,909,131,143	64,379,581,151
Cash paid for purchase of goods and services	(60,075,375,462)	(45,508,197,610)
Cash paid to or on behalf of employees	(4,951,959,643)	(4,045,294,531)
Taxes and surcharges paid	(1,228,624,433)	(2,337,893,194)
Cash paid relating to other operating activities	(561,574,931)	(367,581,230)
Sub-total of cash outflows	(66,817,534,469)	(52,258,966,565)
Net cash flows from operating activities	91,596,674	12,120,614,586
2. Cash flows from investing activities		
Cash received from disposal of investments	30,078,339	75,097,829
Cash received from investment income	1,117,902,569	1,145,841,083
Proceeds from disposal of property, plant and equipment, intangible assets and other non-current assets	63,965,116	350,557,259
Proceeds from disposal of subsidiaries and other operating units	26,161,292	178,381,854
Cash received relating to other investing activities	–	143,014,331
Sub-total of cash inflows	1,238,107,316	1,892,892,356
Purchase of property, plant and equipment, intangible assets and other non-current assets	(4,085,229,652)	(2,388,497,950)
Cash paid for investments	(235,776,280)	(337,950,680)
Cash paid for acquisition of a subsidiary and other operating units	(316,678,450)	(281,434,200)
Cash paid relating to other investing activities	(47,067,231)	–
Sub-total of cash outflows	(4,684,751,613)	(3,007,882,830)
Net cash flows used in investing activities	(3,446,644,297)	(1,114,990,474)

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows (Continued)

For the year ended 31 December 2019

Renminbi Yuan

	2019	2018
3. Cash flows from financing activities		
Cash received from bond issuance	–	1,000,000,000
Cash received from borrowings	13,717,960,986	12,464,795,530
Sub-total of cash inflows	13,717,960,986	13,464,795,530
Repayment of borrowings	(10,424,652,234)	(19,896,960,892)
Cash paid for the distribution of dividends or profits and for interest expenses	(3,124,629,414)	(2,541,495,659)
Cash paid relating to other financing activities	(31,123,524)	–
Sub-total of cash outflows	(13,580,405,172)	(22,438,456,551)
Net cash flows generated from/(used in) financing activities	137,555,814	(8,973,661,021)
4. Effect of foreign exchange rate changes on cash and cash equivalents	45,107,305	(5,800,614)
5. (Decrease)/increase in cash and cash equivalents	(3,172,384,504)	2,026,162,477
Add: Cash and cash equivalents at the beginning of the year	5,825,154,899	3,798,992,422
6. Cash and cash equivalents at the end of the year	2,652,770,395	5,825,154,899

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2019

Renminbi Yuan

I. GENERAL INFORMATION OF THE GROUP

Maanshan Iron & Steel Company Limited (the “Company”), a joint stock limited company incorporated after the reorganisation of a state-owned enterprise known as Maanshan Iron and Steel Company (the “Original Magang”, now named as Magang (Group) Holding Company Limited), was established in Maanshan City, Anhui Province, the People's Republic of China (the “PRC”) on 1 September 1993. The unified social credit code of the Company's business license is 91340000610400837Y. The Company's A shares and H shares were issued and listed on the Shanghai Stock Exchange and Hong Kong Stock Exchange, respectively. The headquarter of the Company is located at No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC.

As of 31 December 2019, the Company had issued 7,700,681,186 shares in total, including ordinary A shares of 5,967,751,186 shares and ordinary H shares of 1,732,930,000 shares. The nominal value of each share is RMB1.

The Company, together with its subsidiaries (collectively known as the “Group”), is principally engaged in the manufacture and sale of iron and steel products and related by-products.

The parent company of the Group is Magang (Group) Holding Company Limited (the “Holding”), which is incorporated in the PRC.

The ultimate controller of the Group is China Baowu Steel Group Corporation Limited (“China Baowu”).

The financial statements were approved by the Board of Directors on 30 March 2020. According to the Articles of Association, the financial statements will be submitted for the approval of the Annual General Meeting.

The scope of the consolidated financial statements is determined on the control basis. The change in the scope of consolidation during the year is described in Note VI.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

II. BASIS OF PREPARATION

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

The financial statements are prepared on a going concern basis.

As of 31 December 2019, the net current liabilities of the Group amounted to RMB3,554,489,342. The directors of the Company have considered the availability of funding sources, including but not limited to unutilised banking facilities of RMB22.2 billion as at 31 December 2019 and the expected cash inflows from the operating activities in the upcoming 12 months. The Board of Directors of the Company believes that the Group has sufficient working capital to continue as a going concern for not less than 12 months after the end of reporting period. Therefore, the Board of Directors of the Company continues to prepare the Group's financial statements for the year ended 31 December 2019 on a going concern basis.

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

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The Group has determined the accounting policies and accounting estimates based on the characteristics of the operation, especially those related to provision for impairment of financial assets measured at amortized cost, valuation method of inventories, depreciation of fixed assets, amortization of intangible assets, impairment of non-current assets excluding the financial instruments (other than goodwill), recognition of deferred tax assets, recognition and measurement of revenue, etc.

1. Statement of compliance with the CAS

The financial statements have been prepared in accordance with the CAS, and present truly and completely the financial position of the Company and the Group as of 31 December 2019, and the results of their operations and cash flows for the year ended 31 December 2019.

2. Accounting period

The accounting year of the Group is from 1 January to 31 December of each calendar year.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

3. Reporting currency

Renminbi, in which the financial statements are presented, is used as the Group's recording and functional currency. All values are rounded to the nearest Renminbi Yuan ("RMB") except when otherwise indicated.

The Group's subsidiaries use their respective local currencies as the reporting currencies for recording purposes in accordance with their own operating environment, which are translated into Renminbi in the preparation of the consolidated financial statements.

4. Business combination

Business combinations are classified into "Business combination involving entities under common control" and "Business combination involving entities not under common control".

Business combination involving entities under common control

Business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. Under a business combination involving entities under common control, the involving entity (the acquirer) obtains control of another involving entity (the acquiree) on the combination date. The acquisition date is the date on which the combining entity effectively obtains control of the entity being combined.

The assets and liabilities obtained under common control (including the goodwill arising from the acquisition of the acquiree as part of the ultimate controlling party's investment) are measured at the carrying amounts as recorded by the ultimate controlling party at the acquisition date. The difference between the carrying amount of the net assets obtained and the carrying amount of consideration paid for the combination (or the total face value of shares issued) is adjusted to share premium, which is included in the capital reserve. If the balance of the share premium reserve is insufficient, any excess is adjusted to retained earnings.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

4. Business combination (Continued)

Business combination involving entities not under common control

Business combination involving entities not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the business combination. Under a business combination involving entities not under common control, the involving entity (the acquirer) obtains control of other involving entities (the acquiree) on the acquisition date. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

The acquirer shall, at the acquisition date, recognise the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at the date of acquisition.

Any excess of the sum of the fair value of consideration paid for a business combination (or the fair value of equity securities issued) and the fair value of the acquiree's equity interest held before the acquisition date over the acquirer's interest in the fair value of the acquiree's identifiable net assets is recorded as goodwill, which is measured at cost less any accumulated impairment losses subsequently. If the acquirer's interest in the net fair value of the acquiree's identifiable net assets exceeds the sum of the fair value of consideration paid for a business combination (or the fair value of equity securities issued) and the fair value of the acquiree's equity interest held before the acquisition date, the acquirer shall reassess the measurement of the fair value of the acquiree's identifiable assets, liabilities or contingent liabilities, as well as the fair value of consideration paid for a business combination (or the fair value of equity securities issued) and the fair value of the acquiree's equity interest held before the acquisition date, and recognise immediately in profit or loss any excess remaining after reassessment.

5. Consolidated financial statements

The scope of the consolidated financial statements is determined on the control basis, which consists of financial statements of the Company and its subsidiaries. A subsidiary is a company or entity that is controlled by the Company.

The accounting year of subsidiaries is coterminous and the accounting policies of subsidiaries are applied consistently with those of the Company when preparing consolidated financial statements. All intercompany balances, transactions and unrealised gains and losses resulting from intercompany transactions, and dividends within the Group are fully eliminated on consolidation.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

5. Consolidated financial statements (Continued)

Where the current loss assumed by non-controlling shareholders of a subsidiary exceeds the opening non-controlling interests, the balance offsets non-controlling interests.

For subsidiaries acquired through a business combination involving entities not under common control, the operating results and cash flows of the acquired company are included in the consolidated financial statements from the acquisition date until the date on which the Group ceases the control of the subsidiary. In preparing the consolidated financial statements, adjustments are made to the subsidiaries' financial statements based on fair values of the identifiable assets, liabilities and contingent liabilities at the acquisition date.

For subsidiaries acquired through a business combination involving entities under common control, the operating results and cash flows of a subsidiary are included in the consolidated financial statements from the beginning of the combination period. In preparing consolidated financial statements, adjustments are made to related items in prior years' financial statements, as if the combination had occurred from the date when the combining entities first came under control of the ultimate controlling party.

The investor shall reassess its control when changes in relevant facts and circumstances lead to changes in the elements of control.

By stepping through multiple transactions to dispose of the equity investment in the subsidiary until it loses control, when it is a package transaction, the transactions are treated as a transaction that disposes of the subsidiary and loses control; however, the price difference between the disposal price and the disposal investment before the loss of control and the share of the net assets of the subsidiary is recognised as other comprehensive income in the consolidated financial statements, and is transferred to the current period profit or loss of control when the control is lost. If it is not a package transaction, the corresponding accounting treatment shall be carried out for each transaction. If the control right is not lost, the minority shareholders' equity changes will be treated as an equity transaction. If the control right is lost, the remaining equity shall be re-measured according to its fair value on the date of losing control. The difference between the summary of consideration obtained from the disposal of the equity and the fair value of the remaining equity, less the difference between the share of the original assets and the share of the net assets that have been continuously calculated from the date of purchase from the date of the original shareholding, is included in the current period profit or loss and; if there is a goodwill for the subsidiary, the amount of the goodwill is deducted when calculating the profit and loss of the disposal of the subsidiary; and other comprehensive income related to the original subsidiary's equity investment shall be accounted for on the same basis as the subsidiary's direct disposal of the relevant assets or liabilities when the control is lost. Shareholders' equity recognised in addition to changes in other shareholders' equity not due to the net profit and loss, other comprehensive income and profit distribution related to the original subsidiary are transferred to current period profit and loss when control is lost.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

6. Joint arrangement and joint operations

A joint arrangement is classified as either a joint operation or a joint venture. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, arising from the joint arrangement. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture.

The joint arrangements of the Group are all joint ventures.

7. Cash and cash equivalents

Cash represents the cash on hand and deposits which are readily available for payment. Cash equivalents represent the Group's short term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

8. Foreign operations and foreign currency translation

The Group translates foreign currencies into the reporting currency when foreign currency transactions occur.

Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary items denominated in foreign currencies are translated into functional currencies at the exchange rates ruling at the end of reporting period. The exchange differences are recognised in profit or loss, except those arising from the foreign currency borrowings specifically for the purpose of acquisition, construction or production of qualifying assets. Non-monetary items denominated in foreign currencies that are measured at historical cost are translated into functional currencies using the foreign exchange rates at the transaction date. Non-monetary items denominated in foreign currencies that are measured at fair value are translated using the foreign exchange rates at the date the fair value is determined, and the exchange differences are recognised in profit or loss or other comprehensive income.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

8. Foreign operations and foreign currency translation (Continued)

The Group translates functional currencies of overseas businesses into Renminbi when preparing the consolidated financial statements. All assets and liabilities are translated at the exchange rates ruling at the end of reporting period; shareholders' equity, with the exception of retained earnings, are translated at the exchange rates ruling at the transaction date; all income and expense items in the income statement are translated at the average exchange rates during the period. Exchange differences arising from the translations mentioned above are recognised as other comprehensive income. When an overseas business is disposed of, the cumulative translation differences arising from the overseas business will be transferred to profit or loss in the period. In case of a partial disposal, only the proportionate share of the related exchange translation difference is transferred to profit or loss.

The foreign currency cash flows and cash flows of an overseas business shall be translated at the exchange rates ruling at the dates of the cash flows. The effect of changes in exchange rates on cash and cash equivalents is presented separately in the statement of cash flows.

9. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Recognition and derecognition of financial instruments

The Group recognises a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument.

A financial asset (either a part of financial asset or a part of a group of similar financial assets) will be derecognised, which means being written off from the account and the statement of financial position:

- (1) The contractual rights to receive cash flows from the financial asset expire; or
- (2) It transfers the contractual rights to receive the cash flows of the financial asset, or assumes a contractual obligation to pay the cash flows to one or more recipients in a "transfer arrangement" and that (a) substantially transfers all the risks and rewards of ownership of the financial asset, or (b) neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but abandons control of the financial asset.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (Continued)

Recognition and derecognition of financial instruments (Continued)

A financial liability is derecognised when, and only when, the current obligation is discharged or cancelled or expires. If an existing financial liability is replaced by the same debtor with a new financial liability, whose contractual stipulations is substantially different from those of the existing financial liability, or if an enterprise makes substantial revisions to almost all of the contractual stipulations of the existing financial liability, it shall terminate the recognition of the existing financial liability, and at the same time recognise the financial liability after revising the contractual stipulation as a new financial liability, and the difference is recognised in profit or loss.

All financial assets purchased or sold in regular way are recognised or derecognised on the trading date when the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace. The trade date is the date that the Group committed to purchase or sell a financial asset.

Classification and measurement of financial assets

The Group classifies its financial assets, based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, as financial assets at fair value through profit or loss, financial assets at amortized cost and financial assets at fair value through other comprehensive income.

A financial asset is measured at its fair value at initial recognition, except that the trade receivables or notes receivable arising from the sale of goods or services provided do not contain significant financing components or do not take into account that financing components not exceeding one year, which is measured at its trading price at initial measurement.

For financial assets measured at fair value through profit or loss, the relevant transaction costs are charged to profit or loss; for other financial assets, the relevant transaction costs are recognised as initial investment costs.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (Continued)

Classification and measurement of financial assets (Continued)

The subsequent measurement of financial assets depending on their classifications as follows:

Debt instruments investment measured at amortized cost

A financial asset shall be measured at amortized cost if both of the following conditions are met: (a) the financial asset is held whose objective is to collect contractual cash flows and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. This type of financial asset using effective interest rate method to recognise interest income, the gain or loss generated by its' amortisation and impairment shall be accounted in the profit or loss for the year.

Debt instruments investment measured at fair value through other comprehensive income

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met: (a) the financial asset is held within a business model whose objective will be achieved by both collecting contractual cash flows and trading financial assets and; (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. This type of financial asset using effective interest rate method to recognise interest income. Except for the interest income, impairment losses and exchange differences shall be accounted in the profit or loss for the year, other changes in fair value shall be accounted in other comprehensive income. When the financial assets are derecognised, the cumulative gain or loss previously recognised in other comprehensive income shall be transferred to the profit or loss for the year.

Equity instruments investment measured at fair value through other comprehensive income

The Group irrevocably choose to designate the equity instruments investment not held for trading as financial assets measured at fair value through other comprehensive income at initial recognition. Dividends are recognised in profit or loss (except for dividends which are clearly recovered as part of the investment costs) and the changes in fair value shall be recognised in other comprehensive income, no impairment provision is required. When the financial assets are derecognised, the cumulative gain or loss previously recognised in other comprehensive income shall be transferred to retained earnings.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (Continued)

Classification and measurement of financial assets (Continued)

The subsequent measurement of financial assets depending on their classifications as follows (Continued):

Financial assets measured at fair value through profit or loss

The financial assets which is excluded in the above-mentioned financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income is presented as financial assets measured at fair value through profit or loss. This type of financial asset is measured at fair value for subsequent measurement, all changes in fair value shall be accounted in the profit or loss for the year.

Classification and measurement of financial liabilities

The Group classifies its financial liabilities at initial recognition as financial liabilities measured at fair value through profit or loss and other financial liabilities. With respect to financial liabilities at fair value through profit or loss, transaction costs are charged to profit or loss; whereas for other financial liabilities, transaction costs are recognised at initial cost.

The subsequent measurement of financial liabilities depending on their classifications as follows:

Financial liabilities measured at fair value through profit or loss

Financial liabilities at fair value through profit or loss, including financial liabilities held for trading (including derivatives liabilities) and those are designated as at fair value through profit or loss at initial recognition. Financial liabilities at fair value through profit or loss (including derivative instruments attributable to financial liabilities) are subsequently measured at fair value. All changes in fair value of such financial liabilities are recognised in profit or loss. Financial liabilities designated at fair value through profit or loss are subsequently measured at fair value and gains or losses are recognised in profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income. If gains or losses arising from the Group's own credit risk which are presented in other comprehensive income will lead to or expand accounting mismatch in profit or loss, the Group will include all the changes in fair value (including the amount affected by changes in the Group's own credit risk) of such financial liabilities in profit or loss.

Other financial liabilities

Other financial liabilities are subsequently measured at amortized cost using the effective interest rate method.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (Continued)

Impairment of financial assets

The Group recognises loss allowance for financial assets measured at amortized cost, debt instruments investment measured at fair value through other comprehensive income, loan commitments and financial guarantee contracts based on their expected credit losses.

For receivables that do not contain significant financing component, the Group adopts a simplified approach and measures the credit loss at an amount equal to lifetime expected credit losses.

For financial assets, loan commitments and financial guarantee contracts other than those adopt a simplified approach, the Group assesses whether their credit risk at each reporting date has increased significantly. If the financial assets whose credit risk has not increased significantly, it will be included in phase 1, and the Group measures the loss provision for those instruments at an amount equal to 12-month expected credit losses, and calculates interest income based on book value and actual interest rate; if the financial assets whose credit risk has increased significantly but without objective evidence for impairment after initial recognition, it will be included in phase 2, and the Group measures the loss provision of those instruments at an amount equal to lifetime expected credit losses, and calculates interest income based on book value and actual interest rate; if the financial assets that are evidently credit-impaired after initial recognition, they will be included in phase 3, and the Group measures the loss provision of those financial instruments at an amount equal to lifetime expected credit losses, and calculates interest income according to amortized cost and actual interest rate. For financial instruments with only low credit risk on the balance sheet date, the Group assumes that their credit risk has not increased significantly since the initial recognition.

The Group assesses the expected credit losses of financial instruments based on individual items and portfolios. The Group has considered the credit risk characteristics of different customers and assessed the expected credit losses of receivables based on the age combination.

For the disclosure of the Group's judgment criteria for the significant increase in credit risk, the definition of credit impaired assets, and the assumption of expected credit loss measurement, please refer to Note VIII.4.

When the Group expects failing to collect or partially collect the contractual cash flow of financial assets, the Group will directly write off the book value of the financial assets.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (Continued)

Offsetting of financial instruments

Financial assets and financial liabilities are offset and disclosed in the statement of financial position at net amount if the entity has a currently enforceable legal right to offset the recognised amounts, and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Financial guarantee contracts

Financial guarantee contracts are those contracts that require a payment to be made by the issuer to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. The financial guarantee contract is measured at fair value at initial recognition. Except for the financial guarantee contract designated as financial liabilities measured at fair value through profit or loss, the other financial guarantee contracts are determined in accordance with the higher of the expected credit loss reserve amount and the initial confirmed amount less the accumulated amortization amount determined according to the revenue recognition principle.

Derivative financial instruments

The Group uses derivative financial instruments such as forward exchange contracts and commodity forward contracts to hedge the exchange risk. Derivative financial instruments are measured at its fair value at the transaction date at initial recognition and measured at fair value subsequently. Derivative financial instruments with positive fair value would be recognised as assets while those with negative fair value would be recognised as liabilities.

The gain or loss arising from changes in fair value of derivative financial instruments are recognised in profit or loss, except for those related to hedge accounting.

Transfer of financial assets

A financial asset is derecognised when the Group has transferred substantially all the risks and rewards of the asset to the transferee. A financial asset is not derecognised when the Group retains substantially all the risks and rewards of the financial asset.

When the Group has neither transferred nor retained substantially all the risks and rewards of the financial asset, it either (i) derecognises the financial asset and recognises the assets and liabilities created in the transfer when it has not retained control of the asset; or (ii) continues to recognise the transferred asset to the extent of the Group's continuing involvement, in which case, the Group also recognises an associated liability.

Continuing involvement that takes the form of a guarantee over the transferred financial asset is measured at the lower of the original carrying amount of the financial asset and the guarantee amount. The guarantee amount is the maximum amount of consideration that the Group could be required to repay.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

10. Inventories

Inventories include raw materials, work in progress, finished goods and spare parts.

Inventories are initially recognised at cost, which comprises purchase cost, processing cost, and other costs. Costs of delivered inventories, other than construction contracts and spare parts, are determined on the weighted average basis. Costs of general spare parts, lower valued consumables and packing materials are charged to profit or loss at consumption; accident spare parts are amortized in 8 years with 4% residual rate; large rolls on rolling mills are amortized according to the grinding amount.

Inventories are accounted for using the perpetual inventory system.

At the end of each reporting period, inventories shall be measured at the lower of cost and net realisable value. If the cost is in excess of the amounts expected to be realised from their sale or use, provision for inventories is recognised in profit or loss. When the circumstances that previously caused inventories to be written down below cost no longer exist and the net realisable value is higher than the carrying amount, the original amount of the write-down is reversed and charged to profit or loss.

Net realisable value is the estimated selling price on normal business terms deducted by the estimated costs to completion, the estimated selling expenses and related taxes. Provision is considered on a category basis for raw materials, and on an individual basis for finished goods. For the inventories sold, the relevant inventory provision shall be written off accordingly, and the current period's cost of sales shall be reversed.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Long-term equity investments

Long-term equity investments consist of equity investments in subsidiaries, joint ventures and associates.

Long-term equity investments are recognised at initial investment cost upon acquisition. For a long-term equity investment acquired through a business combination under common control, the initial investment cost of the long-term equity investment shall be the absorbing party's share of the carrying amount of the owners' equity of the party being absorbed in the consolidated financial statements of the ultimate controlling party at combination date. The difference between the initial investment cost and the carrying amount of cash paid, non-cash assets transferred and liabilities assumed shall be adjusted to capital reserve. If the balance of capital reserve is not sufficient, any excess shall be adjusted to retained earnings. Any other comprehensive income previously recognised shall be accounted for on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities. The portion recognised based on changes in the investee's equity (other than net profit or loss, other comprehensive income and profit distribution) is charged to profit or loss upon disposal of such long-term equity investment. For those partially disposed equity investments, gains or losses upon disposal are proportionately recognised in profit or loss when they still constitutes long-term equity investments after the disposal and are fully charged to profit or loss when they are reclassified to financial instruments after the disposal. For business combination involving entities not under common control, the initial investment cost should be the cost of acquisition (for step acquisitions not under common control, the initial investment cost is the sum of the carrying amount of the equity investment in the acquiree held before the acquisition date and the additional investment cost paid on the acquisition date), which is the sum of the fair value of assets transferred, liabilities incurred or assumed and equity instruments issued. If the equity investments in the acquiree involve other comprehensive income prior to the acquisition date, when disposing of the investments, the relevant other comprehensive income will be accounted for on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities. The portion recognised based on changes in the investee's equity (other than net profit or loss, other comprehensive income and profit distribution) is charged to profit or loss upon disposal of such long-term equity investment. For those partially disposed equity investments, gains or losses upon disposal are proportionately recognised in profit or loss when they still constitutes long-term equity investments after the disposal and are fully charged to profit or loss when they are reclassified to financial instruments after the disposal. The initial investment cost of a long-term equity investment acquired otherwise than through a business combination shall be determined as follows: for a long-term equity investment acquired by paying cash, the initial investment cost shall be the actual purchase price paid plus those costs, taxes and other necessary expenditures directly attributable to the acquisition of the long-term equity investment; for those acquired by the issue of equity securities, the initial investment cost shall be the fair value of the equity securities issued.

The cost method is applied for long-term equity investments in the financial statements of the Company when the investee is controlled by the Company. Control refers to the power over the investee such that the Company is able to direct the relevant activities, has exposure or rights to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect the amount of the investor's returns.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Long-term equity investments (Continued)

When the cost method is adopted, long-term equity investments are recorded at initial investment cost. When additional investment is made or the investment is recouped, the cost of long-term equity investment is adjusted accordingly. Profits or cash dividends declared to be distributed by the investee should be recognised as investment income in the current period.

The equity method is applied for long-term equity investments when the investees are jointly controlled or significantly influenced by the Group. Joint control is the agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

When the equity method is adopted, the initial cost of an investment in excess of the share of investee's fair value on identifiable net assets remains unchanged; the initial cost of the investment that falls short of the share of investee's fair value on identifiable net assets shall be adjusted, for the difference which had been charged to profit or loss.

When the equity method is adopted, after it has acquired a long-term equity investment, the Group recognises its share of the investee's profit or loss, as well as its share of the investee's other comprehensive income, as investment income or loss and other comprehensive income, and adjusts the carrying amount of the investment accordingly. The recognition of the investee's results should be based on the fair values of the individual identifiable assets of the investee according to the Group's accounting policies and accounting period. The gains and losses resulting from intercompany transactions with the investee should be eliminated to the extent of the amount attributable to the investor according to the shareholding (but if the gains and losses belong to asset impairment losses, they should be entirely recognised). The recognition should be based on the adjusted net profit of the investee. With respect to the long-term equity investment in associates and joint ventures acquired before the first-time adoption date, the remaining equity investment difference arising from the amortization using the straight-line method (if any) should be recognized as investment income or loss. The investor's share of profit distributions or cash dividends declared by the investee is deducted from the carrying amount of the investment. The Group recognises net losses incurred by the investee to the extent that the carrying amount of the investment and other long-term equity interests that are investment in the investee in substance is reduced to zero, except for which the investor has an extra obligation to assume loss of it. For the changes of equity in an investee other than profit or loss, the investor adjusts the carrying amount of the investment and recognised it in shareholders' equity.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Long-term equity investments (Continued)

When long-term equity investments are disposed of, the difference between the carrying amount and the actual proceeds received should be charged to profit or loss. For long-term equity investments under the equity method, if the method would not be adopted after the disposal, the basis of the accounting treatment on the related other comprehensive income under original equity method is the same as that on disposal of related assets or liabilities by the investee, the amount recognised in the equity on the changes in other equity movements except for the net profit or loss, other comprehensive income and profit distribution, should be all charged to the profit or loss for the year; if the equity method would continue to be adopted after the disposal, the basis of the accounting treatment on the related other comprehensive income under the original equity method is the same as that on disposal of related assets or liabilities by the investee, the amount recognised in the equity on the changes in other equity movements except for the net profit or loss, other comprehensive income and profit distribution, should be charged to profit or loss for the year in proportion.

If the Company loses control of an investee with joint control or significant influence retained after partial disposal of its shares, the equity investment should be accounted as long-term investment in accordance with the rules of conversion from the cost method to the equity method; if no joint control or significant influence was retained, the equity investment should be accounted as financial assets. The difference between the fair value on the day of losing control and the book value is recognised in profit or loss.

12. Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property) held to earn rental income and/or for capital appreciation.

Investment properties are measured initially at cost. As for the subsequent expenses related to investment properties, if the economic benefits of the assets are likely to flow to the Group and its cost can be measured reliably, then it will be included in the cost of investment properties. Otherwise, the subsequent cost will be calculated in the current profit and loss when it occurs.

The Group uses the cost model for subsequent measurement of investment properties and the estimated useful life is determined by the period that it can bring economic benefits to the Group. Depreciation is calculated on the straight-line basis to write off the cost of each item of investment properties over its estimated useful life of 24-50 years. The estimated residual value is 3% to 10% of the cost.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

13. Property, plant and equipment

Property, plant and equipment are recognised when it is probable that their related future economic benefits will flow into the Group, and their cost can be measured reliably. The subsequent expenditure is recorded in the cost of fixed assets only if the conditions above are met and the carrying amount of parts which had been replaced shall be derecognised; otherwise, shall be charged to profit or loss.

Property, plant and equipment are initially measured at cost with consideration of any rehabilitation expenditures. The purchase cost of fixed assets comprises its purchase price, related taxes, and any directly attributable expenditure for bringing the asset to its working condition for its intended use.

Except for the land abroad purchased by an overseas subsidiary of the Group, depreciation is calculated on the straight-line basis. The estimated useful lives, estimated residual values, and the annual depreciation rates of each category of fixed assets are as follows:

	Estimated useful life	Estimated residual value	Annual depreciation rate
Plant and buildings	10 – 30 years	3%	3.2 – 9.7%
Machinery and equipment	10 – 15 years	3%	6.5 – 9.7%
Office equipment	5 – 10 years	3%	9.7 – 19.4%
Motor vehicles	5 – 8 years	3%	12.1 – 19.4%

Where different components of property, plant and equipment have different useful lives or generate profit in different ways, the components are depreciated separately.

Useful lives, residual values and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

14. Construction in progress

Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction.

Construction in progress is reclassified to the appropriate category of property, plant and equipment, or intangible assets when completed and ready for use.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

15. Borrowing costs

Borrowing costs are interests and other expenses arising from borrowings of the Group, including borrowing interest, amortization of discounts or premiums, ancillary expenses and exchange differences arising from foreign currency borrowings.

All the borrowing costs that are directly attributable to construction or production of all qualifying assets are capitalized and other borrowing costs are treated as an expense. A qualifying asset is defined as a fixed asset, an investment property or inventory that necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalization of borrowing costs commences when:

- (1) Expenditures for the assets are incurred;
- (2) Borrowing costs are incurred; or
- (3) The acquisition and construction activities that are necessary to bring the assets to get ready for their intended use or sale have commenced.

The capitalization of borrowing costs ceases when the asset being acquired or constructed is substantially ready for its intended use or sale and borrowing costs incurred thereafter are treated as an expense.

Within the capitalization period, the amounts of capitalized borrowing costs for each accounting period are determined by the following methods:

- (1) For specific borrowings, the borrowing costs eligible for capitalization are the actual borrowing costs incurred during the current period deducted by any temporary interest or investment income.
- (2) For general borrowings, the borrowing costs eligible for capitalization are determined by applying a capitalization rate to the weighted average of capital expenditure that exceeds the specific borrowings.

Capitalization of borrowing costs is suspended during extended periods in which the acquisition or construction of a property, plant and equipment is interrupted abnormally and the interruption lasts for more than three months until the acquisition or construction is resumed.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

16. Right-of-use assets (applicable since 1 January 2019)

The Group's right-of-use assets include plant and buildings, machinery and equipment, motor vehicles and land use right.

At the commencement date, the Group recognises the right of using leased assets within the lease term as right-of-use assets, the cost of which includes: (1) the amount of the initial measurement of the lease liability; (2) any lease payments made at or before the commencement date, less any lease incentives received (if applicable); (3) any initial direct costs incurred; (4) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease. The Group depreciates right-of-use assets using the straight-line method. If the Group is reasonably certain that the ownership of the underlying asset will be transferred to the Group at the end of the lease term, the Group depreciates the asset from the commencement date to the end of the useful life of the asset. Otherwise, the Group depreciates the assets from the commencement date to the earlier of the end of the useful life of the asset and the end of the lease term.

The Group remeasures the lease liability at the present value of the changed lease payments and adjusts the carrying amount of the right-of-use assets accordingly, when the carrying amount of the right-of-use asset is reduced to zero, and there is a further reduction in the measurement of the lease liability, the Group recognises the remaining amount of the remeasurement in profit or loss.

17. Intangible assets

Intangible assets are recognised if and only if it is probable that the related economic benefits will flow into the Group and the costs of which can be measured reliably. Intangible assets are measured at cost initially. However, for an intangible asset acquired in the business combination not under common control whose fair value can be reliably measured, it is separately recognised and is measured at its fair value.

The useful lives of intangible assets are assessed based on estimated economic benefit periods. Those intangible assets without foreseeable economic benefit periods are classified as intangible assets with indefinite useful lives.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

17. Intangible assets (Continued)

The useful lives of the Group's intangible assets are as follows:

	Useful life
Concession rights	25 years
Land use rights	50 years
Mining rights	25 years
Patent	3 years

Concession right is the right to operate water supply factories. It is recorded at cost minus accumulative amortizations and impairment, if any. The amortization is calculated within a period of 25 years using straight-line method.

Land use rights that are purchased by the Group are accounted for as intangible assets. For internally generated plants and other buildings, the land use rights and buildings are accounted for as intangible assets and fixed assets, respectively. With respect to the land use right purchased together with buildings, the acquisition cost is allocated between the two parts proportionately, or otherwise, is wholly accounted for as fixed assets if it is difficult to allocate reasonably.

Intangible assets with finite useful lives are amortized over the useful lives on the straight-line basis. The Group reviews the useful lives and amortization method of intangible assets with finite useful lives, and adjusts then if appropriate, at least at the end of each reporting period.

The expenditures for internal research and development projects of the Group were classified as research expenditures and development expenditures. All research expenditures are charged to profit or loss as incurred. Expenditure incurred on projects to develop new products is capitalized if, and only if, an entity can demonstrate all of the following: (a) the technical feasibility of completing the intangible asset so that it will be available for use or sale. (b) its intention to complete the intangible asset and use or sell it. (c) how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset. (d) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset. (e) its ability to measure reliably the expenditure attributable to the intangible asset during its development. Product development expenditure which does not meet these criteria is expensed when incurred.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

18. Impairment of assets

The Group determines the impairment of assets according to the following method, except for inventories, deferred tax assets, financial assets and assets classified as held-for-sale.

The Group assesses whether any indicator of impairment exists as of the end of each reporting period, and, if yes, performs impairment test by estimation of the asset's recoverable amount. For goodwill acquired in business combinations and intangible assets with indefinite lives, an annual impairment test is performed no matter whether there is any indicator of impairment. Intangible assets that not available for use are also tested for impairment annually.

An asset's recoverable amount is calculated as the higher of the asset's fair value less costs to sell and the present value of estimated future cash flows generated from the use of assets. The recoverable amount is calculated on individual basis unless it is not applicable, in which case the recoverable amount is determined for the asset group to which the asset belongs. An asset group is recognized based on whether the cash inflows generated by the asset group are largely independent to those of other assets or asset groups.

When the recoverable amount of an asset or an asset group is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction amount is charged to profit or loss and an impairment allowance is provided.

Impairment losses cannot be reversed in subsequent accounting periods.

19. Payroll and employee benefits payable

Employee benefits are all forms of consideration other than share-based payments given by an entity in exchange for service rendered by employees or the termination of employment, including short-term employee benefits, post-employment benefits, termination benefits and other long-term employee benefits. The benefits that the Group provides to the spouses, children and dependents of employees, the late employees' family and other beneficiaries also shall be deemed as employee benefits.

Short-term employee benefits payable

A liability when an employee has provided service in exchange for employee benefits to be paid in the future and an expense when the entity consumes the economic benefit arising from service provided by an employee in exchange for employee benefits.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

19. Payroll and employee benefits payable (Continued)

Post-employment benefit (defined contribution plans)

Expenditures for employees' endowment insurance managed by the local government and annuity plan established by the Group are capitalized in the related assets or charged to profit or loss.

Post-employment benefit (defined benefit plans)

The Group operates a defined benefit pension plan which requires contributions to be made to a separately administered fund. The benefits are unfunded. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method.

Remeasurements arising from defined benefit pension plans, comprising actuarial gains and losses, the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability) and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognized immediately in the consolidated statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss at the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Group recognises restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under "Cost of sales", "General and administrative expenses", "selling expenses" and "Financial expenses" in the consolidated statement of comprehensive income by function:

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements;
- net interest expense or income comprising interest income on plan assets, interest expense on plan obligations and the interest influenced by asset limit.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

19. Payroll and employee benefits payable (Continued)

Termination benefits

An entity is required to recognize termination benefits with a corresponding charge to profit or loss at the earlier of when the entity can no longer withdraw an offer of those benefits and when it recognizes any related restructuring costs.

Other long-term employee benefits

Other long-term employee benefits apply the same recognition and measurement as for post-employment benefits but all changes in the carrying amount of liabilities for other long-term employment benefits are recognized in profit or loss.

20. Lease liabilities (applicable since 1 January 2019)

At the commencement date of the lease, the Group measures the lease liability at the present value of the lease payments that are not paid at that date, except for short-term leases and leases of low-value assets. In calculating the present value of the lease payments, the Group uses the interest rate implicit in the lease as the discount rate. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate. The Group calculates the interest expenses of the lease liability in each period during the lease term using the constant periodic rate of interest, and recognises such interest expenses in profit or loss, except those in the costs of the related asset as required. Variable lease payments that are not included in the measurement of the lease liabilities are recognised in profit or loss as incurred, except those in the costs of the related asset as required.

A lessee shall remeasure the lease liability by discounting the revised lease payments, if (a) there is a change in the actual fixed lease payments; (b) there is a change in the amounts expected to be payable under a residual value guarantee; (c) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments; or (d) there is a change in the assessment of an option to purchase the underlying asset, to renew the lease or a change in the actual exercise of the option.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

21. Provisions

Except for contingent considerations or contingent liabilities assumed for business combination not under common control, a provision is recognized if:

- (1) the obligation is a present obligation assumed by the Group; and
- (2) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- (3) a reliable estimate can be made of the amount of the obligation.

Provisions are initially measured at the best estimate of the expenditure required to settle the present obligation, after considering risks, uncertainties, present value, etc. Provisions shall be reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

22. Repurchase and reverse repurchase transactions

Assets sold under agreements to repurchase at a specified future date (“repos”) are not derecognized from the statement of financial position. The corresponding cash received, including accrued interest, is recognized as “repurchase agreement” on the statement of financial position, reflecting the economic nature that such cash is a loan to the Group. The difference between the sale and repurchase prices is treated as an interest expense and is accrued over the life of the agreement using the effective interest rate method.

Conversely, assets purchased under agreements to resell at a specified future date (“reverse repos”) are not recognized in the statement of financial position as a “reverse repurchase agreement.” The corresponding cash paid, including accrued interest, is recognized as a “reverse repurchase agreement” in the statement of financial position. The difference between the purchase and resale prices is treated as an interest income and is accrued over the life of the agreement using the effective interest rate method.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

23. Revenue

Revenue from contracts with customers

Revenue is recognized when the Group has satisfied its performance obligations in the contract, that is, when the customer obtains control of the relevant goods or services. To obtain control of the relevant good and services is to have the ability to direct the use of, and obtain substantially all of the remaining benefits from of the relevant good and services.

Contracts for the sale of goods

Contracts for the sale of goods between the Group and its customers usually only involves the performance obligations of the transferring of the goods. The Group generally recognises revenue based on the following considerations, taking into account the timing of control transfer. This includes obtaining the current collection rights of the goods, the transfer of the main risks and rewards of the ownership of the goods, the transfer of the legal ownership of the goods, the transfer of the physical assets of the goods, and the acceptance of the goods by the customer.

Contracts for rendering of services

The service contract between the Group and its customers usually includes performance obligations for packaging, processing, technical consulting or technical services. As a result of the satisfaction of the performance obligation the Group, the customers obtain and consume the economic benefits of the service while the Group provides the service simultaneously. The Group is entitled to recover from the accumulative performance of the contract that has been completed to date, except when progress of the performance cannot be reasonably determined. The Group determines the progress of the performance of the services provided in accordance with the input method. When the progress of the performance cannot be reasonably determined, and the costs incurred by the Group are expected to be compensated, the revenue will be recognized based on the amount of costs incurred, until the progress of the performance can be reasonably determined.

Variable considerations

The contracts between the Group and its certain customers containing sales rebate arrangements (future price reductions based on cumulative sales volumes), which forms a variable consideration. The Group determines the best estimate of the variable consideration based on the expected value or the most probable value. However, the sales price including variable considerations should not exceed the amount accumulatively recognized which is not likely to be significantly reversed when the uncertainty disappears.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

23. Revenue (Continued)

Revenue from contracts with customers (Continued)

Sales involving right of return

For sales involving right of return, the Group recognizes revenue at the amount of consideration expected to receive from the customer upon transfer of control of the good to the customer, and recognizes refund liability at the amount expected to be refunded due to the sales return. At the same time, an asset recognized for an entity's right to recover products from a customer on settling a refund liability shall initially be measured by reference to the former carrying amount of the product (for example, inventory) less any expected costs to recover those products (including potential decreases in the value to the entity of returned products). At the end of each reporting period, the Group updates the estimation on the future sales return and measurement of both the refund liabilities and assets.

Significant financing component

When the contract contains a significant financing component, the Group determines the transaction price based on an amount that reflects the price that a customer would have paid for the goods or services in cash at the time of obtaining the control of the goods or services, and amortises the difference between the transaction price and the consideration promised in the contract under the effective interest method within the contract period using the discount rate that discounts the nominal amount of the contract consideration to the current selling price of the goods or services. The Group does not consider the effects of a significant financing component in the contract if it is expected that the period between when the customer obtains control of the goods or services and when the customer pays for such goods or services will be one year or less.

Principal vs. agent

The Group has the right to determine the price of the goods transferred, that is, the Group has control over the products before transferring the steel and other products to the customers, thus the Group is considered as the principal and recognizes revenue based on the total amount received or receivable. Otherwise, the Group is considered to be acting as an agent. As an agent, revenue shall be recognized at the amount of the commission or brokerage that is expected to be collected. The amount is determined based on the net amount of received or receivable deducting any amount payable to the third party, or based on specific commission amount or proportion.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

23. Revenue (Continued)

Other revenue

Interest income

Interest income is recognized based on the time horizon of the use of the Group's cash by others and the effective interest rate.

Lease income

Lease income from operating leases is recognized over the lease terms on the straight-line basis. Contingent lease income is recognized when incurred.

24. Contract assets and contract liabilities

The Group presents contract assets or contract liabilities depending on the relationship between the satisfaction of its performance obligations and the customer's payment in the balance sheet. The Group offsets the contract assets and contract liabilities under the same contract and presents the net amount.

Contract assets

A contract asset is the right to consideration in exchange for goods or services that the Group has transferred to a customer, and that right is conditioned on something other than the passage of time.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration or an amount of consideration is due from the customer, such as an amount of consideration that an entity has received before the transfer of the promised goods or services.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

25. Government grants

Government grants are recognized in profit or loss, when they are highly probable to be received and all conditions are fulfilled. If a government grant is in form of monetary asset, it is measured at the amount received or receivable. If a government grant is in form of non-monetary asset, it is measured at fair value of the asset. If the fair value cannot be reliably determined, it is measured at the nominal amount.

Asset-related government grants are recognized when the government document designates that the government grants are used for constructing or forming long-term assets. If the government document is inexplicit, the Company should make a judgement based on the basic conditions to obtain the government grants, and recognizes them as asset-related government grants if the conditions are to form long-term assets through construction or other method. Otherwise, the government grants should be income-related.

If the grant is a compensation for related expenses or losses in future period, the grant is recognized as deferred income and should be recognized in profit or loss for the period when the expenses or losses are incurred.

A government grant related to asset can be accounted by being recognized as deferred income, and amortized systematically and reasonably to profit or loss over the useful life of the related asset (government grants measured at the nominal amount should be recognized in profit or loss immediately for the period). When the asset is sold, transferred, discarded or destroyed within the useful life, the related deferred income should be recognized in profit or loss immediately.

For discounts appropriated to lending banks by the government, and the lending banks provide loans with policy preferential discounts, the Group accounts for the loans with the actual received amount, and calculates the relevant borrowing expenses based on principal and the preferential discounts of the loans.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

26. Income tax

Income tax comprises current tax and deferred tax, and is normally recognized as income or expense in profit or loss, except for goodwill generated in a business combination or items that have been recognized directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid according to the taxation laws and regulations.

Based on the differences between the carrying amount of an asset or liability in the statement of financial position and its tax base, and the differences between the carrying amounts of some items that have a tax base but are not recognized as assets and liabilities and their tax base, the Group adopts the liability method for the provision of deferred tax.

A deferred tax liability is recognized in respect of all taxable temporary differences except those arising from:

- (1) the initial recognition of goodwill; or the initial recognition of an asset or liability in a transaction which is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit; and
- (2) as to temporary differences associated with subsidiaries, joint ventures and associates: the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognized in respect of all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference will be utilized except those arising from the initial recognition of an asset or liability in a transaction which:

- (1) is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit; and
- (2) as to deductible temporary differences associated with subsidiaries, joint ventures and associates: a deferred tax asset is recognized to the extent that it is probable that the temporary difference will reverse in the foreseeable future, and taxable profit will be available against which the temporary difference can be utilized.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

26. Income tax (Continued)

At the end of each reporting period, deferred tax assets and liabilities are measured, based on taxation laws and regulations, at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, taking into account the income tax effect of expected asset realization or liability settlement at the end of each reporting period.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Deferred tax assets and liabilities should be offset and disclosed in net if and only if: the entity has a legally enforceable right to set off current tax and liabilities; and the deferred tax assets and liabilities concerned related to income taxes raised by the same authority on the same taxable entity, or taxable entities which intend, in each future period in which significant amounts of deferred tax are expected to be settled or recovered, to settle their current tax assets and liabilities either on a net basis or simultaneously.

27. Leases (applicable since 1 January 2019)

Identification of leases

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset for a period of time, the Group assesses whether, throughout the period of use, the customer has both of the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset.

Identification of separate lease components

For a contract that contains multiple separate lease components, the Group separates the components of the contract and accounts for each separate lease component. The right to use an underlying asset is a separate lease component if both:

- (1) the lessee can benefit from use of the underlying asset either on its own or together with other resources that are readily available to the lessee; and
- (2) the underlying asset is neither highly dependent on, nor highly interrelated with, the other underlying assets in the contract.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

27. Leases (applicable since 1 January 2019) (Continued)

Separating lease components from non-lease components

For a contract that contains both lease and non-lease component, the Group shall account for the lease and non-lease components separately as a lessor or a lessee.

Assessment of the lease term

The lease term is the non-cancellable period of a lease for which the Group has the right to use an underlying asset. If the Group has an option to extend the lease, that is, the Group has the right to extend the lease, and is reasonably certain to exercise that option, the lease term also includes periods covered by an option to extend the lease. If the Group has an option to terminate the lease, that is, the Group has the right to terminate the lease, but is reasonably certain not to exercise that option, the lease term includes periods covered by an option to terminate the lease. The Group reassesses whether it is reasonably certain to exercise an extension option, purchase option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in the circumstances that is within the control of the Group and affects whether the Group is reasonably certain to exercise an option not previously included in its determination of the lease term.

As a lessee

Please refer to Note III. 16 and Note III. 20 for the accounting policies the Group chose as a lessee.

Lease modifications

A lease modification changes the scope, the consideration and the lease term by adding or terminating the right to use one or more underlying assets and extending or shortening the contractual lease term.

The Group accounts for a lease modification as a separate lease if both:

- (a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- (b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

27. Leases (applicable since 1 January 2019) (Continued)

As a lessee (Continued)

Lease modifications (Continued)

For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification the Group remeasures the lease liability by discounting the revised lease payments using a revised discount rate. The revised discount rate is determined as the interest rate implicit in the lease for the remainder of the lease term, or the lessee's incremental borrowing rate at the effective date of the modification, if the interest rate implicit in the lease cannot be readily determined.

For the impact of a lease modification, the Group accounts for the remeasurement of the lease liability by:

- (1) decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, and recognising the gain or loss relating to the partial or full termination of the lease in profit or loss; or
- (2) making a corresponding adjustment to the right-of-use asset for all other lease modifications.

Short-term leases and leases of low value

At the commencement date, the Group recognises leases that due in no more than 12 months and without purchase option as short-term leases and recognises leases for which the single leased new asset values lower than RMB40,000 as leases of low value. The sublet or expecting sublet of assets would not recognise lease of low value for the original leases. The Group elects not to recognise right-of-use assets and lease liabilities for short-term leases and leases of low value and recognises the lease payments associated with those leases as cost or in profit and loss on a straight-line basis.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

27. Leases (applicable since 1 January 2019) (Continued)

As a lessor

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise, a lease is classified as an operating lease.

As an operating lease lessor

Rent income under an operating lease is recognised on a straight-line basis over the lease term, through profit or loss. Variable lease payments that are not included in the measurement of lease receivables are charged to profit or loss as incurred.

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

28. Leases (applicable for the year 2018)

A lease that transfers substantially all of the risks and benefits of ownership of an asset to the lessee is termed as a finance lease. All the other leases are termed as operating leases.

As lessee in operating leases

Rentals payable under operating leases are charged to profit or loss or capitalized on the straight-line basis over the lease terms, and contingent rental payment is charged to profit or loss when it is incurred.

As lessor in operating leases

Rentals receivable under operating leases are credited to profit or loss on the straight-line basis over the lease terms, and contingent rental payment is charged to profit or loss when it is incurred.

29. Profit distribution

The cash dividend of the Company is recognised as a liability upon the approval at the annual general meeting.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. Safety production reserve

Safety production reserve sets aside in compliance with relevant regulations, is included in the cost of relevant products or recognized in profit or loss for the period, and credited to the special reserve at the same time. When safety production reserve is utilized, it is accounted for based on whether a fixed asset is generated or not: if the costs incurred can be categorized as expenditure, the costs incurred should be charged against the special reserve; if the reserve is used to build up fixed assets, the costs should be charged to construction in progress, and reclassified to fixed assets when the projects reach the status ready for intended use. Meantime, expenditures in building up fixed assets are directly charged against the special reserve with the accumulated depreciation recognized at the same amount.

31. General reserve

According to the relevant policy of the MOF, Masteel Group Finance Co., Ltd. ("Masteel Finance") accrues the general reserve from net profit as profit distribution. Since 1 July 2012, the balance of the general reserve should not be less than 1.5% of the balance of the risk assets.

32. Fair value measurement

The Group measures listed equity investments instruments, financing receivables and financial assets/liabilities held for trading at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place in the principal market for the asset or liability or in the most advantageous market for the asset or liability when a principal market is absent. The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data and other supporting information are available to measure fair value, giving priority to the use of relevant observable inputs, and using unobservable inputs only when observable inputs are unavailable or not feasible to obtain.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. Fair value measurement (Continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization at the end of each reporting period.

33. Significant accounting judgments and estimates

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of provision, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, which have a significant effect on the amounts recognised in the financial statements:

Going concern

As stated in Note II, the going concern of the Group relies on the cash inflows from borrowings and operating activities, in order to maintain sufficient cash on the due date of the relevant liabilities. The uncertainty of the Group's going concern exists once the Group cannot obtain sufficient cash. The financial statements do not include any necessary adjustments related to book value and classification of assets and liabilities when the Group cannot operate continuously.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

33. Significant accounting judgments and estimates (Continued)

Judgments (Continued)

Operating lease – as lessor

The Group has entered into operating leases on its investment properties. The Group has determined that it retains substantially all the significant risks and rewards of ownership of these properties which are leased out and hence has classified the leases as operating leases according to the lease contracts.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the portions are accounted for separately. If the portions could not be sold separately, the property is an investment property only if the portion held for use in the production or supply of goods or services or for administrative purposes is not significant.

Judgement is made on an individual basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Judgement on entities in which the Group holds less than 20% of voting rights but has a significant influence over them

As of 31 December 2019, the Group held 16.34% equity interests in Anhui Xinchuang Energy Saving and Environmental Protection Science and Technology Co., Ltd. ("Xinchuang Environmental Protection"). The Company designates one director and one supervisor to Xinchuang Environmental Protection according to the Articles of Association and the directors of the Company believe the Company can exercise significant influence over Xinchuang Environmental Protection, despite the equity share is under 20%. Thus, the Group accounts for the investment in Xinchuang Environmental Protection as an associate.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

33. Significant accounting judgments and estimates (Continued)

Judgments (Continued)

Judgement on entities in which the Group holds less than 20% of voting rights but has significant influence over them (Continued)

As of 31 December 2019, the Group held 18.19% equity interests in Phima Intelligence Technology Co., Ltd. ("Phima Intelligence"). The Company designates one director to Phima Intelligence according to the Articles of Association, and the director is nominated to be a member of the Audit Committee. The directors of the Company believe the Company can exercise significant influence over Phima Intelligence, despite the equity share is under 20%. Thus, the Group accounts for the investment in Phima Intelligence as an associate.

Lease term – lease contracts with an option to extend the lease

The Group determines the lease term as the non-cancellable period of a lease, together with periods covered by an option to extend the lease if the Group is reasonably certain to exercise that option. Some leases of the Group contain options to extend the leases to an undertrained period. When the Group reassess whether it is reasonably certain to exercise an extension option, the Group would comprehensively consider the facts and situations that would bring economic benefits if chosen to extend the lease, including the expecting changes to the facts and situations from the commencement date to the exercise date. The Group believes, considering the more favourable contractual terms and conditions for the optional periods compared with market rates, significant costs relating to the termination of the lease, the importance of that underlying asset to the Group's operations, the non-availability of suitable alternatives, it is reasonably certain to exercise an option to extend the lease and therefore the lease term includes the periods covered by an option to extend the lease.

Business model

The classification of a financial asset at initial recognition depends on the Group's business model of managing financial assets. In judging the business model, the Group considers the methods of corporate evaluation and reporting of financial asset performance to key management personnel, the risks affecting the performance of financial assets and their management methods, and the manner in which relevant management personnel are paid. In assessing whether to set the target for acquiring contractual cash flows, the Group needs to analyse and judge the reasons, time, frequency and value of the sale before the maturity date of the financial assets.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

33. Significant accounting judgments and estimates (Continued)

Judgments (Continued)

The characteristics of contractual cash flows

The classification of a financial asset at initial recognition depends on the characteristics of its contractual cash flows. This requires a determination of whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding. It requires judgement to determine whether the contractual cash flows differ significantly with benchmark cash flows when assessing the adjustment of the time value of money. For financial assets with characteristics of paying in advance, it requires judgement to determine whether the fair value of this characteristics is insignificant.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of financial assets

The Group adopts the expected credit loss model to assess the impairment of financial assets. The application of expected credit losses model requires significant judgements and estimates. The Management needs to consider all reasonable and supportable information including forecasts information. When making the judgements and estimates, the Group should also infer the debtor's expected change in credit risk based on the past repayment statistics combining the economic policies, macro-economic indicators and industrial risk factors. The different estimates may impact the impairment assessment, and the provision for impairment may also not be representative of the actual impairment loss in the future.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

33. Significant accounting judgments and estimates (Continued)

Estimation uncertainty (Continued)

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When the carrying amount of an asset or asset group is higher than its recoverable amount, that is the higher of fair value less costs to sell and the present value of estimated future cash flows, the related asset or asset group is impaired. The fair value less costs to sell of an asset is determined as the contractual price of similar assets in an arm's length transaction, or the observable market price of similar assets, after deducting the additional costs directly attributable to the disposal of this asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Deferred tax assets

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary difference and unused tax credit can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with tax planning strategies.

Sales involving a right of return

For contracts with sales clause involving a right of return, the Group forms a reasonable estimate of the rate of return based on sales return historical data, current sales return, and consider all relevant information such as customer changes, market changes, etc. Estimates of the expected return rate may not be representative of the actual returns in the future. The Group re-evaluates the return rate on each balance sheet date and determines the amount due for return and the cost of return receivable based on the re-evaluated return rate.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

33. Significant accounting judgments and estimates (Continued)

Estimation uncertainty (Continued)

Constraint in variable consideration estimate

When the Group assesses the variable consideration, it considers all the information that can be reasonably obtained, including historical, current and forecast information that is reasonably available to the entity and shall identify a reasonable number of possible consideration amounts. When the variable uncertainties cease to exist, the variable consideration transaction price should not exceed the amount of accumulated revenue that is not likely to be significantly reversed. Under the above circumstance, the Group considers the possibility of revenue reversal and the proportion of the amount of money transferred. In order to reflect the condition of the reporting period and changes within the reporting period, the Group reassesses the variable consideration amount at each balance sheet date, including whether the reassessment of the variable consideration estimate is constraint.

Lessee's incremental borrowing rate

If the interest rate implicit in the lease cannot be readily determined, the Group measures the lease liability at the present value of the lease payments discounted using the lessee's incremental borrowing rate. According to the economic environment, the Group takes the observable interest rate as the reference basis for determining the incremental borrowing rate, then adjusts the observable interest rate based on its own circumstances, underlying assets, lease terms and amounts of lease liabilities to determine the applicable incremental borrowing rate.

Estimation of useful life of fixed assets

The Group's management determines the estimated useful life of its fixed assets. This estimate is based on the historical experience of the actual useful lives of fixed assets of similar nature and functions.

Estimation of inventories under net realizable value

Management reviews the condition of inventories (including spare parts) of the Group and their net realizable values and makes provision accordingly. The Group carries out an inventory review at the end of each reporting period and makes provision accordingly.

Net realizable value of inventories is the estimated based on the expected selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of a similar nature. Management reassesses the estimation at the end of each reporting period.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

34. Changes in accounting policies and estimates

Changes in accounting policies

New Leases Standard

In 2018, the Ministry of Finance promulgated the revised “Accounting Standards for Business Enterprises No. 21– Leases” (“New Leases Standard”). The New Leases Standard introduces a single model similar to the current accounting treatment of finance leases, requiring the lessee to recognise right-of-use assets and lease liabilities for all leases, except for short-term leases and leases of low-value assets, and recognise depreciation and interest expense, respectively. The Group has accounted for leases under the New Leases Standard since 1 January 2019 and the Group did not reassess whether a contract is, or contains, a lease at the date of initial application for the contracts existed prior to the initial application date. According to the transitional requirements, the Group did not restate comparative information. Instead, the Group recognised the cumulative effect of the initial application of the New Leases Standard as an adjustment to the opening balance of retained earnings of 2019 at the date of initial application:

- (1) the Group recognised the right-of-use assets and lease liabilities at the amount of the carrying amount of the lease assets and lease liabilities under the original standards applicable at the initial application for leases previously classified as finance leases;
- (2) for leases previously classified as opening leases, the Group recognised lease liabilities based on the present value of the remaining lease payments discounted at the incremental borrowing rate at the date of initial application, and measured right-of-use assets based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payment previously recognised; and
- (3) the Group has performed impairment test for right-of-use assets and accounted for the impairment correspondingly in accordance with Note III.18.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

34. Changes in accounting policies and estimates (Continued)

Changes in accounting policies (Continued)

New Leases Standard (Continued)

For operating leases of low-value assets and operating leases for which the lease term ends within 12 months before initial application, the Group applied a simplified approach and did not recognise the right-of-use assets and lease liabilities. For leases previously classified as operating leases, the Group also applied the available practical expedients wherein it:

- (1) applied a single discount rate to a portfolio of leases with reasonably similar characteristics; and excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- (2) used hindsight in determining the lease term where the contract contained options to extend or terminate the lease;
- (3) relied on its assessment of whether leases are onerous contracts before the date of initial application as an alternative to performing an impairment review in accordance with Note III.21, and adjusted the right-of-use assets at the date of initial application by the amount of any provision for onerous leases recognized in the balance sheet immediately before the date of initial application; and
- (4) accounted for the changes in leases before the date of initial application based on the final arrangement for such changes.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

34. Changes in accounting policies and estimates (Continued)

Changes in accounting policies (Continued)

New Leases Standard (Continued)

The Group reconciled the outstanding minimum lease payment for significant operating leases disclosed in 2018 financial statements with lease liabilities included in the balance sheet as at 1 January 2019 based on the present value of the minimum lease payments discounted using the incremental borrowing rate of the Group as the leases as at 1 January 2019 as follows:

Minimum lease payments of the significant operating leases as at 31 December 2018	955,544
Plus: payments for optional extension periods not recognised as at 31 December 2018	692,343,252
	693,298,796
Weighted average incremental borrowing rate	4.95%
Lease liabilities as at 1 January 2019 (including lease liabilities due within one year)	443,424,793

The effect of implementation of the New Leases Standard on the balance sheet as at 1 January 2019 is as follows:

Consolidated balance sheet

	Carrying amount	Under the original standard	Effect
Right-of-use assets	443,424,793	–	443,424,793
Lease liabilities	427,657,812	–	427,657,812
Lease liabilities due within one year	15,766,981	–	15,766,981

Company balance sheet

	Carrying amount	Under the original standard	Effect
Right-of-use assets	388,795,738	–	388,795,738
Lease liabilities	376,644,378	–	376,644,378
Lease liabilities due within one year	12,151,360	–	12,151,360

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

34. Changes in accounting policies and estimates (Continued)

Changes in accounting policies (Continued)

New Leases Standard (Continued)

The effect of implementation of the New Leases Standard on the financial statements for the year ended 31 December 2019 is as follows :

Consolidated balance sheet

	Carrying amount	Under the original standard	Effect
Right-of-use assets	418,879,903	–	418,879,903
Lease liabilities	411,432,835	–	411,432,835
Lease liabilities due within one year	16,261,266	–	16,261,266

Consolidated income statement

	Carrying amount	Under the original standard	Effect
Cost of sales	1,730,834	2,166,334	(435,500)
Selling expenses	211,723	437,029	(225,306)
General and administrative expenses	22,545,909	34,610,229	(12,064,320)
Finance expense	21,539,323	–	21,539,323

Company balance sheet

	Carrying amount	Under the original standard	Effect
Right-of-use assets	368,857,495	–	368,857,495
Lease liabilities	363,877,690	–	363,877,690
Lease liabilities due within one year	12,766,688	–	12,766,688

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

34. Changes in accounting policies and estimates (Continued)

Changes in accounting policies (Continued)

New Leases Standard (Continued)

Company income statement

	Carrying amount	Under the original standard	Effect
General and administrative expenses	19,938,243	31,123,524	(11,185,281)
Finance expense	18,972,164	–	18,972,164

In addition, the cash paid by the Group for repayment of the principal and interest of the lease liability is included in the statement of cash flows as cash outflows from financing activities, and the payments for short-term leases and leases of low-value assets accounted for using the practical expedients and variable lease payments not included in the measurement of the lease liability are still included in cash outflows from operating activities.

Changes in financial statements format

To meet the requirements of the Notice on Revising and Issuing Format of 2019 Financial Statements for General Business Enterprises (Cai Kuai [2019] No.6) and the Notice on Revising and Issuing Format of Consolidated Financial Statements (2019 edition) (Cai Kuai [2019] No. 16), in the balance sheet, the amount previously presented in “notes and trade receivable” shall be presented separately in “notes receivable” and “trade receivables”; the amount previously presented in “notes and trade payables” shall be presented separately in “notes payable” and “accounts payables”; the notes at fair value through other comprehensive income previously presented in “other current assets” are separately presented in “financing receivables”; the “interests receivables” in “other receivables” is changed to reflect only the outstanding interests on financial instruments that expired and can be collected at the balance sheet date (the interests on the financial instrument accrued using the effective interest method are included in the outstanding amount of the corresponding financial instrument); the “interests payable” in “other payables” is changed to reflect only the outstanding interests on financial instruments that expired and should be paid at the balance sheet date (the interests on the financial instrument accrued using the effective interest method are included in the outstanding amount of the corresponding financial instrument). The Group has retrospectively adjusted the comparative amounts correspondingly. The changes in accounting policies have no impact on the net profit and equity in the consolidated and company financial statements.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

34. Changes in accounting policies and estimates (Continued)

Changes in accounting policies (Continued)

Changes in financial statements format (Continued)

The main impact of retrospective adjustments caused by the above changes in accounting policy is as follows:

The Group

	Before changes Closing balance for 2018	Changes in accounting policies		After changes Opening balance for 2019
		Effect of the New Leases Standard	Other changes in financial statements format	
Assets:				
Trade receivables	–	–	1,121,768,976	1,121,768,976
Financing receivables	–	–	4,970,113,847	4,970,113,847
Notes and trade receivables	6,091,882,823	–	(6,091,882,823)	–
Right-of-use assets	–	443,424,793	–	443,424,793
Liabilities:				
Notes payable	–	–	2,638,271,437	2,638,271,437
Trade payables	–	–	7,703,736,542	7,703,736,542
Notes and trade payables	10,342,007,979	–	(10,342,007,979)	–
Lease liabilities	–	427,657,812	–	427,657,812
Non-current liabilities due within one year	–	15,766,981	–	15,766,981

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

34. Changes in accounting policies and estimates (Continued)

Changes in accounting policies (Continued)

Changes in financial statements format (Continued)

The Company

	Before changes	Changes in accounting policies		After changes
		Effect of the	Other changes	
	Closing	New Leases	in financial	Opening
	balance for	Standard	statements	balance for
	2018		format	2019
Assets:				
Trade receivables	–	–	2,460,866,900	2,460,866,900
Financing receivables	–	–	4,692,435,408	4,692,435,408
Notes and trade receivables	7,153,302,308	–	(7,153,302,308)	–
Right-of-use assets	–	388,795,738	–	388,795,738
Liabilities:				
Notes payable	–	–	1,022,148,850	1,022,148,850
Trade payables	–	–	10,288,909,379	10,288,909,379
Notes and trade payables	11,311,058,229	–	(11,311,058,229)	–
Lease liabilities	–	376,644,378	–	376,644,378
Non-current liabilities due within one year	–	12,151,360	–	12,151,360

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

IV. TAX

1. The principal kinds of taxes and related tax rates

Value-added tax	Before 1 April 2019, the output VAT rate of domestic sales is 16%. Since 1 April 2019, the output VAT rate of domestic sales is 13%. VAT payable is the net difference between output VAT and deductible input VAT. According to national tax regulations, the Company adopted the "Exempt, Offset, Refund" arrangements for VAT in export sales with the refund rates of 10% to 13%.
City construction and maintenance tax	Payable based on 5% to 7% of the turnover taxes to be paid.
Income tax	<p>The Group and certain of its subsidiaries were subject to corporate income tax ("CIT") at a rate of 25% on their taxable profits.</p> <p>Maanshan Iron & Steel (HK) Limited ("Ma Steel (HK)") was established and registered in Hong Kong (China), the applicable income tax rate is 16.5%. Maanshan Iron and Steel (Australia) Proprietary Limited ("Ma Steel (Australia)") was established and registered in Australia, the applicable income tax rate is 30%. MG Trading and Development GmbH ("MG Trading") was established and registered in Germany, the applicable income tax rate is 30%. MG-VALDUNES S.A.S was established and registered in France, and the applicable income tax rate is 28%. MASTEEL AMERICA INC ("Masteel America") was established and registered in the United States, and the applicable income tax rate is 30%. Masteel Middle East General Industrial ("Masteel Middle East") was established and registered in Dubai, and the applicable income tax rate is 0%.</p>
Land appreciation tax	Payable based on appreciation of land use rights and buildings at a progressive tax rate of 30%-60% as a result of the transfer of ownership.
Education surcharge	Payable based on 3% of the turnover taxes to be paid.
Local education surcharge	Payable based on 2% of the turnover taxes to be paid.
Property tax	Payable based on a certain percentage of the cost of real estate with legal title in accordance with relevant regulations.
Environment protection tax	Payable based on the actual air pollution generated with RMB1.2 per pollution equivalent.
Other taxes	In accordance with tax laws and other relevant regulations.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash and bank balances

	31 December 2019	31 December 2018
Cash on hand	46,737	90,260
Bank balances	7,343,105,580	7,757,669,516
Other monetary assets	1,461,248,595	1,021,612,231
Mandatory reserves of Masteel Finance deposited in the central bank	712,912,783	983,472,711
	9,517,313,695	9,762,844,718
Including: Restricted amount due to mortgage, pledge or freeze	1,461,248,595	1,021,612,231

As of 31 December 2019, the Group had cash and bank balances amounting to RMB870,697,419 that have been deposited outside the PRC (31 December 2018: equivalent of RMB822,852,609).

Cash deposited in current accounts earns interest at floating interest rates. The terms of time deposits are from three months, six months, nine months and one year to three years, respectively, depending on the cash flow demand of the Group. Such deposits earn interest at the respective bank deposit rates. As of 31 December 2019, the Group had time deposits amounting to RMB103,501,683 (31 December 2018: RMB823,584,000) with terms of over three months.

2. Financial assets held for trading

	31 December 2019	31 December 2018
Financial assets at fair value through profit or loss		
Derivative financial assets		
Futures contracts	3,573,580	–
Debt instruments investment	2,122,538,614	2,084,414,075
	2,126,112,194	2,084,414,075

As of 31 December 2019, the fair value of futures contracts held by the Group was determined by the settlement price of the Dalian Commodity Exchange on the last trading date in 2019.

As of 31 December 2019, the Group's debt instruments investment was mainly in funds and financial products. There was no material restriction on the realization of these investments.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Trade receivables

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

The aging of trade receivables, based on the invoice date, is analyzed below:

	31 December 2019	31 December 2018
Within one year	1,076,796,471	1,090,345,962
One to two years	14,798,803	31,834,919
Two to three years	26,523,395	26,792,202
Over three years	27,217,799	45,506,589
	1,145,336,468	1,194,479,672
Less: Provisions for bad debts	52,406,346	72,710,696
	1,092,930,122	1,121,768,976

The movements of provisions for bad debts against trade receivables were as follows:

	Opening balance	Increase during the year	Reversal during the year	Write-back due to disposal of a subsidiary	Other changes	Closing balance
2019	72,710,696	—	(20,274,936)	—	(29,414)	52,406,346
2018	57,534,492	21,483,181	(944,761)	(5,376,915)	14,699	72,710,696

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Trade receivables (Continued)

The balances of trade receivables are analyzed as follows:

	31 December 2019				31 December 2018			
	Book value		Provision for bad debts		Book value		Provision for bad debts	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Assessed bad debt provision individually	-	-	-	-	-	-	-	-
Assessed bad debt provision in portfolios based on credit risk characteristics	1,145,336,468	100	(52,406,346)	5	1,194,479,672	100	(72,710,696)	6
	1,145,336,468	100	(52,406,346)		1,194,479,672	100	(72,710,696)	

Provision for bad debts of trade receivables of the Group analysed by ageing is disclosed as follows:

	31 December 2019			31 December 2018		
	Carrying amount expected to default	Expected credit loss ratio (%)	Expected credit loss	Carrying amount expected to default	Expected credit loss ratio (%)	Expected credit loss
Within one year	1,076,796,471	1	(10,767,965)	1,090,345,962	1	(10,903,460)
One to two years	14,798,803	15	(2,219,820)	31,834,919	14	(4,456,889)
Two to three years	26,523,395	46	(12,200,762)	26,792,202	51	(13,664,023)
Over three years	27,217,799	100	(27,217,799)	45,506,589	96	(43,686,324)
	1,145,336,468		(52,406,346)	1,194,479,672		(72,710,696)

During the year, there were no trade receivables that had been written off (2018: Nil).

As of 31 December 2019 and 31 December 2018, there were no trade receivables that were derecognized due to the transfer of financial assets.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Trade receivables (Continued)

The top five trade receivables classified by debtors are as follows:

31 December 2019	Relationship with the Group	Ending balance	Ageing	Percentage of trade receivables	Ending balance of bad debts provision
Company 1	Third party	152,551,557	Within 1 year	13%	(1,525,516)
Company 2	Third party	123,273,286	Within 1 year	11%	(1,232,733)
Company 3	Third party	66,079,181	Within 1 year	6%	(660,792)
Company 4	Third party	50,422,528	Within 1 year	4%	(504,225)
Company 5	Third party	50,264,921	Within 1 year	4%	(502,649)
		442,591,473		38%	(4,425,915)

31 December 2018	Relationship with the Group	Ending balance	Ageing	Percentage of trade receivables	Ending balance of bad debts provision
Company 1	Third party	145,378,033	Within 1 year	13%	(1,453,780)
Company 2	Third party	49,408,021	Within 1 year	4%	(494,080)
Company 3	Third party	48,227,161	Within 3 years	4%	(11,294,390)
Company 4	Third party	45,784,171	Within 1 year	4%	(457,842)
Company 5	Third party	44,070,494	Within 1 year	4%	(440,705)
		332,867,880		29%	(14,140,797)

As of 31 December 2019, the Group had no assets or liabilities deriving from transferring trade receivables in which the Group was continuingly involved (31 December 2018: Nil).

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Financing receivables

	31 December 2019	31 December 2018
Bank acceptance notes	11,097,821,345	4,970,113,847
Commercial acceptance notes	878,076	—
	11,098,699,421	4,970,113,847

As of 31 December 2019, the Group pledged the bank acceptance notes of RMB4,470,011,632 (31 December 2018: Nil) to issue notes payable and the bank acceptance notes of RMB127,316,634 (31 December 2018: Nil) to pledge for the short-term loan.

The undue notes endorsed or discounted were as follows :

	31 December 2019		31 December 2018	
	Derecognized	Not derecognized	Derecognized	Not derecognized
Bank acceptance notes	2,076,771,934	127,789,539	7,398,304,418	159,713,509

As of 31 December 2019 and 31 December 2018, there were no trade receivables transferred from notes receivable because of the drawers' inability to pay.

The Group derecognised notes receivable discounted to financial institutions amounting to RMB4,189,003,767 (2018: RMB119,530,190), and recognised a discount expense amounting to RMB49,959,470 (2018: RMB2,083,991).

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. Prepayments

Ageing analysis of the prepayments is as follows:

	31 December 2019		31 December 2018	
	Book value	Ratio (%)	Book value	Ratio (%)
Within one year	946,842,275	96	696,694,164	98
One to two years	27,222,230	3	5,422,942	1
Two to three years	88,508	—	385,515	—
Over three years	7,290,562	1	9,837,927	1
	981,443,575	100	712,340,548	100

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

The top five prepayments classified by debtors are as follows:

31 December 2019	Relationship with the Group	Ending balance	Ageing	Percentage of prepayments
Company 1	Third party	137,943,628	Within 1 year	14%
Company 2	Third party	51,420,494	Within 1 year	5%
Company 3	Third party	47,449,593	Within 1 year	5%
Company 4	Third party	33,507,518	Within 1 year	3%
Company 5	Third party	32,910,881	Within 1 year	3%
		303,232,114		30%

Notes to the Financial Statements (Continued)

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Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. Prepayments (Continued)

The top five prepayments classified by debtors are as follows (Continued):

31 December 2018	Relationship with the Group	Ending balance	Ageing	Percentage of prepayments
Company 1	Third party	123,435,252	Within 1 year	17%
Company 2	Third party	60,163,329	Within 1 year	8%
Company 3	Third party	41,348,330	Within 1 year	6%
Company 4	Third party	40,090,000	Within 1 year	6%
Company 5	Third party	39,108,105	Within 1 year	5%
		304,145,016		42%

6. Other receivables

	31 December 2019	31 December 2018
Interest receivable	257,956	507,913
Dividends receivable	—	20,346,208
Other receivables	156,033,895	127,111,413
	156,291,851	147,965,534

Interest receivable

	31 December 2019	31 December 2018
Interest from time deposits	257,956	507,913

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Other receivables (Continued)

Dividends receivable

	31 December 2019	31 December 2018
Other equity instruments investments – China MCC17 Group Co., Ltd.	–	1,760,000
Associate – Masteel Scrap	–	8,119,136
Associate – Masteel K. Wah	–	1,812,970
Associate – Magang Chemicals & Energy	–	8,654,102
	–	20,346,208

Other receivables

Ageing analysis of other receivables is as follows:

	31 December 2019	31 December 2018
Within one year	111,650,679	123,297,588
One to two years	44,736,427	900,006
Two to three years	146,600	7,626,419
Over three years	418,435,047	411,648,933
	574,968,753	543,472,946
Less: Provision for bad debts	418,934,858	416,361,533
	156,033,895	127,111,413

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Other receivables (Continued)

Other receivables (Continued)

Other receivables analysed by nature were as follows:

	31 December 2019	31 December 2018
Due from trading companies	417,751,118	432,303,988
Transferring of assets	43,454,334	43,454,334
Prepaid import tariff and VAT deposit	32,041,791	8,425,735
Tax refunds	237,911	237,911
Deposit for steel futures	47,141,529	74,298
Others	34,342,070	58,976,680
	574,968,753	543,472,946
Less: Provision for bad debts	418,934,858	416,361,533
	156,033,895	127,111,413

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Other receivables (Continued)

Other receivables (Continued)

Changes in impairment allowance recognised for the 12-month expected credit losses and lifetime expected credit losses on other receivables are as follows:

2019

	Stage I 12-month expected credit losses	Stage II Lifetime expected credit losses	Stage III Credit-impaired financial assets (Lifetime expected credit losses)	Total
Opening balance	1,008,277	12,035,629	403,317,627	416,361,533
Changes due to the opening balance	(3,600)	3,600	—	—
– Shift to Stage II	(3,600)	3,600	—	—
– Shift to Stage III	—	—	—	—
– Back to Stage II	—	—	—	—
– Back to Stage I	—	—	—	—
Accrual	—	4,218,900	—	4,218,900
Reversal	(775,059)	(869,087)	—	(1,644,146)
Other changes	(1,429)	—	—	(1,429)
Closing balance	228,189	15,389,042	403,317,627	418,934,858

2018

	Stage I 12-month expected credit losses	Stage II Lifetime expected credit losses	Stage III Credit-impaired financial assets (Lifetime expected credit losses)	Total
Opening balance	1,302,830	22,547,728	585,534,699	609,385,257
Changes due to the opening balance	—	—	—	—
– Shift to Stage II	—	—	—	—
– Shift to Stage III	—	—	—	—
– Back to Stage II	—	—	—	—
– Back to Stage I	—	—	—	—
Accrual	43,735	—	—	43,735
Reversal	(340,313)	(10,512,099)	(12,598,700)	(23,451,112)
Other changes	2,025	—	(169,618,372)	(169,616,347)
Closing balance	1,008,277	12,035,629	403,317,627	416,361,533

During the year, there were no other receivables that had been written off (2018: Nil).

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Other receivables (Continued)

Other receivables (Continued)

As of 31 December 2019, the top five other receivables were as follows:

	Carrying amount	Ratio in other receivables (%)	Nature	Ageing	Provision for bad debts
Company 1	132,058,434	23	Due from trading companies	More than 3 years	(132,058,434)
Company 2	127,685,367	22	Due from trading companies	More than 3 years	(127,685,367)
Company 3	60,939,960	11	Due from trading companies	More than 3 years	(60,939,960)
Company 4	45,390,133	8	Due from trading companies	More than 3 years	(45,390,133)
Company 5	43,454,334	8	Due from trading companies	One to two years	-
	409,528,228	72			(366,073,894)

As of 31 December 2018, the top five other receivables were as follows:

	Carrying amount	Ratio in other receivables (%)	Nature	Ageing	Provision for bad debts
Company 1	132,058,434	24	Due from trading companies	More than 3 years	(132,058,434)
Company 2	127,685,367	23	Due from trading companies	More than 3 years	(127,685,367)
Company 3	60,939,960	11	Due from trading companies	More than 3 years	(60,939,960)
Company 4	45,390,133	8	Due from trading companies	More than 3 years	(45,390,133)
Company 5	43,454,334	8	Due from trading companies	Within one year	(869,087)
	409,528,228	74			(366,942,981)

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Other receivables (Continued)

Other receivables (Continued)

As of 31 December 2019, the government grants receivable were as follows:

	Government grant project	Balance	Ageing	Expected receiving time, amount and basis
Other receivables due from Taibai Town Government	Policy return from 2004 to 2009	237,911	More than three years	Note

As of 31 December 2018, the government grants receivable were as follows:

	Government grant project	Balance	Ageing	Expected receiving time, amount and basis
Other receivables due from Taibai Town Government	Policy return from 2004 to 2009	237,911	More than three years	Note

Note: The balance is the government grant received by a subsidiary named Anhui Changjiang Iron and Steel Co., Ltd. ("Anhui Chang Jiang Iron and Steel") in 2009 from the Town Government of Taibai, Dangtu in Anhui Province because of its timely and full tax payments between 2004 and 2009. This government grant was recorded as non-operating income in 2009. Anhui Changjiang Iron and Steel collected RMB5,000,000 in 2018, and the remaining amount was expected to collect in 2020.

The balances of other receivables as of 31 December 2019 and 31 December 2018 did not contain any amount derecognized due to the transfer of financial assets.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Inventories

	31 December 2019			31 December 2018		
	Carrying amount	Provision for impairment	Carrying amount	Carrying amount	Provision for impairment	Carrying amount
Raw materials	5,436,379,019	(85,611,330)	5,350,767,689	5,357,513,992	(306,614,876)	5,050,899,116
Work in progress	1,369,764,747	(42,078,481)	1,327,686,266	2,122,244,677	(157,296,973)	1,964,947,704
Finished goods	3,029,789,651	(92,523,279)	2,937,266,372	2,983,102,649	(269,855,384)	2,713,247,265
Spare parts	1,160,103,515	(61,776,506)	1,098,327,009	1,136,764,306	(65,356,757)	1,071,407,549
Others	233,802,883	-	233,802,883	253,417,114	-	253,417,114
	11,229,839,815	(281,989,596)	10,947,850,219	11,853,042,738	(799,123,990)	11,053,918,748

The movements of impairment provision against inventories for the year are disclosed in Note V.20.

At the balance sheet date, inventories were measured at the lower of costs and net realizable values, and provision for impairment was made for items whose costs were higher than their net realizable values. Net realizable value is the estimated selling price under normal business terms deducted by the estimated costs to completion, the estimated selling expenses and related taxes.

During the year, there was no reversal of impairment provision against inventories (31 December 2018: Nil).

As of 31 December 2019, the Group had no constraint inventories (31 December 2018: Nil).

8. Financial assets purchased under agreements to resell

	31 December 2019	31 December 2018
Bonds	2,369,990,031	2,433,102,181
Less: Provision for impairment	23,277	823,072
	2,369,966,754	2,432,279,109

The movements of impairment provision against financial assets purchased under agreements to resell for the year are disclosed in Note V.20.

Financial assets purchased under agreements to resell are bonds that are bought first and then to be sold at a fixed price by Masteel Finance according to the resale agreements. The ending balance was bonds repurchased by a pledge.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Loans and advances to customers

	31 December 2019	31 December 2018
Loans	2,581,278,897	516,691,043
Discounted notes	1,786,640,104	2,408,706,627
Factoring	2,661,229	–
	4,370,580,230	2,925,397,670
Less : Bad debts provision for loans and advances to customers	114,165,040	80,099,567
	4,256,415,190	2,845,298,103

An analysis of loans and advances to customers, based on guarantee methods, is as follows:

	31 December 2019	31 December 2018
Unsecured loans	4,156,918,916	2,801,810,456
Guaranteed loans	60,075,236	60,138,673
Mortgaged loans	20,028,754	–
Pledged loans	133,557,324	63,448,541
	4,370,580,230	2,925,397,670

All customers related to loans and advances are the Holding and its subsidiaries. The Group applies a “expected credit loss (“ECL”) model” to evaluate the credit loss of loans and advances to customers. As of 31 December 2019, there was no non-performing loan in the Group’s loans and advances to customers.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Loans and advances to customers (Continued)

The movements of provisions for bad debts against loans and advances during 2019 are as follows:

	Stage I 12-month expected credit losses	Stage II Lifetime expected credit losses	Stage III Credit-impaired financial assets (Lifetime expected credit losses)	Total
Opening balance	80,099,567	—	—	80,099,567
Changes due to the opening balance	—	—	—	—
– Shift to Stage II	—	—	—	—
– Shift to Stage III	—	—	—	—
– Back to Stage II	—	—	—	—
– Back to Stage I	—	—	—	—
Accrual	34,065,473	—	—	34,065,473
Closing balance	114,165,040	—	—	114,165,040

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Loans and advances to customers (Continued)

The movements of provisions for bad debts against loans and advances during 2018 are as follows:

	Stage I 12-month expected credit losses	Stage II Lifetime expected credit losses	Stage III Credit-impaired financial assets (Lifetime expected credit losses)	Total
Opening balance	36,884,851	–	–	36,884,851
Changes due to the opening balance	–	–	–	–
– Shift to Stage II	–	–	–	–
– Shift to Stage III	–	–	–	–
– Back to Stage II	–	–	–	–
– Back to Stage I	–	–	–	–
Accrual	43,727,871	–	–	43,727,871
Reversal	(513,155)	–	–	(513,155)
Closing balance	80,099,567	–	–	80,099,567

Loans and advances to customers due from related parties as of 31 December 2019 and 31 December 2018 are stated in Note X.6 to the financial statements.

10. Non-current assets due within one year

	31 December 2019	31 December 2018
Debt instruments investment	–	101,201,184

Note: Debt instruments investment held by the Group was mainly national bonds purchased by Masteel Finance.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Other current assets

	31 December 2019	31 December 2018
Prepaid income tax	282,233,649	272,152,842
Deductible value added tax	510,579,510	523,930,493
Debt instruments investment (Note)	3,182,221,639	2,377,039,640
	3,975,034,798	3,173,122,975

Note: Debt instruments investment held by the Group was mainly interbank deposits purchased by Masteel Finance.

	31 December 2019			31 December 2018		
	Book amount	Provision for impairment	Carrying amount	Book amount	Provision for impairment	Carrying amount
Interbank deposits	3,182,574,639	(353,000)	3,182,221,639	2,377,480,744	(441,104)	2,377,039,640

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Other current assets (Continued)

The movements of provisions for bad debts against debt instruments investment during 2019 are as follows:

	Stage I 12-month expected credit losses	Stage II Lifetime expected credit losses	Stage III Credit-impaired financial assets (Lifetime expected credit losses)	Total
Opening balance	441,104	–	–	441,104
Changes due to the opening balance	–	–	–	–
– Shift to Stage II	–	–	–	–
– Shift to Stage III	–	–	–	–
– Back to Stage II	–	–	–	–
– Back to Stage I	–	–	–	–
Accrual	–	–	–	–
Reversal	(88,104)	–	–	(88,104)
Closing balance	353,000	–	–	353,000

The movements of provisions for bad debts against debt instruments investment during 2018 are as follows:

	Stage I 12-month expected credit losses	Stage II Lifetime expected credit losses	Stage III Credit-impaired financial assets (Lifetime expected credit losses)	Total
Opening balance	187,201	–	–	187,201
Changes due to the opening balance	–	–	–	–
– Shift to Stage II	–	–	–	–
– Shift to Stage III	–	–	–	–
– Back to Stage II	–	–	–	–
– Back to Stage I	–	–	–	–
Accrual	253,903	–	–	253,903
Reversal	–	–	–	–
Closing balance	441,104	–	–	441,104

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Long-term equity investments

31 December 2019

	Opening balance	Movements during the year							Closing balance	Impairment at the end of the year
		Increase	Decrease	Investment income under the equity method	Other comprehensive income	Other equity movement	Cash dividend declared	Provision for impairment		
Joint ventures										
Maanshan BOC-Ma Steel Gases Company Limited ("BOC-Ma Steel")	268,088,957	-	-	88,606,456	-	-	(85,000,000)	-	271,695,413	-
Masteel-CMI International Training Centre Co., Ltd. ("MASTEEL-CMI")	501,735	-	-	(429)	-	-	-	-	501,306	-
Associates										
Henan JinMa Energy Co., Ltd. (Henan JinMa Energy)	613,018,859	-	-	157,352,305	-	2,002,800	(64,800,000)	-	707,573,964	-
Shenglong Chemical Co., Ltd. ("Shenglong Chemical")	732,685,925	-	-	162,822,030	-	694,949	(79,982,419)	-	816,220,485	-
Shanghai Iron and Steel Electronic Deal Center Co., Ltd. ("Shanghai Iron and Steel Electronic")(Note1)	7,790,111	-	(7,484,171)	(305,940)	-	-	-	-	-	-
Xinchuang Environmental Protection	57,681,293	-	-	11,393,478	-	582,123	(2,692,786)	-	66,964,108	-
Ma-Steel OCI Chemical Co., Ltd. ("Ma-Steel OCI Chemical")	146,519,873	-	-	5,231,952	-	935,411	(4,800,000)	-	147,887,236	-
Ma Steel (Shanghai) Commercial Factoring Co., Ltd. ("Ma-Steel Commercial Factoring") (Note2)	77,647,587	75,000,000	-	6,999,632	-	-	(2,076,921)	-	157,570,298	-
Ma Steel (Shanghai) Financial Leasing Co., Ltd. ("Ma-Steel Financial Leasing")	78,061,708	-	-	8,575,978	-	-	(878,135)	-	85,759,551	-
Anhui Magang Chemicals & Energy Technology Co., Ltd. ("Magang Chemicals & Energy")	600,000,000	-	-	59,192,523	-	-	-	-	659,192,523	-
Anhui Masteel K.Wah New Building Materials Co., Ltd. ("Masteel K. Wah")	81,118,544	-	-	22,584,686	-	-	-	-	103,703,230	-
Maanshan Masteel Scrap Steel Co., Ltd. ("Masteel Scrap") (Note3)	145,948,789	135,000,000	-	46,356,806	-	-	-	-	327,305,595	-
Phima Intelligence (Note4)	-	200,188,534	-	1,657,425	-	-	-	-	201,845,959	-
	2,809,063,381	410,188,534	(7,484,171)	570,466,902	-	4,215,283	(240,230,261)	-	3,546,219,668	-

* Except for Henan JinMa Energy, Xinchuang Environmental Protection and Phima Intelligence, the above joint ventures and associates accounted for by the equity method are unlisted investments.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Long-term equity investments (Continued)

31 December 2018

	Movements during the year								Closing balance	Impairment at the end of the year
	Opening balance	Increase	Decrease	Investment income under the equity method	Other comprehensive income	Other equity movement	Cash dividend declared	Provision for impairment		
Joint ventures										
BOC-Ma Steel	334,457,696	-	-	83,631,261	-	-	(150,000,000)	-	268,088,957	-
MASTEEL-CMI	546,153	-	-	(44,418)	-	-	-	-	501,735	-
Associates										
Henan JinMa Energy	441,184,749	-	-	222,404,961	(2,745,469)	(305,382)	(47,520,000)	-	613,018,859	-
Shenglong Chemical	469,646,241	-	-	294,692,833	-	339,819	(31,992,968)	-	732,685,925	-
Shanghai Iron and Steel Electronic	22,759,705	-	-	(2,969,594)	-	-	(12,000,000)	-	7,790,111	-
Xinchuang Environmental Protection	48,584,024	-	-	10,054,228	-	471,699	(1,428,658)	-	57,681,293	-
Anhui Linhuan Chemical Co., Ltd.	80,254,391	-	(106,810,899)	26,475,894	-	80,614	-	-	-	-
Ma-Steel OCI Chemical	127,792,243	-	-	17,455,827	-	1,271,803	-	-	146,519,873	-
Ma-Steel Commercial Factoring	-	75,000,000	-	2,647,587	-	-	-	-	77,647,587	-
Ma-Steel Financial Leasing	-	75,000,000	-	3,061,708	-	-	-	-	78,061,708	-
Magang Chemicals & Energy	-	600,000,000	-	-	-	-	-	-	600,000,000	-
Masteel K. Wah	-	81,118,544	-	-	-	-	-	-	81,118,544	-
Masteel Scrap	-	145,948,789	-	-	-	-	-	-	145,948,789	-
	1,525,225,202	977,067,333	(106,810,899)	657,410,287	(2,745,469)	1,858,553	(242,941,626)	-	2,809,063,381	-

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Long-term equity investments (Continued)

Note 1: The 10th meeting of the 9th session of the Board of Directors had approved the liquidation of Shanghai Iron and Steel Electronic. As of 31 December 2019, the liquidation of Shanghai Steel Electronics had been completed, and the Company recovered its investment based on the liquidation results.

Note 2: Upon the approval of the 20th meeting of the 9th session of the Board of Directors, the Company injected capital in cash amounting to RMB75,000,000 to Ma-Steel Commercial Factoring in the proportion to present holdings. The capital injection was completed as of 28 May 2019. After the injection, the Company still holds 25% of the equity of Ma-Steel Commercial Factoring.

Note 3: Upon the approval of the 21st meeting of the 9th session of the Board of Directors, the Company injected capital in cash amounting to RMB135,000,000 to Masteel Scrap in the proportion to present holdings. The capital injection was completed as of 17 July 2019. After the injection, the Company still holds 45% of the equity of Masteel Scrap.

Note 4: Upon the approval of the 24th meeting of the 9th session of the Board of Directors, Ma Steel (Hefei) Co., Ltd. ("Ma Steel (Hefei)"), a subsidiary of the Company, subscribed the additional shares of Phima Intelligence, a subsidiary of the Holding, through Anhui Provincial Property Rights Exchange. Ma Steel (Hefei) has completed its capital injection amounting to RMB200,188,534 to Phima Intelligence on 4 December 2019. After the injection, the Company holds 18.19% of the equity of Phima Intelligence.

The Company designates one director to Phima Intelligence according to the Articles of Association, and the director is nominated to be a member of the Audit Committee. The directors of the Company believe the Company can exercise significant influence over Phima Intelligence, despite the equity share is under 20%. Thus, the Group accounts for the investment in Phima Intelligence as an associate.

Notes to the Financial Statements (Continued)

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V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. Other equity instruments investments

31 December 2019

				Dividend	
	Cost	Changes in fair value accumulated in other comprehensive income	Fair value	Equity instruments derecognized in the year	Equity instruments held
Henan Longyu Energy Co., Ltd. ("Henan Longyu")	10,000,000	28,351,737	38,351,737	—	—
China MCC17 Group Co., Ltd. ("MCC17")	8,554,800	48,414,025	56,968,825	—	—
Shanghai LuoJing Ore Quay Co., Ltd. ("Shanghai LuoJing")	88,767,360	(58,009,120)	30,758,240	—	—
Beijing Zhonglian Steel Ecommerce Co., Ltd. ("Zhonglian Steel")	1,000,000	(326,096)	673,904	—	—
Anshan Huatai CDQ Engineering Technology Co., Ltd. ("Anshan Huatai")	400,000	138,510	538,510	—	—
CFHI (Group) Ma'anshan Heavy Industry Co., Ltd. ("CFHI Maanshan")	16,030,500	(10,731,844)	5,298,656	—	—
Guoqi (Beijing) Lightweight of Automotive Technology Institute Co., Ltd. ("Guoqi Institute")	3,000,000	(7,742)	2,992,258	—	—
Linhan Coking Coking Co., Ltd. ("Linhan Coking")	114,500,456	25,426,273	139,926,729	—	—
Masteel Lihua Metal Resources co. Ltd. ("Masteel Lihua")	3,000,000	67,650	3,067,650	—	—
	245,253,116	33,323,393	278,576,509	—	—

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. Other equity instruments investments(Continued)

31 December 2018

		Changes in fair value accumulated in other comprehensive income	Fair value	Dividend Equity instruments derecognized in the year	Equity instruments held
	Cost				
Henan Longyu	10,000,000	24,667,011	34,667,011	–	–
MCC17	8,554,800	48,371,699	56,926,499	–	3,340,000
Shanghai Luojing	88,767,360	(48,093,703)	40,673,657	–	–
Zhonglian Steel	1,000,000	(658,341)	341,659	–	–
Anshan Huatai	400,000	(97,943)	302,057	–	40,000
CFHI Maanshan	16,030,500	(10,104,421)	5,926,079	–	–
Guoqi Institute	3,000,000	(110,301)	2,889,699	–	–
Linhuankoking	114,500,456	6,895,247	121,395,703	–	–
	242,253,116	20,869,248	263,122,364	–	3,380,000

As neither the Group participate in the daily operating activities of the above investees, has intention of receiving contractual cash flows, nor does hold them for trading, the above mentioned investments were designated as financial assets measured at fair value through other comprehensive income.

Notes to the Financial Statements (Continued)

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V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. Investment properties

Investment properties measured using the cost method:

2019

	Plant and buildings
Cost:	
Opening balance	65,075,379
Addition	—
Transferred from property, plant and equipment	12,554,710
Closing balance	77,630,089
Accumulated depreciation:	
Opening balance	9,270,624
Provided	1,777,172
Transferred from property, plant and equipment	1,884,605
Closing balance	12,932,401
Provision for impairment:	
Opening and closing balance	—
Net carrying amount:	
At the ending of the year	64,697,688
At the beginning of the year	55,804,755

Notes to the Financial Statements (Continued)

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V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. Investment properties (Continued)

Investment properties measured using the cost method (Continued):

2018

	Plant and buildings
Cost:	
Opening balance	65,075,379
Addition	–
Closing balance	65,075,379
Accumulated depreciation:	
Opening balance	7,566,695
Provided	1,703,929
Closing balance	9,270,624
Provision for impairment:	
Opening and closing balance	–
Net carrying amount:	
At the ending of the year	55,804,755
At the beginning of the year	57,508,684

* The Group's investment properties are located in Mainland China, and are held under medium term leases.

15. Property, plant and equipment

	31 December 2019	31 December 2018
Property, plant and equipment	29,884,178,547	31,344,685,711
Property, plant and equipment to be disposed of	161,565,127	200,491,124
	30,045,743,674	31,545,176,835

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. Property, plant and equipment (Continued)

Property, plant and equipment

2019

	Plant and buildings	Machinery and equipment	Motor vehicles	Office equipment	Land (Note 1)	Total
Cost:						
At the beginning of the year	27,572,998,735	53,301,727,894	283,373,647	272,214,833	11,025,179	81,441,340,288
Addition	2,871,878	39,115,629	5,635,738	1,862,470	–	49,485,715
Transferred from construction in progress (Note V. 16)	421,734,753	1,501,890,576	5,830,901	72,207,000	–	2,001,663,230
Reclassification	(26,959,691)	27,106,528	365,836	(512,673)	–	–
Disposal	(179,505,269)	(508,477,624)	(6,125,274)	(2,541,795)	–	(696,649,962)
Transferred to investment properties	(12,554,710)	–	–	–	–	(12,554,710)
Exchange realignment	(754)	(807,839)	(28,129)	(22,600)	(44,678)	(904,000)
At the ending of the year	27,778,584,942	54,360,555,164	289,052,719	343,207,235	10,980,501	82,782,380,561
Accumulated depreciation:						
At the beginning of the year	13,162,912,193	36,475,481,214	200,142,333	256,190,636	–	50,094,726,376
Provided	691,613,303	2,520,510,994	18,412,983	6,843,762	–	3,237,381,042
Reclassification	(862,086)	886,224	15,772	(39,910)	–	–
Disposal	(125,616,974)	(443,165,388)	(4,711,713)	(1,329,053)	–	(574,823,128)
Transferred to investment properties	(1,884,605)	–	–	–	–	(1,884,605)
Exchange realignment	3,504	(225,205)	(18,754)	(14,020)	–	(254,475)
At the ending of the year	13,726,165,335	38,553,487,839	213,840,621	261,651,415	–	52,755,145,210
Impairment:						
At the beginning of the year	1,928,201	–	–	–	–	1,928,201
Provided (Note 2)	12,833,915	123,380,560	2,417,985	352,475	–	138,984,935
Disposal	–	–	–	–	–	–
Exchange realignment	72,486	2,015,458	48,606	7,118	–	2,143,668
At the ending of the year	14,834,602	125,396,018	2,466,591	359,593	–	143,056,804
Net carrying amount:						
At the ending of the year	14,037,585,005	15,681,671,307	72,745,507	81,196,227	10,980,501	29,884,178,547
At the beginning of the year	14,408,158,341	16,826,246,680	83,231,314	16,024,197	11,025,179	31,344,685,711

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. Property, plant and equipment (Continued)

Property, plant and equipment (Continued)

2018

	Plant and buildings	Machinery and equipment	Motor vehicles	Office equipment	Land (Note 1)	Total
Cost:						
At the beginning of the year	28,312,424,263	54,588,753,466	385,442,567	267,863,872	10,961,956	83,565,446,124
Addition	17,317,063	44,366,935	15,607,496	3,298,966	–	80,590,460
Transferred from construction in progress	715,446,909	1,973,252,749	11,313,492	7,580,254	–	2,707,593,404
Reclassification	33,474,613	49,452,239	(82,926,852)	–	–	–
Disposal	(1,040,145,132)	(2,742,220,823)	(37,797,137)	(254,813)	–	(3,820,417,905)
Disposal of subsidiaries	(465,388,928)	(612,956,238)	(8,312,675)	(6,302,609)	–	(1,092,960,450)
Exchange realignment	(130,053)	1,079,566	46,756	29,163	63,223	1,088,655
At the ending of the year	27,572,998,735	53,301,727,894	283,373,647	272,214,833	11,025,179	81,441,340,288
Accumulated depreciation:						
At the beginning of the year	13,242,580,090	36,046,867,181	301,161,332	251,424,893	–	49,842,033,496
Provided	718,997,597	3,027,554,540	19,098,786	6,589,330	–	3,772,240,253
Reclassification	32,975,609	47,463,437	(80,439,046)	–	–	–
Disposal	(579,319,566)	(2,203,981,539)	(33,995,137)	(234,090)	–	(2,817,530,332)
Disposal of subsidiaries	(252,281,754)	(442,656,199)	(5,710,238)	(1,602,371)	–	(702,250,562)
Exchange realignment	(39,783)	233,794	26,636	12,874	–	233,521
At the ending of the year	13,162,912,193	36,475,481,214	200,142,333	256,190,636	–	50,094,726,376
Impairment:						
At the beginning of the year	104,408,146	487,885,152	619,468	–	–	592,912,766
Disposal	(102,479,945)	(487,885,152)	(619,468)	–	–	(590,984,565)
At the ending of the year	1,928,201	–	–	–	–	1,928,201
Net carrying amount:						
At the ending of the year	14,408,158,341	16,826,246,680	83,231,314	16,024,197	11,025,179	31,344,685,711
At the beginning of the year	14,965,436,027	18,054,001,133	83,661,767	16,438,979	10,961,956	33,130,499,862

Notes to the Financial Statements (Continued)

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V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. Property, plant and equipment (Continued)

Property, plant and equipment (Continued)

Note 1: Land in fixed assets is the land ownership purchased by MG-VALDUNES, a subsidiary of the Group.

Note 2: In response to the impairment indicator of the non-current assets of MG-VALDUNES, the management of the Group assessed the value in-use of the cash-generating unit of MG-VALDUNES as of 30 June 2019 using the future discounted cash flows method. As of 30 June 2019, the cash-generating unit of MG-VALDUNES comprised of plant and buildings, machinery and equipment, motor vehicles, office equipment and land, with a total carrying amount of RMB160,319,498. The management provided the impairment for MG-VALDUNE's fixed assets amounting to RMB106,155,192 based on the impairment testing result, and the impairment was allocated among the non-current assets except for land for which no impairment indicator was noticed by the management of the Group.

Due to the capacity replacement plan, Anhui Chang Jiang Iron and Steel, a subsidiary of the Group, expected to dismantle two converters in October 2020. The management evaluated the estimated recoverable value of the underlying assets as of 31 December 2019 and provided an impairment amounting to RMB32,829,743 based on the impairment testing result.

As of 31 December 2019, certificates of ownership in respect of 31 buildings of the Group in Mainland China, mainly used for production and operation, with an aggregate cost of RMB1,085,291,593 (31 December 2018: RMB1,303,217,868), have not been obtained from the relevant government authorities. The directors represented that the Group was in the process of obtaining the relevant certificates, and this will not have any significant adverse impact on the Group's operations.

Property, plant and equipment to be disposed of

	31 December 2019	31 December 2018
Plant and buildings	121,927,480	124,035,507
Machinery and equipment	39,630,874	76,448,844
Motor vehicles	6,773	6,773
	161,565,127	200,491,124

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. Construction in progress

	31 December 2019	31 December 2018
Construction in progress	3,259,704,984	1,662,672,077
Construction materials	—	—
	3,259,704,984	1,662,672,077

Construction in progress

	31 December 2019			31 December 2018		
	Carrying amount	Provision for impairment	Carrying amount	Carrying amount	Provision for impairment	Carrying amount
Product quality projects	1,620,800,177	—	1,620,800,177	317,713,236	—	317,713,236
Energy-saving and environmental protection projects	829,167,194	—	829,167,194	427,718,198	—	427,718,198
Equipment advancement and other modification projects	615,667,734	—	615,667,734	665,964,168	—	665,964,168
Other projects	194,069,879	—	194,069,879	251,276,475	—	251,276,475
Total	3,259,704,984	—	3,259,704,984	1,662,672,077	—	1,662,672,077

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

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V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. Construction in progress (Continued)

Construction in progress (Continued)

In 2019, the movements of significant projects were as follows:

Name of projects	Budget RMB'000	Opening balance RMB	Addition RMB	Transferred to fixed assets (Note V.15) RMB	Transferred to intangible assets (Note V.18) RMB	Closing balance RMB	Source of fund	The proportion of projects investment accounted for budget (%)	Percentage of completion (%)	Capitalized interest accumulated RMB	The capitalized interest in current year RMB	The capitalized interest rate in current year (%)
Product quality projects	9,446,025	317,713,236	1,910,638,534	(607,551,593)	-	1,620,800,177	Internally financed/loan	51	51	11,446,953	-	-
Energy-saving and environmental protection projects	5,860,750	427,718,198	981,696,495	(580,247,499)	-	829,167,194	Internally financed/loan	42	42	4,816,770	-	-
Equipment advancement and other modification projects	1,809,246	665,964,168	620,343,297	(670,639,731)	-	615,667,734	Internally financed/loan	79	79	7,597,740	-	-
Other projects	N/A	251,276,475	87,022,694	(143,224,407)	(1,004,883)	194,069,879	Internally financed/loan	N/A	N/A	3,005,256	-	-
		1,662,672,077	3,599,701,020	(2,001,663,230)	(1,004,883)	3,259,704,984				26,866,719	-	-
Less: impairment		-	-	-	-	-				-	-	-
		1,662,672,077	3,599,701,020	(2,001,663,230)	(1,004,883)	3,259,704,984				26,866,719	-	-

In 2018, the movements of significant projects were as follows:

Name of projects	Budget RMB'000	Opening balance RMB	Addition RMB	Transferred to fixed assets (Note V.15) RMB	Transferred to intangible assets (Note V.18) RMB	Disposal of subsidiaries RMB	Closing balance RMB	Source of fund	The proportion of projects investment accounted for budget (%)	Percentage of completion (%)	Capitalized interest accumulated RMB	The capitalized interest in current year RMB	The capitalized interest rate in current year (%)
Product quality projects	11,302,724	575,866,740	1,497,008,846	(1,755,162,350)	-	-	317,713,236	Internally financed/loan	62	62	11,446,953	-	-
Energy-saving and environmental protection projects	5,700,066	345,489,968	564,539,214	(482,310,984)	-	-	427,718,198	Internally financed/loan	37	37	4,816,770	-	-
Equipment advancement and other modification projects	1,801,949	565,711,125	415,605,706	(184,222,663)	(131,130,000)	-	665,964,168	Internally financed/loan	68	68	7,597,740	-	-
Other projects	N/A	318,887,776	233,439,548	(285,897,407)	(14,828,200)	(325,242)	251,276,475	Internally financed/loan	N/A	N/A	3,005,256	-	-
		1,805,955,609	2,710,593,314	(2,707,593,404)	(145,958,200)	(325,242)	1,662,672,077				26,866,719	-	-
Less: impairment		-	-	-	-	-	-				-	-	-
		1,805,955,609	2,710,593,314	(2,707,593,404)	(145,958,200)	(325,242)	1,662,672,077				26,866,719	-	-

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Right-of-use assets

2019

	Plant and buildings	Machinery and equipment	Motor vehicles	Land use rights	Total
Cost					
At the end of the previous year	-	-	-	-	-
Changes in accounting policies (Note III.34)	423,374,857	789,969	15,681,935	3,578,032	443,424,793
At the beginning of the year	423,374,857	789,969	15,681,935	3,578,032	443,424,793
Addition	570,905	-	-	-	570,905
Disposal	-	(789,969)	-	-	(789,969)
At the ending of the year	423,945,762	-	15,681,935	3,578,032	443,205,729
Accumulated depreciation:					
At the beginning of the year	-	-	-	-	-
Provided	22,663,474	162,641	1,568,193	94,159	24,488,467
Disposal	-	(162,641)	-	-	(162,641)
At the ending of the year	22,663,474	-	1,568,193	94,159	24,325,826
Impairment:					
At the beginning of the year and at the ending of the year	-	-	-	-	-
Net carrying amount:					
At the ending of the year	401,282,288	-	14,113,742	3,483,873	418,879,903
At the beginning of the year	423,374,857	789,969	15,681,935	3,578,032	443,424,793

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

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V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18. Intangible assets

2019

	Concession rights (Note)	Land use rights	Mining rights	Patent	Total
Cost:					
At the beginning of the year	151,479,110	2,476,152,224	133,744,221	885,668	2,762,261,223
Addition	–	185,801,825	–	1,419,095	187,220,920
Transferred from construction in progress	1,004,883	–	–	–	1,004,883
Disposal	–	(15,668,075)	–	–	(15,668,075)
Exchange realignment	–	–	1,643,737	(3,590)	1,640,147
At the ending of the year	152,483,993	2,646,285,974	135,387,958	2,301,173	2,936,459,098
Accumulated amortization:					
At the beginning of the year	42,294,400	730,295,485	133,744,221	661,787	906,995,893
Provided	6,570,204	48,206,659	–	556,832	55,333,695
Disposal	–	(638,500)	–	–	(638,500)
Exchange realignment	–	–	1,643,737	(2,689)	1,641,048
At the ending of the year	48,864,604	777,863,644	135,387,958	1,215,930	963,332,136
Impairment:					
At the beginning of the year and at the ending of the year	–	–	–	–	–
Net carrying amount:					
At the ending of the year	103,619,389	1,868,422,330	–	1,085,243	1,973,126,962
At the beginning of the year	109,184,710	1,745,856,739	–	223,881	1,855,265,330

As of 31 December 2019, the intangible assets without the property right certificate are as follows (31 December 2018: nil):

	Carrying amount	Reason
Land use rights	67,274,194	The relevant materials for applying the certificate have not been completed

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18. Intangible assets (Continued)

2018

	Concession rights (Note)	Land use rights	Mining rights	Patent	Total
Cost:					
At the beginning of the year	136,979,410	2,398,079,120	141,167,372	880,589	2,677,106,491
Addition	–	26,191,855	–	–	26,191,855
Transferred from construction in progress	14,828,200	131,130,000	–	–	145,958,200
Disposals	(328,500)	(27,247,335)	–	–	(27,575,835)
Disposal of subsidiaries	–	(52,001,416)	–	–	(52,001,416)
Exchange realignment	–	–	(7,423,151)	5,079	(7,418,072)
At the ending of the year	151,479,110	2,476,152,224	133,744,221	885,668	2,762,261,223
Accumulated amortization:					
At the beginning of the year	36,132,066	700,021,465	56,734,535	614,252	793,502,318
Provided	6,326,951	51,720,462	82,212,927	43,992	140,304,332
Disposals	(164,617)	(6,013,426)	–	–	(6,178,043)
Disposal of subsidiaries	–	(15,433,016)	–	–	(15,433,016)
Exchange realignment	–	–	(5,203,241)	3,543	(5,199,698)
At the ending of the year	42,294,400	730,295,485	133,744,221	661,787	906,995,893
Impairment:					
At the beginning of the year and at the ending of the year	–	–	–	–	–
Net carrying amount:					
At the ending of the year	109,184,710	1,745,856,739	–	223,881	1,855,265,330
At the beginning of the year	100,847,344	1,698,057,655	84,432,837	266,337	1,883,604,173

Notes to the Financial Statements (Continued)

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V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18. Intangible assets (Continued)

Note: The concession rights are owned by a subsidiary of the Company, Maanshan Iron & Steel (Hefei) Industrial Water Supply Co., Ltd. ("Hefei Water Supply"). On 18 May 2011, Hefei Water Supply obtained a concession right by signing the "Concession Arrangement for Hefei Circle Economy Park Industrial Water Supply" (the "Arrangement") with the Administrative Committee of Hefei Circle Economic Park (the "Park") through open tender. According to the Arrangement, Hefei Water Supply has the right to receive fees from water users in the Park by providing principal services including: industrial water supply, and designing, constructing, occupying, operating and maintaining the industrial water treatment plant, water abstraction and pipe networks. The infrastructure construction contract was applied, and no construction service revenue was recognized. According to the agreement, the payment for the project during the construction was recognized as an intangible asset. The specified concession service period is 25 years. Hefei Water Supply is obliged to transfer all infrastructures to the grantor, the Administrative Committee of Hefei Circle Economy Park, at the end of the period of the Arrangement with smooth operation guaranteed.

* The Group's land use rights are located in Mainland China and are held under medium term leases.

19. Deferred tax assets/liabilities

Deferred tax assets and deferred liabilities before being offset:

	31 December 2019		31 December 2018	
	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	Deferred tax assets
Deferred tax assets				
Asset impairment provision	137,238,701	34,997,160	298,404,365	77,373,928
Sales incentive	196,627,803	49,156,951	76,803,420	19,200,855
Payroll payable	61,739,642	15,954,083	134,725,737	35,389,057
Government grants	287,866,829	71,966,707	385,311,344	96,327,836
Others	190,622,445	49,590,203	199,271,234	52,577,064
	874,095,420	221,665,104	1,094,516,100	280,868,740

Notes to the Financial Statements (Continued)

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Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19. Deferred tax assets/liabilities (Continued)

	31 December 2019		31 December 2018	
	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities
Deferred tax liabilities				
Fair value adjustments related to business combination not under common control	86,001,300	21,500,325	96,265,248	24,066,311
Changes in fair value of derivative financial instruments	1,191,700	297,925	—	—
Changes in fair value of other equity instruments investment	33,323,392	8,330,848	20,869,248	5,217,312
Others	—	—	98,772	24,694
	120,516,392	30,129,098	117,233,268	29,308,317

Net amount of deferred tax assets/liabilities after being offset:

	31 December 2019		31 December 2018	
	Offset amount	Net amount	Offset amount	Net amount
Deferred tax assets	8,628,773	213,036,331	5,242,006	275,626,734
Deferred tax liabilities	8,628,773	21,500,325	5,242,006	24,066,311

The Group's unrecognised deferred tax assets arising from deductible temporary differences and deductible tax losses were as follows:

	31 December 2019	31 December 2018
Deductible temporary differences	3,111,806,061	3,016,694,768
Deductible tax losses	2,313,774,566	1,941,057,921
	5,425,580,627	4,957,752,689

Notes to the Financial Statements (Continued)

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Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19. Deferred tax assets/liabilities (Continued)

Unrecognized deferred tax assets arising from deductible tax losses will expire in the following years:

	31 December 2019	31 December 2018
To expire in 2019	—	62,311,487
To expire in 2020	883,722,592	890,751,120
To expire in 2021	67,022,420	614,727,132
To expire in 2022	3,886,270	119,141,311
To expire in 2023	136,799,743	34,586,459
To expire in 2024 and subsequent years (Note)	1,222,343,541	219,540,412
Total	2,313,774,566	1,941,057,921

Note: As of 31 December 2019, overseas subsidiaries of the Company have deductible tax losses amounting to RMB332,192,579 (31 December 2018: RMB238,854,376) without an expiration date.

The Group considered that it would be not possible to generate enough taxable profit to utilise the above tax losses and therefore did not recognise relevant deferred tax assets.

The Group's unrecognised taxable temporary differences were as follows:

	31 December 2019	31 December 2018
Taxable temporary differences (Note)	1,640,610,958	1,395,768,725

Note: The Group's taxable temporary differences of unrecognised deferred tax liabilities are generated from long-term equity investments in its domestic joint ventures, associates and overseas subsidiaries. These taxable temporary differences would be reversed with tax consequences on the Group through future disposal of shares or receipt of dividends from overseas subsidiaries. Since the Group can control the dividend plans of overseas subsidiaries and would not dispose of equity investments in these joint ventures and associates in the foreseeable future, it had not recognised any deferred tax liabilities according to the above mentioned taxable temporary differences.

Notes to the Financial Statements (Continued)

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V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20. Assets impairment provisions

31 December 2019

	Opening balance	Increase during the year	Decrease during the year				Closing balance
			Reversal	Write-back/ write-off	Disposal of subsidiaries	Exchange realignment	
Provisions for bad debts	569,171,796	38,284,373	(21,919,082)	-	-	(30,843)	585,506,244
Including: Trade receivables	72,710,696	-	(20,274,936)	-	-	(29,414)	52,406,346
Other receivables	416,361,533	4,218,900	(1,644,146)	-	-	(1,429)	418,934,858
Loans and advances to customers	80,099,567	34,065,473	-	-	-	-	114,165,040
Financial assets purchased under agreements to resell	823,072	-	(799,795)	-	-	-	23,277
Debt instruments investment	441,104	-	(88,104)	-	-	-	353,000
Inventory impairment provision (Note)	799,123,990	285,613,638	-	(802,732,372)	-	(15,660)	281,989,596
Including: Raw materials	306,614,876	181,126,047	-	(402,125,569)	-	(4,024)	85,611,330
Work in progress	157,296,973	36,309,939	-	(151,521,025)	-	(7,406)	42,078,481
Finished goods	269,855,384	67,553,388	-	(244,882,678)	-	(2,815)	92,523,279
Spare parts	65,356,757	624,264	-	(4,203,100)	-	(1,415)	61,776,506
Property, plant and equipment impairment provision	1,928,201	138,984,935	-	-	-	2,143,668	143,056,804
Including: Buildings and plant	1,928,201	12,833,915	-	-	-	72,486	14,834,602
Office equipment	-	352,475	-	-	-	7,118	359,593
Machinery and equipment	-	123,380,560	-	-	-	2,015,458	125,396,018
Motor vehicles	-	2,417,985	-	-	-	48,606	2,466,591
	1,371,488,163	462,882,946	(22,806,981)	(802,732,372)	-	2,097,165	1,010,928,921

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

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V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20. Assets impairment provisions (Continued)

31 December 2018

	Opening balance	Increase during the year	Decrease during the year			Exchange realignment	Closing balance
			Reversal	Write-back/ write-off	Disposal of subsidiaries		
Provisions for bad debts	703,804,600	65,254,787	(24,909,028)	-	(174,995,287)	16,724	569,171,796
Including: Trade receivables	57,534,492	21,483,181	(944,761)	-	(5,376,915)	14,699	72,710,696
Other receivables	609,385,257	43,735	(23,451,112)	-	(169,618,372)	2,025	416,361,533
Loans and advances to customers	36,884,851	43,727,871	(513,155)	-	-	-	80,099,567
Financial assets purchased under agreements to resell	6,523	818,673	(2,124)	-	-	-	823,072
Debt instruments investment	187,201	253,903	-	-	-	-	441,104
Inventory impairment provision (Note)	199,103,925	754,443,431	-	(141,111,110)	(13,579,733)	267,477	799,123,990
Including: Raw materials	25,064,421	302,355,662	-	(20,863,398)	-	58,191	306,614,876
Work in progress	35,139,247	175,763,642	-	(47,569,999)	(6,174,135)	138,218	157,296,973
Finished goods	57,103,281	275,564,098	-	(55,473,013)	(7,405,598)	66,616	269,855,384
Spare parts	81,796,976	760,029	-	(17,204,700)	-	4,452	65,356,757
Property, plant and equipment impairment provision	592,912,766	-	-	(590,984,565)	-	-	1,928,201
Including: Buildings and plant Machinery and equipment	104,408,146	-	-	(102,479,945)	-	-	1,928,201
Motor vehicles	487,885,152	-	-	(487,885,152)	-	-	-
	619,468	-	-	(619,468)	-	-	-
	1,496,015,015	820,770,794	(24,911,152)	(732,095,675)	(188,575,020)	284,201	1,371,488,163

Note: Generally, the provision for inventories is assessed and made at the end of every half year. The provision for inventories will be written back and credited to the cost of sales upon the sale of the corresponding inventories.

Notes to the Financial Statements (Continued)

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V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21. Deposits and balances from banks and other financial institutions

	31 December 2019	31 December 2018
Domestic bank deposits	400,031,889	900,366,111

22. Customer deposits

	31 December 2019	31 December 2018
Demand deposits	9,495,412,157	4,062,206,474
Notice deposits	756,045,669	541,791,622
Time deposits	713,438,176	311,311,215
	10,964,896,002	4,915,309,311

Details of customer deposits of Masteel Finance related to the related parties as of 31 December 2019 and 31 December 2018 are disclosed in Note X.6.

23. Repurchase agreements

	31 December 2019	31 December 2018
Notes	400,115,076	283,348,863
Bonds	986,465,372	850,423,514
	1,386,580,448	1,133,772,377

Repurchase agreements is the amount arising from notes and bonds discounted by Masteel Finance to other financial institutions according to the repurchase agreements.

Notes to the Financial Statements (Continued)

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V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24. Short-term loans

	31 December 2019	31 December 2018
Pledged loans (Note 1)	127,316,634	–
Guaranteed loans (Note 2)	–	950,000,000
Unsecured loans	10,220,434,950	6,265,000,000
Inward documentary notes and letters of credit	2,532,301,575	3,702,293,181
	12,880,053,159	10,917,293,181

Note 1: As of 31 December 2019, the Group obtained the bank loan of RMB127,316,634 (31 December 2018: nil) by pledging bank acceptance notes.

Note 2: The guaranteed loans were provided by the Holding for free as disclosed in Note X.5.

As of 31 December 2019, the interest rates of the above short-term loans ranged from 2.480%-4.570% (31 December 2018: 2.870%-5.050%).

As of 31 December 2019, the Group had no overdue short-term loans.

25. Financial liabilities held for trading

	31 December 2019	31 December 2018
Derivative financial liabilities - Forward foreign exchange contracts	2,258,750	8,012,670

As of 31 December 2019, the fair value of foreign exchange forward contracts held by the Group is determined based on the forward foreign exchange rate on the last trading day of 2019.

26. Notes payable

	31 December 2019	31 December 2018
Bank acceptance notes	7,313,729,148	2,638,271,437

As of 31 December 2019 and 31 December 2018, the ageing of the Group's notes payable was all within six months, and there were no overdue notes.

Notes to the Financial Statements (Continued)

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V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

27. Trade payables

The trade payables are interest-free and are normally settled within three months.

The ageing analysis of trade payables, based on the invoice date, is as follows:

	31 December 2019	31 December 2018
Within one year	5,994,021,801	7,551,105,922
One to two years	114,525,131	39,150,817
Two to three years	10,584,079	22,709,232
Over three years	11,195,995	90,770,571
	6,130,327,006	7,703,736,542

The amounts due to related parties among the balances of trade payables as of 31 December 2019 and 31 December 2018 are stated in Note X.6 to the financial statements.

As of 31 December 2019, the material trade payables aged over one year were as follows :

	Amount due	Reason for non-settlement
Company 1	89,767,340	Note
Company 2	5,000,000	Note
Company 3	2,533,550	Note
Company 4	2,479,250	Note
Company 5	1,332,735	Note
	101,112,875	

Note: The Group's trade payables aged over one year are mainly due to the equipment and construction proceeds pending for settlement.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

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V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

28. Contract liabilities

	31 December 2019	31 December 2018
Advances from customers	3,765,254,551	3,572,594,400

As of 31 December of 2019, contract liabilities aged over one year amounting to RMB29,509,316 (31 December 2018: RMB42,055,551), were mainly due to the contracts that were not fully executed.

29. Payroll and employee benefits payable

2019

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Short-term employee benefits	487,882,993	3,872,052,254	3,940,400,340	419,534,907
Post-employment benefits (defined contribution plans)	8,374,667	646,382,753	641,376,715	13,380,705
Supplementary retirement benefits due within one year (i) (Note V.37)	1,020,924	1,175,285	1,020,924	1,175,285
One-off termination compensation (ii)	–	1,186,857,044	965,647,998	221,209,046
Early retirement benefits due within one year (Note V.37)	66,364,324	36,676,995	66,364,324	36,676,995
	563,642,908	5,743,144,331	5,614,810,301	691,976,938

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

29. Payroll and employee benefits payable (Continued)

2018

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Short-term employee benefits	565,738,070	3,973,779,936	4,051,635,013	487,882,993
Post-employment benefits (defined contribution plans)	7,132,446	606,215,622	604,973,401	8,374,667
Supplementary retirement benefits due within one year (i) (Note V.37)	1,161,421	1,020,924	1,161,421	1,020,924
One-off termination compensation (ii)	–	89,643,801	89,643,801	–
Early retirement benefits due within one year (Note V.37)	80,790,568	66,364,324	80,790,568	66,364,324
	654,822,505	4,737,024,607	4,828,204,204	563,642,908

- (i) MG-VALDUNES, an overseas subsidiary of the Company, provides retired workers with supplementary benefits, including supplementary pension allowance, medical expenses and supplementary medical insurance, which are regarded as defined benefit plans. The present value of the defined benefit plans is equal to the discounted value of the estimated future cash outflow. The discount rate is determined by the interest rate of government bonds of which maturity is close to the payment date of the defined benefit plans. The payroll and employee benefits payable with over one year of maturity are presented in long-term compensation.
- (ii) One-off termination compensation is the termination compensation paid by the Group to its employees due to human resource optimization.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

29. Payroll and employee benefits payable (Continued)

Short-term employee benefits

2019

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Salaries, bonuses and subsidies	417,736,774	3,037,045,307	3,106,820,723	347,961,358
Welfare	41,041,480	149,421,222	150,421,318	40,041,384
Social insurance	7,713	257,631,247	257,622,124	16,836
Including: Medical insurance	3,179	235,524,716	235,517,269	10,626
Work-related injury insurance	4,193	15,209,003	15,208,922	4,274
Maternity insurance	341	6,897,528	6,895,933	1,936
Housing fund	23,090,488	351,316,887	350,352,118	24,055,257
Labor union fee and employee education fee	6,006,538	76,637,591	75,184,057	7,460,072
	487,882,993	3,872,052,254	3,940,400,340	419,534,907

Short-term employee benefits

2018

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Salaries, bonuses and subsidies	506,914,156	3,150,517,661	3,239,695,043	417,736,774
Welfare	33,507,007	179,183,973	171,649,500	41,041,480
Social insurance	10,262	240,870,918	240,873,467	7,713
Including: Medical insurance	5,279	214,583,868	214,585,968	3,179
Work-related injury insurance	4,983	20,191,337	20,192,127	4,193
Maternity insurance	—	6,095,713	6,095,372	341
Housing fund	19,797,170	310,193,382	306,900,064	23,090,488
Labor union fee and employee education fee	5,509,475	93,014,002	92,516,939	6,006,538
	565,738,070	3,973,779,936	4,051,635,013	487,882,993

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

29. Payroll and employee benefits payable (Continued)

Defined contribution plans:

2019

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Pension insurance	5,676	527,259,492	522,426,102	4,839,066
Unemployment insurance	913	12,643,735	12,643,737	911
Supplementary pension scheme	8,368,078	106,479,526	106,306,876	8,540,728
	8,374,667	646,382,753	641,376,715	13,380,705

2018

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Pension insurance	6,144	497,069,660	497,070,128	5,676
Unemployment insurance	604	10,974,273	10,973,964	913
Supplementary pension scheme	7,125,698	98,171,689	96,929,309	8,368,078
	7,132,446	606,215,622	604,973,401	8,374,667

As of 31 December 2019 and 31 December 2018, the balance of payroll and employee benefits payable had not included performance-based wages.

In addition to the basic social endowment insurance, employees of the Group (including employees of the Company and some wholly-owned subsidiaries) had participated in the established retirement benefit contribution plans (hereinafter referred to as the “Annuity Plan”) established by the Group. The employees who participated in the Annuity Plan used the bases of social insurance premiums as their deposit base. The deposit rates of the Group and employees were 5% and 1%, respectively.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

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V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30. Taxes payable

	31 December 2019	31 December 2018
Value-added tax	91,030,703	544,873,710
Corporate income tax	183,442,321	343,992,816
Land use tax	89,246,979	116,465,613
Personal income tax	13,428,147	110,073,047
Water conservancy funds	108,057,922	77,688,904
City construction and maintenance tax	7,410,424	49,690,863
Environment protection tax	11,000,000	12,816,164
Other taxes	43,592,922	69,916,870
	547,209,418	1,325,517,987

The basis of calculation and the applicable tax rates are disclosed in Note IV to the financial statements.

31. Other payables

	31 December 2019	31 December 2018
Interest payables	67,341,709	118,764,492
Dividends payable	6,953,033	6,612,733
Other payables	4,220,201,537	3,405,369,689
	4,294,496,279	3,530,746,914

Interest payables

	31 December 2019	31 December 2018
Interest payables for short-term loans	57,831,510	108,540,149
Instalment interest payables for long-term loans repayable on due date	9,510,199	10,224,343
	67,341,709	118,764,492

As of 31 December 2019, there was no overdue interest payable.

Notes to the Financial Statements (Continued)

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V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31. Other payables (Continued)

Dividends payable

	31 December 2019	31 December 2018
Dividends paid	6,953,033	6,612,733

As of 31 December 2019, due to the unclaimed dividends declared from the year of 2007 to 2011, the Group has accumulated unpaid dividends payable over one year amounting to RMB6,612,733.

Other payables

	31 December 2019	31 December 2018
Payable for forfeiting	2,355,550,174	1,423,959,369
Special funds (Note 1)	663,706,807	514,353,560
Payable for construction, maintenance and inspection fees	334,123,176	444,470,596
Sales incentives	327,435,827	255,535,312
Employee settlement for productivity shutting down	152,568,484	152,568,484
Special fund for the elimination of backward capacities	—	95,885,000
Tax risk provision	85,000,000	85,000,000
Social welfare and housing fund payable	43,146,483	41,117,478
Service fees payable	23,119,427	21,071,470
Accrued interest for letters of credit	3,609,646	4,046,598
Others	231,941,513	367,361,822
	4,220,201,537	3,405,369,689

Note 1: Special funds include Renewable Energy Development Fund, Major Water Conservancy Project Construction Fund and Special Fund for Restructure. The Ministry of Finance of the People's Republic of China published the Finance and Tax [2017] No. 50: "the announcement of cancelling special funds for industrial enterprise restructuring" and announced the cancellation of the collection of the special fund for industrial enterprise restructure since 1 July 2017.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31. Other payables (Continued)

Other payables (Continued)

At of 31 December 2019, significant other payables aged over one year were as follows :

	Amount payable	Reason for non-settlement
Company 1	152,568,484	Note
Company 2	6,440,000	Note
Company 3	3,000,000	Note
Company 4	2,000,000	Note
Company 5	2,000,000	Note
	166,008,484	

Note: The Group's other payables aged over one year were mainly advances for the settlement of employees and the performance guarantee received for the construction and purchase of materials. Since the project did not meet the terms of settlement, or the contracts were not completed, the payments were not settled.

32. Non-current liabilities due within one year

	31 December 2019	31 December 2018
Long-term loans due within one year (Note V.35)	1,529,940,232	1,260,868,462
Lease liabilities due within one year (Note V.36)	16,261,266	–
Long-term payables due within one year (Note)	130,867,400	210,000,000
	1,677,068,898	1,470,868,462

Note: The long-term payables due within one year is a non-interest-bearing loan of Ma Steel (Hefei) due from Hefei Industrial Investment Holdings Co., Ltd, a minority shareholder of Ma Steel (Hefei).

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

33. Accrued liabilities

2019

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Pending litigation or arbitration	7,134,461	1,358,955	4,267,421	4,225,995
Pending onerous contract (Note)	19,502,965	—	3,161,494	16,341,471
Others	3,360,095	1,421,997	2,684,883	2,097,209
	29,997,521	2,780,952	10,113,798	22,664,675

2018

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Pending litigation or arbitration	14,663,809	4,377,071	11,906,419	7,134,461
Pending onerous contract (Note)	20,963,088	19,623,870	21,083,993	19,502,965
Others	2,910,472	3,365,407	2,915,784	3,360,095
	38,537,369	27,366,348	35,906,196	29,997,521

Note: The accrued liabilities of the pending onerous contract represented expected losses from executing some sales orders signed by the Group's subsidiary, MG-VALDUNES. The management of the Group estimated that the cost of executing those orders would exceed the agreed price and estimated the provision accordingly.

Notes to the Financial Statements (Continued)

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V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

34. Other current liabilities

	31 December 2019	31 December 2018
Short-term financing bonds (Note)	—	1,026,897,260

Note: As of 31 December 2018, the balance of other current liabilities included the principal of the short-term financing funds issued on 26 June 2018 amounting to RMB1,000,000,000 and its interest amounting to RMB26,897,260. The maturity date is 28 June 2019, and the Group had paid all the principal and interest in 2019.

35. Long-term loans

	31 December 2019	31 December 2018
Guaranteed loans (Note)	916,344,832	1,767,026,304
Unsecured loans	4,081,795,400	3,090,229,710
	4,998,140,232	4,857,256,014
Less: Long-term loans due within one year (Note V.32)	1,529,940,232	1,260,868,462
	3,468,200,000	3,596,387,552

Note: The guaranteed loans were provided by the Holding for free as disclosed in Note X.5.

As of 31 December 2019, the interest rates of the above long-term loans ranged from 1.20% to 5.94% (31 December 2018: from 1.20% to 5.94%).

* Analysis on the due date of long-term loans is as follows :

	31 December 2019	31 December 2018
Within one year or on demand (Note V.32)	1,529,940,232	1,260,868,462
One to two years (inclusive)	3,350,000,000	2,117,187,552
Two to three years (inclusive)	50,000,000	1,350,000,000
Three to five years (inclusive)	—	50,000,000
Over five years	68,200,000	79,200,000
	4,998,140,232	4,857,256,014

Notes to the Financial Statements (Continued)

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V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36. Lease liabilities

	31 December 2019
Plant and buildings	409,710,810
Motor vehicles	14,438,861
Land use rights	3,544,430
	427,694,101
Less: Lease liabilities due within one year (Note V.32)	16,261,266
	411,432,835

37. Long-term payroll and employee benefits payable

	31 December 2019	31 December 2018
1. Early retirement benefits (Note 1)	115,529,167	197,167,953
Less : Early retirement benefits due within one year	36,676,995	66,364,324
2. Supplementary retirement benefits (Note 2)	23,650,816	27,588,769
Less : Supplementary retirement benefits due within one year	1,175,285	1,020,924
	101,327,703	157,371,474

Note 1: Early retirement benefit

	Opening balance	Increase during the year	Unrecognized financing expense	Decrease during the year	Closing balance	Less: Due within one year	Closing balance
2019							
Early retirement benefits	197,167,953	-	15,034,567	(96,673,353)	115,529,167	36,676,995	78,852,172

Notes to the Financial Statements (Continued)

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V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

37. Long-term employee benefits payable (Continued)

Note 2: Supplementary retirement benefits

2019	Opening balance	Increase during the year	Decrease during the year	Closing balance	Less: Due within one year	Closing balance
Supplementary retirement benefits	27,588,769	2,121,307	(6,059,260)	23,650,816	1,175,285	22,475,531

Early retirement benefits expected to be paid by the Group:

	31 December 2019	31 December 2018
Undiscounted value		
Within one year	36,676,995	66,364,324
One to two years	20,171,395	43,196,619
Two to three years	17,557,912	31,477,355
Over three years	48,966,278	79,007,635
	123,372,580	220,045,933
Financing expense unrecognised	(7,843,413)	(22,877,980)
	115,529,167	197,167,953
Less: Due within one year	36,676,995	66,364,324
	78,852,172	130,803,629

Notes to the Financial Statements (Continued)

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V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

37. Long-term employee benefits payable (Continued)

Early retirement benefits scheme was implemented by the Group due to the implementation of the human resource optimisation policy, which allowed qualified employees to early retire on a voluntary basis. The Company undertakes obligation to pay the early retirement employees' living expenses for one to ten years in the future. The Company calculated the amounts of monthly payments to employees participating in the early retirement plan based on an internally-decided standard, and the Company is also responsible for social insurance and housing fund in accordance with local social security requirement. The Company forecasted that the amount of early retirement benefits needed to be paid in the future years using a growth rate of 3% which is based on the average growth rate of CPI. When deciding the payment responsibility in the future for the employees participating in the early retirement plan, the Company adjusted the payment responsibility based on average mortality of Chinese people from "China Life Insurance Mortality Table (2010 to 2013)". The adjusted payment responsibility was discounted by the treasury bond rate of 31 December 2019 and accounted in general and administrative expenses. As of 31 December 2019, the current portion of the payment responsibility that would be paid within 12 months was accounted for in short-term employee benefits.

Notes to the Financial Statements (Continued)

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Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

38. Deferred revenue

2019

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Compensation of land purchasing and storage (Note)	535,750,210	–	10,544,086	525,206,124
Government grant	829,045,345	107,716,912	59,684,694	877,077,563
	1,364,795,555	107,716,912	70,228,780	1,402,283,687

2018

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Compensation of land purchasing and storage (Note)	652,138,319	–	116,388,109	535,750,210
Government grant	810,352,214	79,097,213	60,404,082	829,045,345
	1,462,490,533	79,097,213	176,792,191	1,364,795,555

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

38. Deferred revenue (Continued)

As of 31 December 2019, liabilities related to government grants were as follows:

	Opening balance	Increase during the year	Included in other income	Closing balance	Related to assets/ income
Technological transformation fund for Phase II silicon steel	77,441,669	–	(4,400,000)	73,041,669	assets
Subsidy for hot-rolled 1580 project	34,848,750	–	(1,980,000)	32,868,750	assets
New-zone Thermal Power Plant CAPP system engineering	22,441,972	–	(4,312,000)	18,129,972	assets
EMU steel wheel production line project	30,574,990	–	(2,200,000)	28,374,990	assets
Environmental subsidy funds for flue gas desulfurization and 135 MW thermal power	11,812,100	–	(567,600)	11,244,500	assets
Fixed assets subsidy for thin plate project	49,458,023	–	(4,728,493)	44,729,530	assets
Environmental funds for desulfurization project of 3rd iron plant's flue gas (BOT)	12,288,243	–	(590,484)	11,697,759	assets
Alloy bar production line refinement project of electric furnace plant	31,865,400	–	(1,483,680)	30,381,720	assets
Subsidy for Maanshan railway industry (Maanshan)	11,144,100	14,000,000	(1,008,000)	24,136,100	assets
Comprehensive utilisation of gas for power generation of a thermal power plant	22,517,583	–	(1,090,760)	21,426,823	assets
Subsidy funds for 4# blast furnace project	175,862,663	–	(8,624,004)	167,238,659	assets
Subsidies for galvanizing projects	9,322,034	3,109,800	(868,751)	11,563,083	assets
Special fund for the strong foundation project of the Ministry of Industry and Information Technology	–	22,580,000	–	22,580,000	assets
Intelligent manufacturing special fund	–	18,000,000	(1,373,439)	16,626,561	assets
Others	339,467,818	50,027,112	(26,457,483)	363,037,447	assets
Total	829,045,345	107,716,912	(59,684,694)	877,077,563	

Note: The compensation for disposal of land use rights was accounted for as deferred income, which was received from Hefei Land Reserve Center by Ma Steel (Hefei).

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

38. Deferred revenue (Continued)

As of 31 December 2018, liabilities related to government grants were as follows :

	Opening balance	Increase during the year	Included in other income	Closing balance	Related to assets/income
Technological transformation fund for Phase II silicon steel	81,841,669	–	(4,400,000)	77,441,669	assets
Subsidy for hot-rolled 1580 project	36,828,750	–	(1,980,000)	34,848,750	assets
New-zone Thermal Power Plant CCPP system engineering	26,753,972	–	(4,312,000)	22,441,972	assets
EMU steel wheel production line project	32,774,990	–	(2,200,000)	30,574,990	assets
Environmental subsidy funds for flue gas desulfurization and 135 MW thermal power	12,379,700	–	(567,600)	11,812,100	assets
Fixed assets subsidy for thin plate project	29,174,766	25,000,000	(4,716,743)	49,458,023	assets
Environmental funds for desulfurization project of 3rd iron plant's flue gas (BOT)	12,878,727	–	(590,484)	12,288,243	assets
Alloy bar production line refinement project of electric furnace plant	33,349,080	–	(1,483,680)	31,865,400	assets
Subsidy for Maanshan railway industry (Maanshan)	12,152,100	–	(1,008,000)	11,144,100	assets
Comprehensive utilisation of gas for power generation of a thermal power plant	23,608,343	–	(1,090,760)	22,517,583	assets
Subsidy funds for 4# blast furnace project	184,486,667	–	(8,624,004)	175,862,663	assets
Subsidies for galvanizing projects	–	10,000,000	(677,966)	9,322,034	assets
Others	324,123,450	44,097,213	(28,752,845)	339,467,818	assets
Total	810,352,214	79,097,213	(60,404,082)	829,045,345	

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

39. Share capital

31 December 2019

Registered, issued and fully paid	Opening balance		Increase/(decrease) during the year			Closing balance	
	Number of shares	Percentage (%)	Shares issued	Others	Sub-total	Number of shares	Percentage (%)
A. Shares with selling restriction							
1. State-owned shares	-	-	-	-	-	-	-
2. State-owned legal person shares	-	-	-	-	-	-	-
3. Other domestically owned shares	-	-	-	-	-	-	-
Including: shares owned by domestic natural persons	-	-	-	-	-	-	-
Sub-total	-	-	-	-	-	-	-
B. Shares without selling restriction							
1. A shares	5,967,751,186	77.5	-	-	-	5,967,751,186	77.5
2. H shares	1,732,930,000	22.5	-	-	-	1,732,930,000	22.5
Sub-total	7,700,681,186	100.0	-	-	-	7,700,681,186	100.0
C. Total shares	7,700,681,186	100.0	-	-	-	7,700,681,186	100.0

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

39. Share capital (Continued)

31 December 2018

Registered, issued and fully paid	Opening balance		Increase/(decrease) during the year			Closing balance	
	Number of shares	Percentage (%)	Shares issued	Others	Sub-total	Number of shares	Percentage (%)
A. Shares with selling restriction							
1. State-owned shares	-	-	-	-	-	-	-
2. State-owned legal person shares	-	-	-	-	-	-	-
3. Other domestically owned shares	-	-	-	-	-	-	-
Including:							
shares owned by domestic natural persons	-	-	-	-	-	-	-
Sub-total	-	-	-	-	-	-	-
B. Shares without selling restriction							
1. A shares	5,967,751,186	77.5	-	-	-	5,967,751,186	77.5
2. H shares	1,732,930,000	22.5	-	-	-	1,732,930,000	22.5
Sub-total	7,700,681,186	100.0	-	-	-	7,700,681,186	100.0
C. Total shares	7,700,681,186	100.0	-	-	-	7,700,681,186	100.0

* Other than H share dividends, which are paid in Hong Kong dollars, all shares, including A shares and H shares, have the same right to the Company's operating results and voting rights. The par value for each A share or H share is RMB1.00.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

40. Capital reserve

31 December 2019

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium (Note)	8,332,628,114	1,212,569	–	8,333,840,683
Others	19,659,078	–	–	19,659,078
Total	8,352,287,192	1,212,569	–	8,353,499,761

Note: The increased share premium during this year is due to the Company's acquisition of the non-controlling interests of Ma Steel (Guangzhou) Processing and Distribution Co., Ltd. ("Ma Steel (Guangzhou)").

31 December 2018

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium	8,332,628,114	–	–	8,332,628,114
Others	19,659,078	–	–	19,659,078
Total	8,352,287,192	–	–	8,352,287,192

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

41. Other comprehensive income

The accumulated balance of other comprehensive income attributable to owners of the parent in the consolidation statement of financial position :

	1 January 2018	Increase/ (decrease)	1 January 2019	Increase/ (decrease)	31 December 2019
Other comprehensive income that may not be reclassified to profit or loss:					
Change in fair value of other equity instruments investments	27,490,314	(11,838,378)	15,651,936	9,340,609	24,992,545
Other comprehensive income that may be reclassified to profit or loss:					
Other comprehensive income using the equity method that may be reclassified to profit and loss	–	(2,745,469)	(2,745,469)	–	(2,745,469)
Exchange differences on translation of foreign operations	(119,285,876)	(6,322,754)	(125,608,630)	3,600,750	(122,007,880)
	(91,795,562)	(20,906,601)	(112,702,163)	12,941,359	(99,760,804)

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

41. Other comprehensive income (Continued)

The amount of other comprehensive income in the consolidated income statement:

2019

	Amount before tax	Less: charged to other comprehensive income before and reclassified to profit or loss in the current year	Less: charged to other comprehensive income before and reclassified to retained earnings in the current year	Less: income tax	Attributable to owners of the parent	Attributable to non-controlling interests
Other comprehensive income that may not be reclassified to profit or loss:						
Change in fair value of other equity instruments investments	12,454,145	-	-	(3,113,536)	9,340,609	-
Other comprehensive income that may be reclassified to profit or loss:						
Other comprehensive income using the equity method that may be reclassified to profit and loss	-	-	-	-	-	-
Exchange differences on translation of foreign operations	3,600,750	-	-	-	3,600,750	-
	16,054,895	-	-	(3,113,536)	12,941,359	-

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

41. Other comprehensive income (Continued)

The amount of other comprehensive income in the consolidated income statement (Continued):

2018

	Amount before tax	Less: charged to other comprehensive income before and reclassified to profit or loss in current year	Less: charged to other comprehensive income before and reclassified to retained earnings in current year	Less: income tax	Attributable to owners of the parent	Attributable to non- controlling interests
Other comprehensive income that may not be reclassified to profit or loss:						
Change in fair value of other equity instruments investments	(15,784,504)	-	-	3,946,126	(11,838,378)	-
Other comprehensive income that may be reclassified to profit or loss:						
Other comprehensive income using the equity method that may be reclassified to profit and loss	(2,745,469)	-	-	-	(2,745,469)	-
Exchange differences on translation of foreign operations	(6,322,754)	-	-	-	(6,322,754)	-
	(24,852,727)	-	-	3,946,126	(20,906,601)	-

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

42. Special reserve

2019

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Safety fund	31,037,123	128,115,628	(123,668,575)	35,484,176

2018

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Safety fund	31,929,722	113,276,676	(114,169,275)	31,037,123

Special reserve is the safety fund accrued according to the article of [2012]No.16 "The regulation on the accrual and usage of enterprise's safety production fee", carried out by the Ministry of Finance and State Administration of Work Safety on 14 February 2012. The fees are mainly related to the industries of mining, gas, communication and transportation, metallurgy, manufacturing, and construction services.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

43. Surplus reserve

2019

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Statutory reserve (Note i)	3,881,550,020	79,351,238	–	3,960,901,258
Discretionary surplus reserve (Note ii)	529,154,989	–	–	529,154,989
Reserve fund (Note iii)	95,685,328	–	–	95,685,328
Enterprise expansion fund (Note iii)	65,510,919	–	–	65,510,919
	4,571,901,256	79,351,238	–	4,651,252,494

2018

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Statutory reserve (Note i)	3,409,656,105	471,893,915	–	3,881,550,020
Discretionary surplus reserve (Note ii)	529,154,989	–	–	529,154,989
Reserve fund (Note iii)	95,685,328	–	–	95,685,328
Enterprise expansion fund (Note iii)	65,510,919	–	–	65,510,919
	4,100,007,341	471,893,915	–	4,571,901,256

- (i) In accordance with the Company Law of the PRC and the Articles of association of the Company, the Company is required to allocate 10% of its profit after tax, as determined in accordance with the CAS and related regulations applicable to these companies, to the statutory reserve (the "SR") until such reserve reaches 50% of the registered capital of these companies. Part of the SR may be capitalized as these companies' share capital, provided that the remaining balance after the capitalization is not less than 25% of the registered capital of these companies.
- (ii) The Company is authorized to allocate the discretionary surplus reserve from profit after tax after the allocation of the statutory reserve. Upon the approval of the board, the discretionary surplus reserve can be used to cover losses or increase capital.
- (iii) Upon the approval of the board, these subsidiaries are required to allocate certain of their profit after tax as determined in accordance with the CAS and related regulations to the enterprise expansion fund and the reserve fund. The allocation rates are determined by their respective boards of directors.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

44. General reserve

	31 December 2019	31 December 2018
General reserve (Note)	325,786,322	224,841,404

Note: According to the relevant policy of the MOF, Masteel Finance accrues the general reserve from net profit as profit distribution. The balance of the general reserve should not be less than 1.5% of the balance of the risk assets.

45. Retained earnings

	2019	2018
Retained earnings at the end of last year	7,405,577,274	3,643,443,763
Accounting policies changes	—	(20,317,968)
Adjusted retained earnings at beginning of the year	7,405,577,274	3,623,125,795
Net profit attributable to owners of the parent	1,128,148,980	5,943,286,585
Less: Transfer to surplus reserve	79,351,238	471,893,915
Transfer to general reserve	100,944,918	33,294,736
Distribute to shareholders (Note V.66)	2,387,211,168	1,655,646,455
Retained earnings at the end of the year	5,966,218,930	7,405,577,274

46. Revenue and cost of sales

	2019		2018	
	Revenue	Cost of sales	Revenue	Cost of sales
Principal operating income	77,158,249,628	70,327,320,806	80,913,246,025	68,957,076,057
Other operating income	1,104,596,376	988,161,109	1,038,567,463	837,906,062
	78,262,846,004	71,315,481,915	81,951,813,488	69,794,982,119

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

46. Revenue and cost of sales (Continued)

Revenue is presented as follows:

	2019	2018
Revenue from contracts with customers	78,021,403,864	81,791,852,460
Rental income	3,847,825	11,182,578
Interest income	237,594,315	148,778,450
	78,262,846,004	81,951,813,488

Timing of revenue recognition from contracts with customers:

	2019	2018
At a point in time		
Sale of steel products	71,759,528,213	76,195,952,578
Sale of other products	5,995,406,150	5,341,091,143
Over time		
Processing	160,134,559	133,062,594
Agency commission	22,590,195	69,777,068
Packaging services	53,978,920	49,322,771
Others	29,765,827	2,646,306
	78,021,403,864	81,791,852,460

Revenue recognised that was included in contract liabilities at the beginning of the year:

	2019	2018
Revenue	3,543,085,084	3,800,847,781

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

46. Revenue and cost of sales (Continued)

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) at the year end is expected to be recognised as revenue as follows:

	2019	2018
Within one year	3,765,254,551	3,572,594,400

Note: For the sale of products, the Group satisfies a performance obligation when customer obtained the control of the relevant products, and for provision of services, the Group satisfies a performance obligation based on the performance progress over the contract period. The maturity on contract payment of the Group is 30 to 90 days, without existence of a significant financing component. The contracts between the Group and its certain customers contain sales rebate arrangements (future price reductions based on cumulative sales volumes), which form a variable consideration. The Group determines the variable consideration based on the expected or the most probable value. However, the sales price including variable considerations should not exceed the amount accumulatively recognized which is not likely to be significantly reversed when the uncertainty disappears.

For disaggregated revenue information, please refer to Note XIII.2.

47. Taxes and surcharges

	2019	2018
City construction and maintenance tax	105,334,902	203,563,854
Land usage tax	94,444,558	191,497,931
Education surcharge	78,139,540	151,920,591
Property tax	107,876,642	102,898,905
Environment protection tax	51,543,042	65,272,137
Stamp duty	50,409,999	47,577,151
Water conservancy funds	61,518,656	—
Vehicle and vessel usage tax	274,278	241,546
Other taxes	30,974,086	47,350,191
	580,515,703	810,322,306

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48. Selling expenses

	2019	2018
Transportation fees	775,184,975	791,481,756
Employee benefits	91,093,389	81,481,349
Insurance premium	17,794,180	20,301,692
Others	65,771,689	66,453,449
	949,844,233	959,718,246

49. General and administrative expenses

	2019	2018
Employee benefits	567,739,419	633,463,920
Employee termination benefits	1,163,531,268	150,464,248
Office expenses	350,989,956	244,004,675
Rental fees	13,438,813	69,519,998
Amortization of intangible assets	46,395,298	49,974,395
Depreciation of property, plant and equipment	65,148,789	46,156,239
Travel and entertainment expenses	25,482,839	31,912,335
Maintenance expenses	70,821,946	56,419,239
Auditors' remuneration	7,505,525	7,534,749
Others	67,878,874	90,542,109
	2,378,932,727	1,379,991,907

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50. R&D expenses

	2019	2018
Employee benefits	283,196,814	282,920,111
Equipment expenditure	168,392,728	205,200,232
Material costs	261,742,864	170,182,135
Testing and processing expenses	38,528,487	39,987,815
Outsourced research expenses	38,916,060	28,986,569
Fuel and power expenses	18,314,747	21,343,795
Others	37,380,655	52,620,127
	846,472,355	801,240,784

51. Financial expenses

	2019	2018
Interest expense (Note)	788,151,024	879,897,330
Less: interest income	79,269,218	54,228,185
Less: capitalized interest	—	—
Exchange loss	42,953,057	99,590,860
Others	32,976,365	35,197,407
	784,811,228	960,457,412

Note: The Group's interest expense included interest on bank loans, lease liabilities and short-term financing bonds.

52. Other income

	2019	2018
Government grants related to daily operating activities	116,281,524	182,883,541
Refund of withholding personal income tax commission	1,091,815	2,467,295
	117,373,339	185,350,836

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

52. Other income (Continued)

The government grants related to ordinary course of business are as follows:

	2019	2018	Related to assets/income
Refund of land usage tax	37,312,042	82,169,607	income
Special subsidies for science and technology	5,133,290	7,922,624	income
Foreign economic and trade policy support funds of Anhui Province	—	7,106,000	income
Tax refund of financial settlement account	130,000	5,000,000	income
Refund of land value added tax	—	2,458,026	income
Settlement support incentive fund	270,000	1,770,000	income
Finance division industrial transformation and upgrading fund	—	1,713,700	income
Advanced enterprises rising and energy-saving technology reform fund	2,801,250	1,500,000	income
Stable subsidy	—	1,359,031	income
Industrial policy award	—	1,000,000	income
Intelligent manufacturing special fund	1,373,439	—	income
Subsidy fund for 4# blast furnace project	8,624,004	8,624,004	assets
Fixed assets subsidy for thin plate project	4,728,493	4,716,743	assets
Technological transformation fund for phase II silicon steel	4,400,000	4,400,000	assets
New-zone thermal power plant CAPP system engineering	4,312,000	4,312,000	assets
EMU steel wheel production line project	2,200,000	2,200,000	assets
Subsidy for hot-rolled 1580 project	1,980,000	1,980,000	assets
Engineering of alloy bar finishing production line in electric furnace plant	1,483,680	1,483,680	assets
Comprehensive utilization of gas for power generation of a thermal power plant	1,090,760	1,090,760	assets
Subsidy for Maanshan railway industry (Maanshan)	1,008,000	1,008,000	assets
Subsidies for galvanizing projects	868,751	677,966	assets
Environmental funds for desulfurization project of 3rd iron plant's flue gas (BOT)	590,484	590,484	assets
Environmental subsidy funds for flue gas desulfurization and 135 MW thermal power	567,600	567,600	assets
Other grants related to income	10,950,248	10,480,471	income
Other grants related to assets	26,457,483	28,752,845	assets
	116,281,524	182,883,541	

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

53. Investment income

	2019	2018
Investment income from long-term equity investments under the equity method	575,520,895	657,410,287
Gain from disposal of subsidiaries	–	188,829,498
Gain from disposal of associates	(16,052)	7,689,556
Gain from dividend income from other equity investment in duration	–	3,380,000
Gain from disposal of financial assets held for trading	171,766,855	174,913,116
Gain from disposal of debt instruments investment	67,796,079	57,877,322
	815,067,777	1,090,099,779

54. Gain/(loss) on the changes in fair value

	2019	2018
Financial assets held for trading	3,844,525	(12,699,509)
Including: Derivative financial instruments	1,191,700	(13,462,810)
Financial liabilities held for trading	5,753,920	2,486,140
	9,598,445	(10,213,369)

55. Credit impairment losses

	2019	2018
Bad debts impairment	16,365,291	40,345,759
Debt instruments investment impairment	(88,104)	253,903
Provision – loan commitment	115,473	460,734
Impairment losses on financial assets purchased under agreement to resell	(799,795)	816,549
	15,592,865	41,876,945

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

56. Asset impairment losses

	2019	2018
Provision for inventories	285,613,638	754,443,431
Impairment of fixed assets	138,984,935	–
	424,598,573	754,443,431

57. (Loss)/gain from disposal of assets

	2019	2018
(Loss)/gain on disposal of fixed assets	(77,442,073)	247,721,113
Gain on disposal of intangible assets	383,722	123,559,151
	(77,058,351)	371,280,264

58. Non-operating income

	2019	2018	Included in 2019 non- recurring gains and losses
Government grants not related to the ordinary course of business	462,733,716	154,659,733	462,733,716
Others	7,180,250	5,438,834	7,180,250
	469,913,966	160,098,567	469,913,966

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

58. Non-operating income (Continued)

The government grants not related to the ordinary course of business are as follows:

	2019	2018
Employees stabilization allowance	179,977,500	–
Compensation for settlement of employees	175,955,283	154,659,733
Grants for reduction of overcapacity	95,885,000	–
Compensation for “Three Supplies and Property Management”(“三供一業”)	10,705,600	–
Others	210,333	–
	462,733,716	154,659,733

59. Non-operating expenses

	2019	2018	Included in 2019 non- recurring gains and losses
Charity donation	609,449	1,130,050	609,449
Penalty expenditure	864,215	1,567,787	864,215
Compensation for sales	1,103,530	1,561,587	1,103,530
Others	1,158,677	2,213,063	1,158,677
	3,735,871	6,472,487	3,735,871

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

60. Expenses classified by nature

Supplemental information for the Group's cost of sales, selling expenses, general and administrative expenses and R&D expenses is presented below by nature:

	2019	2018
Raw materials and consumables used	60,907,662,751	57,833,744,182
Changes in inventories of finished goods and work in progress	(96,939,444)	(146,416,074)
Employee benefits	5,707,413,358	4,732,035,377
Depreciation and amortization	3,318,980,376	3,914,248,514
Transport and inspection fees	1,675,297,977	1,786,240,544
Repair and maintenance expenses	2,071,332,224	3,161,523,273
Testing and processing expenses	38,528,487	39,987,815
Outsourced research expenses	38,916,060	28,986,569
Office expenses	378,191,691	268,324,360
Others	1,451,347,750	1,317,258,496
	75,490,731,230	72,935,933,056

61. Income tax expenses

	2019	2018
Mainland China current income tax expense*	504,353,061	949,175,391
Hong Kong current income tax expense*	8,519,080	9,399,676
Overseas current income tax expense*	14,054,819	29,528,238
Deferred tax expense	56,910,881	192,831,929
	583,837,841	1,180,935,234

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

61. Income tax expenses (Continued)

Reconciliation between income tax and profit before tax is as follows:

	2019	2018
Profit before tax	2,297,755,710	8,238,923,928
Tax at the applicable tax rate of 25% (Note)	574,438,928	2,059,730,982
Effect of different tax rates of subsidiaries	(6,325,547)	(12,950,204)
Non-deductible expenses	24,823,810	122,878,020
Other tax preference	(132,030,610)	(112,104,563)
Income not subject to tax	(9,677,236)	(73,555,483)
Unrecognised deductible temporary difference and tax losses	300,068,716	365,585,000
Utilised previous years' tax losses	(25,572,453)	(1,004,295,946)
Share of profit or loss of joint ventures and associates	(141,887,767)	(164,352,572)
Tax charge at the Group's effective rate	583,837,841	1,180,935,234
The Group's effective rate	25%	14%

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

62. Earnings per share

	2019 cent/share	2018 cent/share
Basic earnings per share		
Continuing operations	14.65	77.18
Diluted earnings per share		
Continuing operations	14.65	77.18

Basic earnings per share shall be calculated by dividing profit attributable to owners of the parent (the numerator) by the weighted average number of ordinary shares in issue (the denominator). During the year of 2019 and 2018, the Company did not have any dilutive items that should adjust the basic earnings per share.

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

	2019	2018
Earnings		
Profit attributable to owners of the parent		
Continuing operations	1,128,148,980	5,943,286,585
Number of shares		
Weighted average number of ordinary shares in issue during the year	7,700,681,186	7,700,681,186

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

63. Notes to the statement of cash flows

	2019	2018
(1) Cash received relating to other operating activities:		
Government grants	125,837,147	119,416,334
Employee relocation compensation received from the government	175,955,283	154,659,733
Stabilization allowance	179,977,500	–
Compensation for “Three Supplies and Property Management” (“三供一業”)	10,705,600	–
Interest income	66,658,239	46,675,588
Others	24,330,945	31,743,440
	583,464,714	352,495,095
(2) Cash paid relating to other operating activities:		
Increase in deposits for notes, credit and guarantee	439,636,364	71,445,760
Office expenses	35,102,777	8,579,730
Safety fund	136,743,600	129,164,173
Bank charges	32,187,323	29,452,252
Travel and entertainment expenses	42,561,689	50,443,686
Insurance expenses	28,736,161	37,474,741
Environmental improvement fee	14,674,982	10,000,621
Research and development expenses	37,380,655	33,284,845
Water conservancy funds	31,149,638	13,090,445
Others	80,128,666	59,821,213
	878,301,855	442,757,466
(3) Cash received relating to other investing activities:		
Receipt of steel futures deposits	–	131,408,596
(4) Cash paid relating to other investing activities:		
Steel futures deposits	47,067,231	–
Cash paid for disposal of subsidiaries and other business units (Note V.64(2))	–	194,468,349
	47,067,231	194,468,349
(5) Cash received relating to other financing activities:		
Withholding shareholder’s personal income tax	105,205,310	–
Shareholder’s loan	79,132,600	–
Lease liabilities expenditure	37,213,592	–
	221,551,502	–

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

64. Supplements to the statement of cash flows

(1) Reconciliation of net profit to cash flows from operating activities

	2019	2018
Net profit	1,713,917,869	7,057,988,694
Add: Provision for asset impairment losses	440,075,965	795,859,642
Loan commitment expected losses	115,473	460,734
Depreciation of property, plant and equipment	3,237,381,042	3,772,240,253
Amortization of right-of-use assets	24,488,467	–
Amortization of intangible assets	55,333,695	140,304,332
Amortization of investment properties	1,777,172	1,703,929
Amortization of deferred revenue	(59,684,694)	(60,404,082)
Disposal loss/(gain) on fixed assets, intangible assets and other long-term assets	77,058,351	(371,280,264)
Increase in special reserve	231,770	4,401,471
Financial expenses	818,493,103	910,542,165
Investment income	(815,067,777)	(1,090,099,779)
(Gain)/loss on fair value changes	(9,598,445)	10,213,369
Decrease in deferred tax assets	62,590,403	199,325,998
Decrease in deferred tax liabilities	(5,679,522)	(2,775,354)
(Increase)/decrease in inventories	(179,529,449)	391,829,060
Increase in receivables from operating activities	(7,844,167,761)	(1,326,214,251)
Increase in payables from operating activities	10,348,221,462	3,436,334,189
Net cash flows from operating activities	7,865,957,124	13,870,430,106
Endorsement of bank acceptance bills received for the sales of goods and the provision of services	1,775,655,720	17,657,509,730

Note: The Group had no significant non-cash investing and financing activities (2018: nil).

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

64. Supplements to the statement of cash flows (Continued)

(2) Disposal of subsidiaries and other business units

	2019	2018
Consideration for disposal of subsidiaries and other business units		
Cash and cash equivalents received from disposal of subsidiaries and other operation units	—	178,381,854
Less: Cash and cash equivalents held by subsidiaries and other operation units disposed of	—	372,850,203
Net cash impact of disposal of subsidiaries and other operating units	—	(194,468,349)

(3) Cash and cash equivalents

Net changes in cash and cash equivalents:

	2019	2018
Ending balance of cash	7,239,650,634	6,934,175,776
Less: Opening balance of cash	6,934,175,776	2,940,502,015
Add: Ending balance of cash equivalents	—	—
Less: Opening balance of cash equivalents	—	—
Net increase in cash and cash equivalents	305,474,858	3,993,673,761

	31 December 2019	31 December 2018
Cash	7,239,650,634	6,934,175,776
Including: Cash on hand	46,737	90,260
Balances in banks without restriction	7,239,603,897	6,934,085,516
Ending balance of cash and cash equivalents	7,239,650,634	6,934,175,776

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

65. Restricted assets

	31 December 2019	31 December 2018	
Cash and bank balances (Note V.1)	2,174,161,378	2,005,084,942	(i)
Financing receivables (Note V.4)	4,597,328,266	–	(ii)
	6,771,489,644	2,005,084,942	

- (i) As of 31 December 2019, the Group's restricted cash and bank balances include cash deposits as collateral amounting to RMB1,461,248,595 (31 December 2018: RMB1,021,612,231) pledged as security for trade facilities and performance for bank acceptance notes, letter of credit and guarantees, and mandatory reserves with the central bank of RMB712,912,783 (31 December 2018: RMB983,472,711).
- (ii) As of 31 December 2019, the Group pledged the bank acceptance notes of RMB4,470,011,632 (31 December 2018: nil) to issue notes payable and the bank acceptance notes of RMB127,316,634 (31 December 2018: nil) to pledge for the short-term loan.

66. Dividends*

According to the "2018 Annual Profit Distribution Plan" approved by the Company's 2018 Annual General Meeting on 12 June 2019, the Group would distribute dividends to all shareholders at RMB0.31 per share (tax included) (2018: RMB0.215 per share), for 7,700,681,186 shares amounting to RMB2,387,211,168 (2018: RMB1,655,646,455). The dividends had been paid in 2019 and were included in the financial statements.

On 30 March 2020, the 30th meeting of the 9th board of the Company approved the 2019 final cash dividend of RMB0.08 (tax included) per share to shareholders, for 7,700,681,186 shares amounting to RMB616,054,495. The profit distribution plan will be submitted for approval in the annual general meeting of the Company. Before the approval of the 2019 final dividend, the dividend will not be the liabilities of the Company and therefore was not included in the current year's financial statements.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

67. Monetary items denominated in foreign currencies

	31 December 2019			31 December 2018		
	Original currency	Exchange rate	Equivalent of RMB	Original currency	Exchange rate	Equivalent of RMB
Cash and bank balances						
HKD	3,302,983	0.8958	2,958,812	1,517,268	0.8762	1,329,430
USD	312,056,626	6.9762	2,176,969,434	631,932,431	6.8632	4,337,078,660
EUR	14,492,810	7.8155	113,268,557	22,951,320	7.8473	180,105,893
JPY	–	0.0641	–	7,928	0.0619	491
AUD	50,452,679	4.8843	246,426,020	33,968,172	4.8250	163,896,430
CAD	212,334	5.1739	1,098,595	835,221	5.0381	4,207,927
GBP	16,492	9.1501	150,903	573	8.6762	4,971
ZAR	80,459	0.4943	39,771	15,683	0.4735	7,426
AED	2,444,163	1.8992	4,641,954	973,493	1.8679	1,818,388
			2,545,554,046			4,688,449,616
Financial assets held for trading						
EUR	2,255,765	7.8155	17,629,931	275,027	7.8473	2,158,219
Trade receivables						
USD	5,338,324	6.9762	37,241,216	14,235,363	6.8632	97,700,143
EUR	23,173,880	7.8155	181,115,459	10,490,857	7.8473	82,324,902
CAD	–	5.1739	–	534,340	5.0381	2,692,058
AUD	838,833	4.8843	4,097,112	1,284,500	4.8250	6,197,713
HKD	–	0.8958	–	50,520,844	0.8762	44,266,364
ZAR	–	0.4943	–	8,286,750	0.4735	3,923,776
			222,453,787			237,104,956
Other receivables						
HKD	595,565	0.8958	533,507	3,362,587	0.8762	2,946,299
EUR	958,419	7.8155	7,490,524	2,538,412	7.8473	19,919,680
AUD	21	4.8843	103	40	4.8250	193
USD	4,151	6.9762	28,958	4,151	6.8632	28,489
AED	19,758	1.8992	37,524	–	1.8679	–
			8,090,616			22,894,661

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

67. Monetary items denominated in foreign currencies (Continued)

	31 December 2019			31 December 2018		
	Original currency	Exchange rate	Equivalent of RMB	Original currency	Exchange rate	Equivalent of RMB
Trade payables						
USD	–	6.9762	–	8,919,581	6.8632	61,216,868
EUR	11,250,195	7.8155	87,925,899	3,381,062	7.8473	26,532,208
HKD	–	0.8958	–	969,501	0.8762	849,477
AED	5,000	1.8992	9,496	–	1.8679	–
CAD	–	5.1739	–	1,500	5.0381	7,557
			87,935,395			88,606,110
Other payables						
AUD	45,600	4.8843	222,724	97,454	4.8250	470,216
HKD	4,029,523	0.8958	3,609,647	4,618,349	0.8762	4,046,597
EUR	1,546,627	7.8155	12,087,663	2,061,315	7.8473	16,175,757
USD	337,655,195	6.9762	2,355,550,171	207,477,470	6.8632	1,423,959,372
AED	–	1.8992	–	211,160	1.8679	394,426
			2,371,470,205			1,445,046,368
Short-term loan						
USD	210,921,764	6.9762	1,471,432,410	526,501,762	6.8632	3,613,486,893
			1,471,432,410			3,613,486,893
Long-term loans due within one year						
USD	24,360,000	6.9762	169,940,232	7,360,000	6.8632	50,513,152
EUR	–	7.8155	–	14,700,000	7.8473	115,355,310
			169,940,232			165,868,462
Long-term loan						
USD	–	6.9762	–	24,360,000	6.8632	167,187,552
			–			167,187,552

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

VI. CHANGE IN THE SCOPE OF CONSOLIDATION

1. Newly established subsidiary

As of 31 December 2019, the Company established the following subsidiary, and has included it in the scope of consolidation since then.

	Date of establishment	Registered capital	Percentage of equity	Investment form	Capital paid as of the year end
Magang Hongfei Electricity Power Co., Ltd. (Note)	June 2019	RMB100,000,000	51%	Cash	RMB51,000,000

Note: On 12 June 2019, upon the approval by the 21st meeting of the 9th Board of Directors of the Company, the Company established Magang Hongfei Electricity Power Co., Ltd. ("Magang Hongfei") together with Anhui Hongfei New Energy Technology Co., Ltd. and Phima Intelligence, which is a subsidiary of the Holding. The registered capital of Magang Hongfei is RMB100 million and the Company holds 51% of its equity interest. As of 31 December 2019, the Company has completed the capital injection and included it in the scope of the consolidation.

2. Disposal of a subsidiary

For the year ended 31 December 2019, there was no disposal of a subsidiary.

3. Changes in scope of consolidation for other reasons

For the year ended 31 December 2019, there was no change in the scope of consolidation for other reasons.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

VII. INTERESTS IN OTHER ENTITIES

1. Interests in subsidiaries

Details of the subsidiaries are as follows:

	Place of operation	Place of registration	Business nature	Paid-in capital	Percentage of equity (%)	
					Direct	Indirect
Subsidiaries acquired by establishment or investment						
Ma Steel (Wuhu) Processing and distribution Co., Ltd. ("Ma Steel (Wuhu)")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB35,000,000	70	30
Ma Steel (Cihu) Processing and Distribution Co., Ltd. ("Ma Steel (Cihu)")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB30,000,000	92	–
Ma Steel (Guangzhou)(Note 1)	Guangdong, PRC	Guangdong, PRC	Manufacturing	RMB120,000,000	74.99	–
Ma Steel (HK)	Hong Kong, PRC	Hong Kong, PRC	Manufacturing	HKD350,000,000	100	–
Holly Industrial Co., Ltd. ("Holly Industrial")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB30,000,000	71	29
Ma Steel (Jinhua) Processing and Distribution Co., Ltd. ("Ma Steel (Jinhua)")	Zhejiang, PRC	Zhejiang, PRC	Manufacturing	RMB120,000,000	75	–
MG Trading	Germany	Germany	Trading	EUR153,388	100	–
Ma Steel (Australia)	Australia	Australia	Mining	AUD21,737,900	100	–
Ma Steel (Hefei)	Anhui, PRC	Anhui, PRC	Manufacturing	RMB2,500,000,000	71	–
Ma Steel (Hefei) Processing and Distribution Co., Ltd. ("Ma Steel (Hefei) Processing")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB120,000,000	67	28
Ma Steel (Wuhu) Material Technique Co. Ltd. ("Wuhu Technique")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB150,000,000	71	–
Maanshan (Chongqing) Material Technology Co., Ltd. ("Chongqing Material")	Chongqing, PRC	Chongqing, PRC	Trading	RMB250,000,000	70	–
Hefei Water Supply	Anhui, PRC	Anhui, PRC	Manufacturing	RMB50,000,000	–	100
Ma Steel (Hefei) Steel Plates Co., Ltd. ("Hefei Steel Plates")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB2,000,000,000	–	100
Ma Steel (Hefei) Materials Technology Co., Ltd. ("Hefei Materials")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB200,000,000	70	–
Ma' Anshan (Hangzhou) Iron and Steel Sales Co., Ltd. ("Ma Steel Hangzhou Sales")	Zhejiang, PRC	Zhejiang, PRC	Trading	RMB10,000,000	100	–

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in subsidiaries (Continued)

Details of the subsidiaries are as follows (Continued):

	Place of operation	Place of registration	Business nature	Paid-in capital	Percentage of equity (%)	
					Direct	Indirect
Subsidiaries acquired by establishment or investment (Continued)						
Ma' Anshan (Wuxi) Iron and Steel Sales Co., Ltd. ("Ma Steel Wuxi Sales")	Jiangsu, PRC	Jiangsu, PRC	Trading	RMB10,000,000	100	–
Ma' Anshan (Nanjing) Iron and Steel Sales Co., Ltd. ("Ma Steel Nanjing Sales")	Jiangsu, PRC	Jiangsu, PRC	Trading	RMB10,000,000	100	–
Ma' Anshan (Wuhan) Iron and Steel Sales Co., Ltd. ("Ma Steel Wuhan Sales")	Hubei, PRC	Hubei, PRC	Trading	RMB10,000,000	100	–
Ma' Anshan (Shanghai) Iron and Steel Sales Co., Ltd. ("Ma Steel Shanghai Sales")	Shanghai, PRC	Shanghai, PRC	Trading	RMB10,000,000	100	–
Anhui Chang Jiang Iron and Steel Trading Co., Ltd., Hefei ("Chang Jiang Iron and Steel, Hefei")	Anhui, PRC	Anhui, PRC	Trading	RMB30,000,000	–	100
Anhui Chang Jiang Iron and Steel Trading Co., Ltd., Nanjing ("Chang Jiang Iron and Steel, Nanjing")	Jiangsu, PRC	Jiangsu, PRC	Trading	RMB30,000,000	–	100
Ma'anshan Chang Jiang Iron and Steel Trading Co., Ltd. ("Chang Jiang Iron and Steel Trading")	Anhui, PRC	Anhui, PRC	Trading	RMB30,000,000	–	100
MG-VALDUNES (Note 2)	France	France	Manufacturing	EUR130,200,000	100	–
Ma'anshan Oubang Color-coated Technology Co., Ltd. ("Ma Steel Oubang Color-coated") ("Masteel Oubang Color-coated")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB50,000,000	67	–
Masteel America	USA	USA	Service industry	USD500,000	100	–
Anhui Ma Steel Antitrust Material Technology Co., Ltd. ("Ma Steel Antitrust")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB10,000,000	51	–
Maanshan Meite Metallurgical Power Technology Co.,Ltd. ("Meite Metallurgical Power")	Anhui, PRC	Anhui, PRC	Service industry	RMB500,000	100	–
Masteel Middle East (Note 3)	Dubai	Dubai	Trading	AED4,000,000	100	–
Maanshan (Changchun) Iron and Steel Sales Co., Ltd. ("Changchun Sales")	Changchun, PRC	Changchun, PRC	Trading	RMB10,000,000	100	–
Masteel (Wuhan) Material Technology Co., Ltd. ("Wuhan Material") (Note 4)	Wuhan, PRC	Wuhan, PRC	Manufacturing	RMB250,000,000	85	–
Masteel Hongfei (Note VI.1)	Anhui, PRC	Anhui, PRC	Service industrv	RMB100,000,000	51	–

Notes to the Financial Statements (Continued)

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Renminbi Yuan

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in subsidiaries (Continued)

Details of the subsidiaries are as follows (Continued):

	Place of operation	Place of registration	Business nature	Paid-in capital	Percentage of equity (%)	
					Direct	Indirect
Subsidiaries acquired through business combination						
Ma Steel (Yangzhou) Processing and Distribution Co., Ltd. ("Ma steel (Yangzhou) Processing")	Jiangsu, PRC	Jiangsu, PRC	Manufacturing	USD20,000,000	71	–
Anhui ChangJiang Iron and Steel	Anhui, PRC	Anhui, PRC	Manufacturing	RMB1,200,000,000	55	–
Ma-Steel Rail Transportation Co., Ltd. ("Ma-Steel Rail Transportation") (Note 5)	Anhui, PRC	Anhui, PRC	Manufacturing	RMB1,486,296,194	100	–
Mascometal Co., Ltd.("Mascometal")	Anhui, PRC	Anhui, PRC	Manufacturing	EUR32,000,000	66	–
Subsidiary acquired under common control						
Masteel Finance	Anhui, PRC	Anhui, PRC	Financial services	RMB2,000,000,000	91	–

Note 1: In 2019, the Company acquired the 8.33% equity interest in Magang Guangzhou held by Hong Kong Bailihao (Shentou) Enterprise Co., Ltd. for RMB13,058,200. After the acquisition, the Company's total equity interest in Magang Guangzhou increased from 66.66% to 74.99%.

Note 2: In 2019, the Company injected capital amounting to EUR 20,000,000 (equivalent to RMB156,060,000) to MG-VALDUNES, a wholly-owned subsidiary of the Company.

Note 3: In 2018, the Company established a wholly-owned subsidiary, Masteel Middle East, with a registered capital of AED4,000,000 and completed the first phase of capital contribution of USD300,000 (equivalent to RMB2,041,200). In 2019, the Company completed the second phase of capital contribution of USD500,000 (equivalent to RMB3,435,250).

Note 4: In 2018, the Company invested in cash to establish Wuhan Material with a registered capital of RMB250,000,000 with Wuhan Huanchuang Yian Economic Development Co., Ltd. and Hubei Donganyuan Trading Industry Co., Ltd. and invested RMB212,500,000, RMB25,000,000 and RMB12,500,000, held 85%, 10% and 5% of equity interests, respectively. The Company completed the first phase of capital contribution of RMB31,875,000 in 2018 and completed the second phase of capital contribution of RMB53,125,000 in 2019.

Note 5: On 18 March 2019, the Company injected capital amounting to RMB40,000,000 to Ma-Steel Rail Transportation, a wholly-owned subsidiary of the Company. On 30 October 2019, upon the approval of the 25th meeting of the 9th Board of Directors, the Company injected capital to Ma-Steel Rail Transportation by the net assets of wheel Branch of the Company with appraisal value amounting to RMB1,022,429,694 and land use right with appraisal value amounting to RMB63,866,500. After the injection, the registered capital of Ma-Steel Rail Transportation increased from RMB360,000,000 to RMB1,486,296,194.

Notes to the Financial Statements (Continued)

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Renminbi Yuan

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in subsidiaries (Continued)

Subsidiaries which had material non-controlling interests are as follows:

The proportion of equity held by non-controlling interests:

	31 December 2019	31 December 2018
Ma Steel (Hefei)	29%	29%
Anhui Chang Jiang Iron and Steel	45%	45%
Masteel Finance	9%	9%

Profit or loss attributable to non-controlling interests:

	2019	2018
Ma Steel (Hefei)	32,683,122	56,222,329
Anhui Chang Jiang Iron and Steel	520,722,532	954,100,897
Masteel Finance	25,284,692	24,213,668

Dividends paid to non-controlling interests:

	2019	2018
Ma Steel (Hefei)	—	—
Anhui Chang Jiang Iron and Steel	513,000,000	524,909,491
Masteel Finance	9,397,887	6,266,572

Cumulative balances of non-controlling interests at the balance sheet date:

	31 December 2019	31 December 2018
Ma Steel (Hefei)	673,809,772	639,682,701
Anhui Chang Jiang Iron and Steel	2,493,476,559	2,488,805,895
Masteel Finance	283,225,701	267,338,897

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in subsidiaries (Continued)

The summarised financial information of the above subsidiaries is as follows. The amounts listed below are the amounts before the group intra-elimination.

	Ma Steel (Hefei)	Anhui Chang Jiang Iron and Steel	Masteel Finance
2019			
Current assets	1,670,195,156	6,418,062,041	18,661,684,721
Non-current assets	3,139,504,112	4,075,753,165	3,247,078,627
Total assets	4,809,699,268	10,493,815,206	21,908,763,348
Current liabilities	(1,883,412,083)	(4,929,808,639)	(18,739,550,955)
Non-current liabilities	(602,805,212)	(22,947,546)	(22,260,160)
Total liabilities	(2,486,217,295)	(4,952,756,185)	(18,761,811,115)
Revenue	4,680,562,702	16,021,280,559	418,345,785
Net profit	112,700,421	1,157,161,183	280,941,022
Total comprehensive income	112,700,421	1,157,161,183	280,941,022
Net cash flows from operating activities	423,131,207	475,050,895	3,700,421,491

Notes to the Financial Statements (Continued)

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Renminbi Yuan

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in subsidiaries (Continued)

	Ma Steel (Hefei)	Anhui Chang Jiang Iron and Steel	Masteel Finance
2018			
Current assets	1,567,807,947	6,812,129,772	13,694,181,891
Non-current assets	3,178,015,241	4,224,413,085	2,517,527,194
Total assets	4,745,823,188	11,036,542,857	16,211,709,085
Current liabilities	(1,679,655,280)	(5,362,859,556)	(13,241,102,137)
Non-current liabilities	(860,365,492)	(143,003,535)	(174,764)
Total liabilities	(2,540,020,772)	(5,505,863,091)	(13,241,276,901)
Revenue	5,490,398,323	16,231,495,618	297,618,851
Net profit	193,870,100	2,120,224,216	269,040,756
Total comprehensive income	193,870,100	2,120,224,216	269,040,756
Net cash flows from operating activities	234,564,331	3,365,102,259	1,455,180,857

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Interests in joint ventures and associates

	Place of operation	Place of registration	Business nature	Registered capital	Percentage of equity (%)		Accounting method
					Direct	Indirect	
Joint ventures							
BOC-Ma Steel	Anhui, PRC	Anhui, PRC	Manufacturing	RMB468,000,000	50	–	Equity method
MASTEEL-CMI	Anhui, PRC	Anhui, PRC	Service industry	RMB1,000,000	50	–	Equity method
Associates							
JinMa Energy	Henan, PRC	Henan, PRC	Manufacturing	RMB535,421,000	26.89	–	Equity method
Shenglong Chemical	Shandong, PRC	Shandong, PRC	Manufacturing	RMB568,800,000	31.99	–	Equity method
Xinchuang Environmental Protection (Note1)	Anhui, PRC	Anhui, PRC	Service industry	RMB122,381,990	16.34	–	Equity method
Ma-Steel OCI Chemical	Anhui, PRC	Anhui, PRC	Manufacturing	USD47,125,000	40	–	Equity method
Ma-Steel Commercial Factoring	Shanghai, PRC	Shanghai, PRC	Service industry	RMB600,000,000	25		Equity method
Ma-Steel Financial Leasing	Shanghai, PRC	Shanghai, PRC	Service industry	RMB300,000,000		25	Equity method
Masteel Scrap	Anhui, PRC	Anhui, PRC	Trading	RMB400,000,000	45	–	Equity method
Masteel K. Wah	Anhui, PRC	Anhui, PRC	Manufacturing	USD19,574,333	30	–	Equity method
Magang Chemicals& Energy	Anhui, PRC	Anhui, PRC	Manufacturing	RMB1,333,333,333	45	–	Equity method
Phima Intelligence (Note2)	Anhui, PRC	Anhui, PRC	Information technology service industry	RMB361,093,720	–	18.19	Equity method

Note 1: As of 31 December 2019, the Group held 16.34% equity interests of Xinchuang Environmental Protection. The directors believed that the Company was able to exercise significant influence over Xinchuang Environmental Protection through one director and one supervisor designated by the Company in Xinchuang Environmental Protection, although the equity interests in it were less than 20%. Thus, the equity investment in Xinchuang Environmental Protection was accounted for as an associate.

Note 2: As of 31 December 2019, the Group held 18.19% equity interests of Phima Intelligence. The directors believed that the Company was able to exercise significant influence over Phima Intelligence through one director designated by the Company who was also nominated as a member of the Audit Committee in Phima Intelligence, although the equity interests in it were less than 20%. Thus, the equity investment in Phima Intelligence was accounted for as an associate.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Interests in joint ventures and associates (Continued)

BOC-Ma Steel, one of the Group's material joint ventures, was accounted for using the equity method.

The financial information of BOC-Ma Steel is as follows, which has been adjusted for all the accounting policy differences and reconciled to the carrying amount of the financial statements.

	2019	2018
Current assets	420,129,331	412,434,918
Non-current assets	188,936,797	208,914,826
Total assets	609,066,128	621,349,744
Current liabilities	60,768,847	85,171,831
Non-current liabilities	4,906,456	—
Total liabilities	65,675,303	85,171,831
Non-controlling interests	—	—
Equity attributable to owners of the parent	543,390,825	536,177,913
The Group's share of net assets	271,695,413	268,088,957
Adjustment	—	—
The carrying value of the investment	271,695,413	268,088,957
Revenue	559,414,407	549,598,109
Income tax expenses	59,136,383	57,267,768
Net profit	177,212,912	167,262,522
Other comprehensive income	—	—
Total comprehensive income	177,212,912	167,262,522
Dividends received	85,000,000	150,000,000

Notes to the Financial Statements (Continued)

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VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Interests in joint ventures and associates (Continued)

Henan JinMa Energy, Shenglong Chemical, Magang Chemicals & Energy and Masteel Scrap are the Group's material associates and are accounted for using the equity method.

The financial information of individually material associates is as follows, which has been adjusted to all the accounting policy differences and reconciled to the carrying amount of the financial statements:

Henan JinMa Energy	2019	2018
Current assets	3,389,213,000	2,391,446,000
Non-current assets	2,100,891,000	1,683,056,000
Total assets	5,490,104,000	4,074,502,000
Current liabilities	1,675,050,000	1,420,505,000
Non-current liabilities	413,610,000	276,286,000
Total liabilities	2,088,660,000	1,696,791,000
Non-controlling interests	767,603,000	97,983,000
Equity attributable to owners of the parent	2,633,841,000	2,279,728,000
The Group's share of net assets	707,573,964	613,018,859
Adjustment	—	—
The carrying value of the investment	707,573,964	613,018,859
Revenue	7,585,190,000	7,451,793,000
Income tax expenses	201,767,000	284,181,000
Net profit	628,466,000	852,484,000
Total comprehensive income	629,380,000	850,600,000
Dividends received	64,800,000	47,520,000

Notes to the Financial Statements (Continued)

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VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Interests in joint ventures and associates (Continued)

The financial information of individually material associates is as follows, which has been adjusted to all the accounting policy differences and reconciled to the carrying amount of the financial statements (Continued):

Shenglong Chemical	2019	2018
Current assets	1,776,227,037	1,545,284,586
Non-current assets	1,488,260,340	1,532,216,940
Total assets	3,264,487,377	3,077,501,526
Current liabilities	704,936,856	779,078,109
Non-current liabilities	8,064,165	8,064,165
Total liabilities	713,001,021	787,142,274
Non-controlling interests	—	—
Equity attributable to owners of the parent	2,551,486,356	2,290,359,252
The Group's share of net assets	816,220,485	732,685,925
Adjustment	—	—
The carrying value of the investment	816,220,485	732,685,925
Revenue	5,738,658,043	5,157,647,058
Income tax expenses	149,245,965	280,475,399
Net profit	508,977,899	921,202,979
Total comprehensive income	508,977,899	921,202,979
Dividends received	79,982,419	31,992,968

Notes to the Financial Statements (Continued)

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Renminbi Yuan

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Interests in joint ventures and associates (Continued)

The financial information of individually material associates is as follows, which has been adjusted to all the accounting policy differences and reconciled to the carrying amount of the financial statements (Continued):

Magang Chemicals & Energy	2019	2018
Current assets	726,468,354	813,929,850
Non-current assets	992,609,756	574,829,336
Total assets	1,719,078,110	1,388,759,186
Current liabilities	91,299,697	54,019,713
Non-current liabilities	—	—
Total liabilities	91,299,697	54,019,713
Non-controlling interests	161,500,000	—
Equity attributable to owners of the parent	1,466,278,413	1,334,739,473
The Group's share of net assets	659,825,286	600,632,763
Adjustment	(632,763)	(632,763)
The carrying value of the investment	659,192,523	600,000,000
Revenue	2,811,704,314	—
Income tax expenses	39,148,882	—
Net profit	131,538,940	—
Total comprehensive income	131,538,940	—
Dividends received	—	—

Notes to the Financial Statements (Continued)

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VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Interests in joint ventures and associates (Continued)

The financial information of individually material associates is as follows, which has been adjusted to all the accounting policy differences and reconciled to the carrying amount of the financial statements (Continued):

Masteel Scrap	2019	2018
Current assets	3,918,291,645	828,016,759
Non-current assets	223,913,087	23,780,445
Total assets	4,142,204,732	851,797,204
Current liabilities	3,113,527,232	541,412,709
Non-current liabilities	—	—
Total liabilities	3,113,527,232	541,412,709
Non-controlling interests	315,277,881	—
Equity attributable to owners of the parent	713,399,619	310,384,495
The Group's share of net assets	321,029,829	139,673,023
Adjustment	6,275,766	6,275,766
The carrying value of the investment	327,305,595	145,948,789
Revenue	14,730,698,395	—
Income tax expenses	48,855,077	—
Net profit	157,781,556	—
Total comprehensive income	157,781,556	—
Dividends received	—	—

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Interests in joint ventures and associates (Continued)

The summarized financial information of the joint ventures and the associates that are not individually material to the Group is as follows:

	2019	2018
Joint ventures		
The carrying value of the Group's investments	501,306	501,735
Total shown as below (calculated according to the respective equity holding percentage)		
Net loss	(429)	(44,418)
Other comprehensive income	—	—
Total comprehensive income	(429)	(44,418)

	31 December 2019	31 December 2018
Associates		
The carrying value of the Group's investments	763,730,382	1,194,767,905
Total shown as below (calculated according to the respective equity holding percentage)		
Net profit	56,137,211	56,725,650
Other comprehensive income	—	—
Total comprehensive income	56,137,211	56,725,650

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS

1. Classification of financial instruments

The carrying amounts of each of the categories of financial instruments at the end of the reporting period are as follows:

31 December 2019

Financial assets

	Financial assets at fair value through profit or loss		Financial assets measured at amortized cost	Financial assets at fair value through other comprehensive income		Total
	According to standard	Designated		According to standard	Designated	
Cash and bank balances	-	-	9,517,313,695	-	-	9,517,313,695
Financial assets held for trading	2,126,112,194	-	-	-	-	2,126,112,194
Financing receivables	-	-	-	11,098,699,421	-	11,098,699,421
Trade receivables	-	-	1,092,930,122	-	-	1,092,930,122
Other receivables	-	-	153,805,113	-	-	153,805,113
Financial assets purchased under agreements to resell	-	-	2,369,966,754	-	-	2,369,966,754
Loans and advances to customers	-	-	4,256,415,190	-	-	4,256,415,190
Debt instruments investment	-	-	3,182,221,639	-	-	3,182,221,639
Other equity instruments investments	-	-	-	-	278,576,509	278,576,509
	2,126,112,194	-	20,572,652,513	11,098,699,421	278,576,509	34,076,040,637

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

1. Classification of financial instruments (Continued)

The carrying amounts of each of the categories of financial instruments at the end of the reporting period are as follows (Continued):

31 December 2019

Financial liabilities

	Financial liabilities at fair value through profit or loss		Financial liabilities at amortized cost	Total
	According to standard	Designated		
Deposits and balances from banks and other financial institutions	—	—	400,031,889	400,031,889
Customer deposits	—	—	10,964,896,002	10,964,896,002
Repurchase agreements	—	—	1,386,580,448	1,386,580,448
Short-term loans	—	—	12,880,053,159	12,880,053,159
Financial liabilities held for trading	2,258,750	—	—	2,258,750
Notes payable	—	—	7,313,729,148	7,313,729,148
Trade payables	—	—	6,130,327,006	6,130,327,006
Other payables	—	—	3,350,074,505	3,350,074,505
Non-current liabilities due within one year	—	—	1,677,068,898	1,677,068,898
Long-term loans	—	—	3,468,200,000	3,468,200,000
Lease liabilities	—	—	411,432,835	411,432,835
	2,258,750	—	47,982,393,890	47,984,652,640

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

1. Classification of financial instruments (Continued)

The carrying amounts of each of the categories of financial instruments at the end of the reporting period are as follows (Continued):

31 December 2018

Financial assets

	Financial assets at fair value through profit or loss		Financial assets measured at amortized cost	Financial assets at fair value through other comprehensive income		Total
	According to standard	Designated		According to standard	Designated	
Cash and bank balances	-	-	9,762,844,718	-	-	9,762,844,718
Financial assets held for trading	2,084,414,075	-	-	-	-	2,084,414,075
Trade receivables	-	-	1,121,768,976	-	-	1,121,768,976
Financing receivables	-	-	-	4,970,113,847	-	4,970,113,847
Other receivables	-	-	95,543,554	-	-	95,543,554
Financial assets purchased under agreements to resell	-	-	2,432,279,109	-	-	2,432,279,109
Loans and advances to customers	-	-	2,845,298,103	-	-	2,845,298,103
Debt instruments investment	-	-	2,478,240,824	-	-	2,478,240,824
Other equity instruments investments	-	-	-	-	263,122,364	263,122,364
	2,084,414,075	-	18,735,975,284	4,970,113,847	263,122,364	26,053,625,570

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

1. Classification of financial instruments (Continued)

The carrying amounts of each of the categories of financial instruments at the end of the reporting period are as follows (Continued):

31 December 2018

Financial liabilities

	Financial liabilities at fair value through profit or loss		Financial liabilities at amortized cost	Total
	According to standard	Designated		
Deposits and balances from banks and other financial institutions	–	–	900,366,111	900,366,111
Customer deposits	–	–	4,915,309,311	4,915,309,311
Repurchase agreements	–	–	1,133,772,377	1,133,772,377
Short-term loans	–	–	10,917,293,181	10,917,293,181
Financial liabilities held for trading	8,012,670	–	–	8,012,670
Notes payable	–	–	2,638,271,437	2,638,271,437
Trade payables	–	–	7,703,736,542	7,703,736,542
Other payables	–	–	2,794,390,876	2,794,390,876
Non-current liabilities due within one year	–	–	1,470,868,462	1,470,868,462
Other current liabilities	–	–	1,026,897,260	1,026,897,260
Long-term loans	–	–	3,596,387,552	3,596,387,552
	8,012,670	–	37,097,293,109	37,105,305,779

2. Offsetting of financial instruments

In 2019, there were no offsetting arrangements for account receivables (2018: Nil).

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

3. Transfer of financial assets

Financial assets transferred but not yet fully derecognized

As of 31 December 2019, the Group endorsed (but not yet fully derecognized) bank acceptance notes to its suppliers with a carrying amount of RMB472,905 for settlement of trade payables (31 December 2018: RMB159,713,509), and the bank acceptance notes discounted to banks which were not derecognized was amounting to RMB127,316,634 (31 December 2018: Nil). As of 31 December 2019, their maturity period ranged from 1 to 12 months. Pursuant to the relevant provisions of “Law of Negotiable Instruments”, the holders of commercial instruments shall have the right of recourse against the Group (“Continuing Involvement”) if the relevant acceptance bank defaults. As the Group was of the opinion that the Group had retained substantially all their risks and rewards, including the default risk associated, the Group continued to recognize them and the settled accounts payable or short-term borrowings associated therewith. After the endorsement or discount, the Group no longer reserved the rights to use them, including the rights to sell, transfer or pledge to any other third party. As of 31 December 2019, the carrying amount of trade payables settled by the Group through them amounted to RMB472,905 (31 December 2018: RMB159,713,509). As of 31 December 2019, the short term loans obtained from the pledge of notes receivable were amounting to RMB127,316,634 (31 December 2018: Nil)

Transferred financial assets fully derecognized but with continuing involvement

As of 31 December 2019, the Group endorsed (and fully derecognized) bank acceptance notes to its suppliers with a carrying amount of RMB898,350,720 (31 December 2018: RMB7,398,304,418) for settlement of trade payables, and the bank acceptance notes discounted to banks which were fully derecognized were amounting to RMB1,178,421,214 (31 December 2018: Nil). As of 31 December 2019, their maturity period ranged from 1 to 12 months. Pursuant to the relevant provisions of “Law of Negotiable Instruments”, the holders of commercial instruments shall have the right of recourse against the Group (“Continuing Involvement”) if the relevant acceptance bank defaults. As the Group was of the opinion that the Group had transferred substantially all their risks and rewards, the Group had derecognized them and then settled account payables associated therewith.

In 2019, no gain or loss was recognized at the date of transfer. No income or expense was recognized for the current year or on an accumulative basis as a result of the Group's Continuing Involvement in derecognized financial assets. Endorsements were incurred basically evenly during the year.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Financial instruments risk

The Group faced several kinds of financial instruments risk in its daily operation, mainly including credit risk, liquidity risk and market risk (including interest rate risk and foreign currency risk). The Group's principal financial instruments are comprised of cash and bank balances, financial assets held for trading, debt instruments investment, interest-bearing bank borrowings, trade receivables, financing receivables, notes payable and trade payables, etc. The Group's risk management strategies to lower such risks are outlined below.

The Board of Directors is responsible for planning and establishing the Group's risk management framework, formulating the Group's risk management policies and related guidelines, and supervising the implementation of risk management measures. The Group has formulated risk management policies to identify and analyze the risks it faces. These risk management policies specify specific risks, covering market risks, credit risks and liquidity risk management. The Group regularly evaluates changes in the market environment and business activities of the Group to determine whether to update risk management policies and systems. The risk management of the Group shall be carried out by the Risk Management Committee in accordance with the policies approved by the Board of Directors. The Risk Management Committee identifies, evaluates and evades related risks through close cooperation with other business units of the Group. The internal audit department of the Group conducts regular audits on risk management control and procedures and reports the results to the Group's Audit Committee.

The Group disperses the risk of financial instruments through appropriate diversification of investment and business portfolio, and reduces the risk of focusing on any single industry, specific region or specific counterparty by formulating corresponding risk management policies.

Credit risk

The Group trades only with recognized and creditworthy parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, notes receivable and trade receivables balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

Since the trading counterparties of cash and bank balances, bank acceptance notes receivable and financial assets held for trading are banks with good reputation and high credit rank, these financial instruments face lower credit risk.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Financial instruments risk (Continued)

Credit risk (Continued)

The Group's other financial assets comprise debt instruments investments, other receivables, financial assets purchased under agreements to resell and loans and advances to customers, and the credit risk of these financial assets arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

The maximum credit risk exposure that the Group faces on each balance sheet date is the total amount gained from customers minus the amount of impairment provision.

Since the Group trades only with recognized and creditworthy parties, there is no requirement for collateral. Credit risk is managed in accordance with customer, counterparty, geographical region and industry intensively. At the end of the reporting period, the Group had a certain concentration of credit risk as 13% (2018: 13%) and 38% (2018: 29%) of the Group's trade receivables were due from the Group's largest customer and five largest customers in terms of trade receivables respectively. The Group did not hold any collateral or credit enhancements for the balance of trade receivables.

Measurement of expected credit losses

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument. The credit loss is the difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (i.e. all cash shortfalls), discounted at the original effective interest rate.

Based on the credit risk changes since financial instruments' initial recognition, the Group calculates expected credit losses in three different phases:

- Stage I: Financial instruments whose credit risk have not increased significantly will be included in stage I, and the Group measures the loss provision for those instruments at an amount equal to 12-month expected credit losses.
- Stage II: Financial instruments whose credit risk have increased significantly but without objective evidence for impairment will be included in stage II, and the Group measures the loss provision for those instruments at an amount equal to lifetime expected credit losses.
- Stage III: Financial instruments that are evidently credit-impaired at the financial position date will be included in stage III and the Group measures the loss provision for those financial instruments at an amount equal to lifetime expected credit losses.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Financial instruments risk (Continued)

Credit risk (Continued)

Measurement of expected credit losses (Continued)

For a financial instrument, whose loss allowance has been measured at an amount equal to lifetime expected credit losses in previous accounting period, if its credit risk does not increase significantly at the end of the current period, the Group should measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

Criteria for significant increase in credit risk

At each financial position date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. To make the assessment, the Group shall consider reasonable and supportable information that is available without undue cost or effort, including qualitative and quantitative analysis of the Group's historical statistics, external credit risk rate and forecasting information. On an individual basis or a collective basis for financial instruments with shared credit risk characteristics, the Group compares the default risks of financial instruments at financial position date and the default risks at initial recognition to determine the change of default risk of financial instruments in expected lifetime.

One or several of the following quantitative, qualitative or maximum criteria are triggered, the Group determines the credit risk of a financial instrument has increased significantly:

- As of the financial position date, the default risk in the rest of expected lifetime has increased over specific percentage;
- Material adverse change occurs in the operation or financial position of main debtors or receiving warning customer lists;
- The overdue of debtors' contract payment (including principal and interest) has reached specific period.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Financial instruments risk (Continued)

Credit risk (Continued)

Definition of credit-impaired financial assets

When considering whether credit impairment has incurred, the Group will consider both quantitative and qualitative factors, which agrees with the goal of the Group's credit risk management. Evidence that a financial asset is credit-impaired include observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event-instead, the combined effect of several events may have caused financial assets to become credit-impaired.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Financial instruments risk (Continued)

Credit risk (Continued)

Parameters for expected credit losses measurement

Depending on whether credit risk has increased significantly or whether impairment has occurred, the Group measures the loss allowance for different instruments at an amount equal to 12-month expected credit losses or equal to lifetime expected credit losses. The key parameters for measuring expected credit losses include default probability, default loss rate and default risk exposure. Based on the external credit rate applied in credit risk management, the Group will consider the quantitative analysis of historical statistics (such as the credit rate of the counterparty, the guarantee method, the nature of collateral and the repayment style), as well as forecast information to establish the model for default probability, default loss rate and default risk exposure.

Definition:

- Default probability is the probability that a debtor fails to fulfil its repayment duty in 12 months or in the rest of expected lifetime. The Group's default probability is based on external credit rate and adjusted by carefully chosen forecasting information, to reflect debtors' probability of default under current macro-economic condition;
- Default loss rate is the Group's expectation on the level of loss if default risk exposed and caused losses. Default loss rate varies with the types of trading counterparty, the ways of recourse and priority and the nature of collaterals. Default loss rate is the loss percentage of exposure when default occurs and is calculated based on 12-month expected credit losses or lifetime expected credit losses;
- Default risk exposure is the amount to be recovered by the Group when default incurs during 12 months or the rest of expected lifetime.

Forecasting information is used in both the assessment of whether the credit risk has increased significantly and calculation of expected credit losses. The Group identifies key economic indicators that will influence the credit risk of different businesses and expected credit losses by analyzing historical statistics.

These indicators will have different impacts on default probability and default loss rate for different types of businesses. In the process, the Group will apply management judgment. Based on the result of judgment, the Group will forecast those indicators every half year and apply regression analysis to determine the impact of the indicators on default probability and loss rate.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Financial instruments risk (Continued)

Credit risk (Continued)

Parameters of expected credit losses measurement (Continued)

The credit risk level of the Group has not changed compared with last year. The quantitative information of credit risk exposure generated by trade receivables and other receivables are disclosed in Note V.3 and 6.

The carrying amount of financial assets by credit risk level is disclosed as follows:

31 December 2019

	Carrying amount (unsecured)		Carrying amount (secured)	
	12-month expected credit losses	Lifetime expected credit losses	12-month expected credit losses	Lifetime expected credit losses
Loans	2,362,695,268	—	151,157,385	—
Discounted notes	1,683,047,996	—	56,922,827	—
Factoring	2,591,714	—	—	—
Financial assets purchased under agreements to resell	2,369,966,754	—	—	—
Debt instruments investment	3,182,221,639	—	—	—
	9,600,523,371	—	208,080,212	—

31 December 2018

	Carrying amount (unsecured)		Carrying amount (secured)	
	12-month expected credit losses	Lifetime expected credit losses	12-month expected credit losses	Lifetime expected credit losses
Loans	426,564,153	—	76,057,227	—
Discounted notes	2,298,456,948	—	44,219,775	—
Financial assets purchased under agreements to resell	2,432,279,109	—	—	—
Debt instruments investment	2,478,240,824	—	—	—
	7,635,541,034	—	120,277,002	—

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Financial instruments risk (Continued)

Liquidity risk

The Group applies a liquidity planning tool to manage liquidity risk of funding shortfalls, which takes both the maturity of financial instruments and estimated operating cash flows of the Group into consideration.

The Group's aim is to balance the sustainability and flexibility of the financing through interest-bearing loans and other instruments. As of 31 December 2019, 90% of the Group's debts were due within 1 year (31 December 2018: 89%).

A liquidity analysis of the undiscounted contractual cash flows of the financial liabilities is as shown in the below table.

31 December 2019

	Within 1 year	1-2 years	2-3 years	3-5 years	Over 5 years	Total
Deposits and balances from banks and other financial institutions	400,031,889	-	-	-	-	400,031,889
Customer deposits	10,964,896,002	-	-	-	-	10,964,896,002
Repurchase agreements	1,386,580,448	-	-	-	-	1,386,580,448
Short-term loans	12,880,053,159	-	-	-	-	12,880,053,159
Financial liabilities held for trading	2,258,750	-	-	-	-	2,258,750
Notes payable	7,313,729,148	-	-	-	-	7,313,729,148
Trade payables	6,130,327,006	-	-	-	-	6,130,327,006
Other payables	3,350,074,505	-	-	-	-	3,350,074,505
Non-current liabilities due within one year	1,677,068,898	-	-	-	-	1,677,068,898
Long-term loans	402,402,355	3,410,193,042	52,044,688	669,167	69,388,000	3,934,697,252
Lease liabilities	20,783,485	36,170,655	35,713,579	71,427,158	475,419,030	639,513,907
Total	44,528,205,645	3,446,363,697	87,758,267	72,096,325	544,807,030	48,679,230,964

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Financial instruments risk (Continued)

Liquidity risk (Continued)

31 December 2018

	Within 1 year	1-2 years	2-3 years	3-5 years	Over 5 years	Total
Deposits and balances from banks and other financial institutions	900,366,111	–	–	–	–	900,366,111
Financial liabilities held for trading	8,012,670	–	–	–	–	8,012,670
Short-term loans	10,917,293,181	–	–	–	–	10,917,293,181
Customer deposits	4,915,309,311	–	–	–	–	4,915,309,311
Repurchase agreements	1,133,772,377	–	–	–	–	1,133,772,377
Notes payable	2,638,271,437	–	–	–	–	2,638,271,437
Trade payables	7,703,736,542	–	–	–	–	7,703,736,542
Other payables	2,794,390,876	–	–	–	–	2,794,390,876
Non-current liabilities due within one year	1,470,868,462	–	–	–	–	1,470,868,462
Long-term loans	511,652,841	2,275,338,963	1,385,281,785	52,178,521	81,428,600	4,305,880,710
Other current liabilities	1,026,897,260	–	–	–	–	1,026,897,260
Total	34,020,571,068	2,275,338,963	1,385,281,785	52,178,521	81,428,600	37,814,798,937

Market risk

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with a floating interest rate.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Financial instruments risk (Continued)

Market risk (Continued)

Interest rate risk (Continued)

The following table demonstrates the sensitivity to a reasonably possible change in market interest rates with all other variables held constant, of the Group's net profit (through the impact on floating rate borrowings).

	Increase/(decrease) in basis points	Increase/(decrease) in net profit
2019		
RMB	50	(21,048,208)
USD	50	(244,936)
RMB	(50)	21,048,208
USD	(50)	244,936
2018		
RMB	50	(17,563,885)
USD	50	(365,697)
RMB	(50)	17,563,885
USD	(50)	365,697

Exchange rate risk

The Group faces transactional foreign currency risk. This risk arises from the sales and purchases carried out by operating units which were denominated in currencies other than its functional currencies.

The business of the Group is principally located in the PRC. While most of the transactions are conducted in Renminbi, certain of its sales, purchases and borrowings are denominated in United States dollars, Euros and Australian dollars. Fluctuations of the exchange rates of Renminbi against these foreign currencies can affect the Group's results of operations.

In addition, the Group has exposure to foreign exchange risks arising from foreign currency borrowings. The Group uses foreign exchange forward contracts to reduce exchange rate exposure.

The carrying amounts and related maximum exposure to foreign currency risk of the Group's cash, financial assets held for trading, trade receivables, other receivables, short term loans, trade payables, other payables and long-term loans are stated in Note V.67 to the financial statements.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Financial instruments risk (Continued)

Market risk (Continued)

Exchange rate risk (Continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the exchange rates of the USD, EUR, AUD and HKD with all other variables held constant, of the Group's net profit and equity (due to changes in the fair values of monetary assets and liabilities).

		Increase/ (decrease) in exchange rate	Increase/ (decrease) in net profit	Increase/ (decrease) in other comprehensive income, net of tax	Increase/ (decrease) in equity
2019					
Depreciation of RMB to USD	1%	(13,427,388)	56,559	(13,370,829)	
Depreciation of RMB to EUR	1%	202,601	3,295,788	3,498,389	
Depreciation of RMB to AUD	1%	–	2,691,228	2,691,228	
Depreciation of RMB to HKD	1%	99	4,317,923	4,318,022	
Appreciation of RMB to USD	(1%)	13,427,388	(56,559)	13,370,829	
Appreciation of RMB to EUR	(1%)	(202,601)	(3,295,788)	(3,498,389)	
Appreciation of RMB to AUD	(1%)	–	(2,691,228)	(2,691,228)	
Appreciation of RMB to HKD	(1%)	(99)	(4,317,923)	(4,318,022)	

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Financial instruments risk (Continued)

Market risk (Continued)

Exchange rate risk (Continued)

			Increase/ (decrease) in other comprehensive income, net of tax	Increase/ (decrease) in equity
	Increase/ (decrease) in exchange rate	Increase/ (decrease) in net profit		
2018				
Depreciation of RMB to USD	1%	(22,158,308)	49,043	(22,109,265)
Depreciation of RMB to EUR	1%	(910,535)	4,213,324	3,302,789
Depreciation of RMB to AUD	1%	(3,525)	1,738,523	1,734,998
Depreciation of RMB to HKD	1%	(14,395)	4,108,607	4,094,212
Appreciation of RMB to USD	(1%)	22,158,308	(49,043)	22,109,265
Appreciation of RMB to EUR	(1%)	910,535	(4,213,324)	(3,302,789)
Appreciation of RMB to AUD	(1%)	3,525	(1,738,523)	(1,734,998)
Appreciation of RMB to HKD	(1%)	14,395	(4,108,607)	(4,094,212)

5. Capital management

The main objective of the Group's capital management is to ensure the Group's ability to continue operations and to maintain healthy capital ratios in order to support business growth and maximize shareholders' value.

The Group manages its capital structure and makes adjustments according to changes in economic conditions and the risk characteristics of the relevant assets. In order to maintain or adjust the capital structure, the Group may adjust the distribution of profits to shareholders, return capital to shareholders or issue new shares. The Group is not subject to externally imposed capital requirements constraints. For the years of 2019 and 2018, capital management objectives, policies or procedures of the Group did not change.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

5. Capital management (Continued)

The Group uses a gearing ratio to manage its capital. The gearing ratio refers to the percentage of net debt versus total capital attributable to owners of the parent plus net debt, and the target gearing ratio for the Group is between 50% and 70%. Net debt includes customer deposits, bank loans, notes payable, trade payables, payroll and employee benefits payable, and other payables etc., minus cash. Capital refers to total capital attributable to owners of the parent. The Group's gearing ratio at the end of the reporting period was as follows:

	31 December 2019	31 December 2018
Deposits and balances from banks and other institutions	400,031,889	900,366,111
Customer deposits	10,964,896,002	4,915,309,311
Repurchase agreements	1,386,580,448	1,133,772,377
Short-term loans	12,880,053,159	10,917,293,181
Financial liabilities held for trading	2,258,750	8,012,670
Notes payable	7,313,729,148	2,638,271,437
Trade payables	6,130,327,006	7,703,736,542
Payroll and employee benefits payable	691,976,938	563,642,908
Other payables	4,294,496,279	3,530,746,914
Other current liabilities	—	1,026,897,260
Non-current liabilities due within one year	1,677,068,898	1,470,868,462
Long-term loans	3,468,200,000	3,596,387,552
Lease liabilities	411,432,835	—
Long-term employee benefits payable	101,327,703	157,371,474
Less: Cash and bank balances	9,517,313,695	9,762,844,718
Net liabilities	40,205,065,360	28,799,831,481
Capital attributable to owners of the parent	26,933,162,065	28,173,623,272
Capital and net liabilities	67,138,227,425	56,973,454,753
Gearing ratio	60%	51%

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

IX. DISCLOSURE OF FAIR VALUE

1. Financial assets and liabilities measured at fair value

31 December 2019

	Inputs used for fair value measurement			Total
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	
Financial assets				
Recurring fair value measurement				
for financial assets held for trading	103,763,821	–	2,022,348,373	2,126,112,194
Financing receivables	–	11,098,699,421	–	11,098,699,421
Other equity instruments investments	–	267,217,945	11,358,564	278,576,509
	103,763,821	11,365,917,366	2,033,706,937	13,503,388,124
Financial liabilities				
Recurring fair value measurement for				
financial liabilities held for trading	2,258,750	–	–	2,258,750

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

IX. DISCLOSURE OF FAIR VALUE (CONTINUED)

1. Financial assets and liabilities measured at fair value (Continued)

31 December 2018

	Inputs used for fair value measurement			Total
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	
Financial assets				
Recurring fair value measurement for				
financial assets held for trading	1,984,154,986	–	100,259,089	2,084,414,075
Financing receivables	–	4,970,113,847	–	4,970,113,847
Other equity instruments investments	–	132,910,883	130,211,481	263,122,364
	1,984,154,986	5,103,024,730	230,470,570	7,317,650,286
Financial liabilities				
Recurring fair value measurement for				
financial liabilities held for trading	8,012,670	–	–	8,012,670

The Group's level 1 fair value measurement items mainly include funds, forward foreign exchange contracts and futures contracts. The fair value of the funds was determined by the net value reported by the fund manager plus the fund shares that the Group held on the last trading day of 2019. The fair value of forward foreign exchange contracts was determined by the forward foreign exchange rate on the last trading day of 2019. The fair value of the future contracts was determined by the settlement price of the Dalian Commodity Exchange on the last trading day of the year 2019.

The Group's level 2 fair value measurement items mainly include unlisted equity investment and debt investments. The fair value of the unlisted equity investment was determined by the comparable company multiplier method based on the financial statement information of these unlisted companies as of 31 December 2019 and the information of the comparable listed companies in the same industry. Financing receivables measured at fair value through other comprehensive income were discounted by the market interest rate.

The Group's level 3 fair value measurement items mainly include financial products, trust products and unlisted equity investment not available for the comparable company multiplier method. The fair value of financial products and trust products is determined by the discounted cash flow model, with consideration of the initial transaction prices, near-term transactions of the same or similar financial instruments, or transactions of comparable financial instruments between the third parties. If necessary, the assessment model will be adjusted according to delays, early redemption, liquidity, default risk, and changes in the market, economy or specific circumstances. The fair value of the unlisted equity instruments investments not available for the comparable company multiplier method was determined by net asset basis method as of 31 December 2019.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

IX. DISCLOSURE OF FAIR VALUE (CONTINUED)

2. Financial assets and liabilities disclosed at fair value

31 December 2019

	Inputs used for fair value measurement			Total
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	
Financial liabilities				
Long-term loans	– 3,638,179,673		– 3,638,179,673	
Lease liabilities	– 411,432,835		– 411,432,835	
	– 4,049,612,508		– 4,049,612,508	

31 December 2018

	Inputs used for fair value measurement			Total
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	
Financial liabilities				
Long-term loans	– 4,070,494,820		– 4,070,494,820	

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

IX. DISCLOSURE OF FAIR VALUE (CONTINUED)

3. Valuation of fair value

Fair value of financial instruments

The carrying amounts and fair values of the Group's financial instruments are as follows, excluding lease liabilities and financial instruments of which the difference between the fair values and carrying amounts is very little:

	Carrying amounts		Fair values	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Financial liabilities				
Long-term loans	3,468,200,000	3,596,387,552	3,638,179,673	4,070,494,820

Management had assessed the fair value of cash and bank balances, trade receivables, other receivables, debt instruments investments, financial assets purchased under agreements to resell, trade payables, other payables, loans and advances to customers, customer deposits, repurchase agreements, short-term loans, non-current liabilities due within one year and other current liabilities, etc. Since the residual terms of the above-mentioned items were relatively short, the fair values were similar to the carrying amounts.

The policies and procedures for accounting financial instruments at fair value are developed by the Group's finance team led by the finance manager. The Group's finance team reports directly to the financial officer and the Audit Committee. At each balance sheet date, the finance team analyses changes in the value of financial instruments and determines the main applicable inputs to the valuation. Valuations are subject to the approval of the financial officer. The finance team discusses the valuation process and results twice a year with the Audit Committee for interim and annual financial reporting.

The fair value of the financial assets and liabilities is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. The following methods and assumptions are used in estimating fair value.

The method of discounted cash flows is adopted to determine the fair value of lease liabilities and long-term loans, in which the market return rate of other financial instruments with similar contract terms, credit risk, remaining maturity and yield characteristics is used as the discount rate. As of 31 December 2019, the default risk for the long-term loans was evaluated as not significant.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS

1. Parent company

Name of parent	Place of registration	Business nature	Registered capital <i>RMB</i>	Share of equity interests <i>(%)</i>	Share of voting rights <i>(%)</i>
The Holding	Anhui, PRC	Manufacturing	6,298,290,000	45.535	45.535

The Company is ultimately controlled by China Baowu.

2. Subsidiaries

Details of the subsidiaries are stated in Note VII.1 to the financial statements.

3. Associates and joint ventures

Details of associates and joint ventures are stated in Note VII.2 to the financial statements.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Other related parties

Name	Relationship with the Company
Magang (Group) Investment Co., Ltd.	Controlled by the Holding
Magang (Group) Logistics Co., Ltd.	Controlled by the Holding
Anhui Masteel Logistics Container Intermodal Transport Co., Ltd	Controlled by the Holding
Magang (Group) Holding Company Limited Assets Management Company	Controlled by the Holding
Magang (Group) Holding Company Limited Cable TV Center	Controlled by the Holding
Magang (Group) Holding Company Limited Magang Press	Controlled by the Holding
Maanshan Iron & Steel Group Mining Co., Ltd. (Note)	Controlled by the Holding
Magang (Group) Holding Company Limited Nanshan Mining Company	Controlled by the Holding
Magang (Group) Holding Company Limited Gushan Mining Company	Controlled by the Holding
Magang (Group) Holding Company Limited Taochong Mining Company	Controlled by the Holding
Magang (Group) Holding Company Limited Qiangyang Cloud Mine	Controlled by the Holding
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	Controlled by the Holding
Anhui Masteel Luo He Mining Co., Ltd.	Controlled by the Holding
Magang Group Biding and Consulting Co., Ltd	Controlled by the Holding
Masteel Engineering Technology (Group) Co., Ltd.	Controlled by the Holding
Phima Intelligence	Controlled by the Holding
Anhui Xiangdun information technology Co., Ltd.	Controlled by the Holding
Anhui Xiangyun Technology Co., Ltd.	Controlled by the Holding
Shenzhen Yuexinma Information and Technology Co., Ltd.	Controlled by the Holding
Masteel Group Design and Research Institute Co., Ltd.	Controlled by the Holding
Maanshan Masteel Yan Tu Construction Survey Mining Co., Ltd.	Controlled by the Holding
Masteel Group Mapping Co., Ltd.	Controlled by the Holding
Masteel Heavy Machinery Manufacturing Co., Ltd.	Controlled by the Holding
Anhui Masteel Dongli Transmission Equipment Co., Ltd.	Controlled by the Holding

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Other related parties (Continued)

Name	Relationship with the Company
Masteel Transportation Equipment Manufacturing Co., Ltd.	Controlled by the Holding
Anhui Masteel Surface Engineering Technology Co., Ltd.	Controlled by the Holding
Shanghai Maanshan Iron & Steel Electrical and Mechanical Technology Co., Ltd.	Controlled by the Holding
Anhui Masteel Equipment Maintenance Co., Ltd.	Controlled by the Holding
Masteel Group Kang Tai Land Development Co., Ltd.	Controlled by the Holding
Maanshan Yu Tai Property Management Co., Ltd.	Controlled by the Holding
Masteel Group Kang Cheng Building and Installing Co., Ltd.	Controlled by the Holding
Shenzhen Yue Hai Masteel Industry Co., Ltd.	Controlled by the Holding
Masteel Refractory Materials Co., Ltd.	Controlled by the Holding
Maanshan Bo Li Construction Supervising Co., Ltd.	Controlled by the Holding
Maanshan Jia Hua Commodity Concrete Co., Ltd.	Controlled by the Holding
Xinchuang Environmental Protection	Controlled by the Holding
Anhui Masteel Xinba Environmental Co., Ltd.	Controlled by the Holding
Maanshan Xinchuangbaineng Energy Technology Co., Ltd.	Controlled by the Holding
Maanshan Masteel Huayang Equipment Diagnosis Engineering Co., Ltd.	Controlled by the Holding
Guizhou Xinchuan Environmental Protections Co., Ltd.	Controlled by the Holding
Anhui Vocational College of Metallurgy and Technology	Controlled by the Holding
Anhui Masteel Advanced Technician School	Controlled by the Holding
Masteel Automobile Transportation Service Co., Ltd.	Controlled by the Holding
Maanshan Used Vehicle Trading Centre Co., Ltd.	Controlled by the Holding
Anhui Masteel Dangerous Goods Transportation Co., Ltd.	Controlled by the Holding
Ma Steel (Hefei) Logistics Co., Ltd.	Controlled by the Holding
Anhui Zhonglian Shipping Co., Ltd.	Controlled by the Holding
Ma Steel International Trade and Economic Co., Ltd.	Controlled by the Holding
Anhui Jiangnan Iron and Steel Material Quality Monitoring and Testing Co., Ltd.	Controlled by the Holding
Shanghai Masteel International Trade and Economic Co., Ltd.	Controlled by the Holding

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Other related parties (Continued)

Name	Relationship with the Company
Maanshan Masteel Electric Repair Co., Ltd.	Controlled by the Holding
Ma Steel Powder Metallurgy Co., Ltd.	Controlled by the Holding
Anhui Masteel Mining Resources Group Co., Ltd. (Note)	Controlled by the Holding
Anhui Masteel ChangRan Energy Co., Ltd.	Controlled by the Holding
Meitai Macao Commercial Service offshore Co., Ltd.	Controlled by the Holding
Shanxi Fuma Carbon Material technology Co., Ltd.	Controlled by the Holding
Maanshan Chenma Hydrogen Energy Technology Co., Ltd.	Controlled by the Holding
Masteel Zhixin Resources Technology Co. Ltd	Controlled by the Holding
Masteel Fuyuan Metal Resources Co., Ltd.	Controlled by the Holding
Masteel Chengxing Metal Resources Co., Ltd.	Controlled by the Holding
Masteel Lihua Metal Resources Co., Ltd.	Controlled by the Holding
Anhui BRC & Masteel Weldmesh Co., Ltd.	Joint venture of the Holding
Ruitai Masteel New Material Technology Co., Ltd.	Associate of the Holding
Ma Steel Gongchang United Roller Co., Ltd.	Associate of the Holding
Anhui Wanbao Mining Limited Co., Ltd.	Associate of the Holding
Maanshan Jiangnan Chemical Industry Co., Ltd.	Associate of the Holding
Tongling Yuanda Limestone Mining Co., Ltd.	Associate of the Holding
Maanshan Mine Research Institute Blasting Engineering Co., Ltd.	Associate of the Holding
China Logistics Hefei Co., Ltd.	Associate of the Holding
Maanshan China-Japan Resource Regeneration Technology Co., Ltd.	Associate of the Holding
Maanshan Iron Construction Group Co., Ltd.	Associate of the Holding
Anhui Nanda Masteel Environment Technology Co., Ltd.	Associate of the Holding
Maanshan Zhongye Huaxin Water Environment Control Co., Ltd.	Associate of the Holding
Suzhou Suma Industry Development Co., Ltd.	Associate of the Holding
Anhui Keda Electricity Selling Co., Ltd.	Associate of the Holding
Anhui Huasu Co., Ltd.	Associate of the Holding

Note: On 17 May 2019, Anhui Masteel Mining Co., Ltd. was renamed as Anhui Masteel Mining Resources Group Co., Ltd., and the transactions and balances of the related party are disclosed under the heading of Anhui Masteel Mining Resources Group Co., Ltd.

Notes to the Financial Statements (Continued)

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Renminbi Yuan

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Other related parties (Continued)

Name	Relationship with the Company
China Baowu Steel Group Co., Ltd.	Ultimate controlling party
Baoshan Iron & Steel Co., Ltd.	Controlled by the ultimate controlling party
Baosteel Group Shanghai Meishan Co., Ltd.	Controlled by the ultimate controlling party
Nanjing Baosteel Steel Rolling Co., Ltd.	Controlled by the ultimate controlling party
Shanghai Baosteel Industry Co., Ltd.	Controlled by the ultimate controlling party
Shanghai Baosteel Trading Co., Ltd.	Controlled by the ultimate controlling party
Shenyang Baosteel Northeast Trading Co., Ltd.	Controlled by the ultimate controlling party
Shanghai Meishan Iron & Steel Co., Ltd.	Controlled by the ultimate controlling party
Wuhan Iron and Steel Co., Ltd.	Controlled by the ultimate controlling party
Baosteel Stainless Steel Co., Ltd.	Controlled by the ultimate controlling party
Anhui Wanbao Mining Limited Co., Ltd.	Controlled by the ultimate controlling party
Baosteel Resources Holdings (Shanghai) Co., Ltd.	Controlled by the ultimate controlling party
Zhejiang Zhoushan Wugang Terminal Co., Ltd.	Controlled by the ultimate controlling party
Zhejiang Shengsi Baojie International Shipping Agency Co., Ltd.	Controlled by the ultimate controlling party
Shanghai Baosteel Engineering & Technology Co., Ltd.	Controlled by the ultimate controlling party
Shanghai Baohua International Tendering Co., Ltd.	Controlled by the ultimate controlling party
Baosteel Roll Technology Co., Ltd.	Controlled by the ultimate controlling party

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. Other related parties (Continued)

Name	Relationship with the Company
Baowu Equipment Intelligent Technology Co., Ltd.	Controlled by the ultimate controlling party
Ouyeel Cloud Commerce Corporation Limited	Controlled by the ultimate controlling party
Shanghai Iron & Steel Exchange Co., Ltd.	Controlled by the ultimate controlling party
Eastern Steel E-Commerce Co., Ltd.	Controlled by the ultimate controlling party
Shanghai Ouyeel Material Technology Co., Ltd.	Controlled by the ultimate controlling party
Wuhan Iron and Steel Group Logistics Co., Ltd.	Controlled by the ultimate controlling party
Shanghai Baosight Software Co., Ltd.	Controlled by the ultimate controlling party
Nanjing Meibao New Building Material Co., Ltd.	Controlled by the ultimate controlling party
Nanjing Meishan Steel Slag Treatment Co., Ltd.	Controlled by the ultimate controlling party
Shanghai Baosteel Magnetic Industry Co., Ltd.	Controlled by the ultimate controlling party
Baosteel Magnetic Industry (Jiangsu) Co., Ltd.	Controlled by the ultimate controlling party
Hwabao Trust Co., Ltd.	Controlled by the ultimate controlling party
Baosteel Group Finance Co., Ltd.	Controlled by the ultimate controlling party
Wuhan Iron and Steel (Group) Corporation	Controlled by the ultimate controlling party
Shanghai Baosteel Stainless Steel Co., Ltd.	Controlled by the ultimate controlling party
General Electric (Wuhan) Automation Co., Ltd.	Joint venture of the ultimate controlling party

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Significant transactions carried out between the Group and its related parties

Regarding the related party transactions under items (1) to (23) disclosed below, save and except for the transactions with Anhui Keda Electricity Selling Co., Ltd. included in “Others” under the item (2) of “Fees paid for labor, logistics and other service” and the transactions with BOC-Ma Steel, Ma-Steel OCI Chemical, Henan JinMa Energy and Shenglong Chemical under items (15) to (20), all other transactions constituted connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules of the Stock Exchange of Hong Kong.

(1) Purchases of ore from related parties

	Note	2019	2018
The Holding	(i)	4,054,355,222	3,847,581,159
Baosteel Resources Holdings (Shanghai) Co., Ltd.	(i)	139,403,474	–
Anhui Masteel Zhang Zhuang Mining Co., Ltd.	(i)	44,952,984	–
Anhui Wanbao Mining Limited Co., Ltd.	(i)	3,069,559	12,491,399
		4,241,781,239	3,860,072,558

- (i) The terms for the purchases of iron ore from the Holding were determined in accordance with an agreement dated 15 August 2018 entered into between the Company and the Holding. The agreement stipulated that the price should be determined based on the Platts Index. The terms for the purchases of iron ore from China Baowu were determined in accordance with the Daily Related Party Transaction Agreement dated 19 September 2019 entered into between the Company and China Baowu, which is based on market prices under negotiation.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Significant transactions carried out between the Group and its related parties (Continued)

(2) Fees paid for labor, logistics and other services

	Note	2019	2018
The Holding	(ii)	7,682,529	5,565,352
Masteel Refractory Materials Co., Ltd.	(ii)	—	39,801,426
Xinchuang Environmental Protection	(ii)	525,145,803	590,081,313
Masteel Automobile Transportation Service Co., Ltd.	(ii)	434,131,751	320,327,754
Masteel Heavy Machinery Manufacturing Co., Ltd.	(ii)	385,148,176	375,397,056
Phima Intelligence	(ii)	360,793,852	284,928,445
Ma Steel International Trade and Economic Co., Ltd.	(ii)	619,581	15,288,068
Masteel Transportation Equipment Manufacturing Co., Ltd.	(ii)	127,144,081	128,337,231
Masteel Engineering Technology (Group) Co., Ltd.	(ii)	216,733,039	321,571,163
Anhui Masteel Equipment Maintenance Co, Ltd.	(ii)	513,598,537	644,020,662
Magang (Group) logistics Co., Ltd.	(ii)	37,232,492	194,898,420
Anhui Zhonglian Shipping Co., Ltd.	(ii)	77,639,083	178,570,855
Ruitai Masteel New Material Technology Co., Ltd.	(ii)	962,273,318	950,049,413
Maanshan Xinchuangbaineng Energy Technology Co., Ltd	(ii)	49,046,414	56,952,199
Maanshan Port (Group) Co., Ltd. (Note)	(ii)	—	171,169,591
Others	(ii)	422,838,156	460,808,519
		4,120,026,812	4,737,767,467

- (ii) The terms for the provision of certain services, including on-the-job training, food and sanitary services, environmental and hygiene services, maintenance of roads and landscaping services, telecommunications service, contracts of transportation services, equipment repair and maintenance services, and engineering design services, were determined in accordance with a service agreement between the Group and the Holding.

Note: Maanshan Port (Group) Co., Ltd. has ceased to be a related party of the Group since January 2019.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Significant transactions carried out between the Group and its related parties (Continued)

(3) Agency fees paid to related parties

	Note	2019	2018
Ma Steel International Trade and Economic Co., Ltd.	(iii)	24,280,669	8,210,482

(iii) The transactions with the Holding and its subsidiaries and China Baowu and its subsidiaries were conducted on terms mutually agreed according to market prices between the Group and the related parties.

(4) Rental expenses

	Note	2019	2018
The Holding	(iv)	33,028,286	58,372,750

(iv) The Holding leased a building to the Group and the rental was determined by terms of mutually agreed according to market prices between the Group and the Holding.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Significant transactions carried out between the Group and its related parties (Continued)

(5) Purchases of fixed assets and construction services

	Note	2019	2018
Masteel Engineering Technology (Group) Co., Ltd.	(iii)	1,253,633,519	650,176,388
Anhui Masteel Equipment Maintenance Co., Ltd.	(iii)	57,299,419	–
Xinchuang Environmental Protection Masteel Heavy Machinery Manufacturing Co., Ltd.	(iii)	42,371,801	95,999,958
Phima Intelligence	(iii)	22,129,020	–
Masteel Transportation Equipment Manufacturing Co., Ltd.	(iii)	–	403,682
Maanshan Iron Construction Group Co., Ltd.	(iii)	3,406,951	504,505
Maanshan Jiahua Commodity Concrete Co., Ltd.	(iii)	42,578,353	76,741,103
Others	(iii)	32,650,681	4,209,070
		20,962,888	26,200,264
		1,475,032,632	854,234,970

- (iii) The transactions with the Holding and its subsidiaries, and transactions with China Baowu and its subsidiaries were conducted on terms mutually agreed according to market prices between the Group and the related parties.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Significant transactions carried out between the Group and its related parties (Continued)

(6) Supply of utilities, services and other goods

	Note	2019	2018
The Holding	(iii)	67,049	530,400
Xinchuang Environmental Protection	(iii)	37,088,586	35,467,931
Maanshan Jia Hua Commodity Concrete Co., Ltd.	(iii)	7,747,296	8,325,197
Masteel Heavy Machinery Manufacturing Co., Ltd.	(iii)	23,608,562	23,171,710
Ma Steel Powder Metallurgy Co., Ltd.	(iii)	82,234,555	89,026,772
Masteel Refractory Materials Co., Ltd.	(iii)	36,071	30,351
Phima Intelligence	(iii)	5,455,446	8,435,175
Masteel Transportation Equipment Manufacturing Co., Ltd.	(iii)	3,236,949	1,954,781
Anhui Masteel Zhang Zhuang Mining Co., Ltd.	(iii)	50,442	6,275
Masteel Engineering Technology (Group) Co., Ltd.	(iii)	4,152,273	118,751,651
Ma Steel Gongchang United Roller Co., Ltd.	(iii)	2,969,100	3,263,281
Ma Steel International Trade and Economic Co., Ltd.	(iii)	94,284	636,209
Others	(iii)	121,775,888	87,923,181
		288,516,501	377,522,914

- (iii) The transactions with the Holding and its subsidiaries, and transactions with China Baowu and its subsidiaries were conducted on terms mutually agreed according to market prices between the Group and the related parties.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Significant transactions carried out between the Group and its related parties (Continued)

(7) Sales of steel products

	Note	2019	2018
Masteel Engineering Technology (Group) Co., Ltd.	(iii)	149,870,589	194,027,532
Masteel Heavy Machinery Manufacturing Co., Ltd.	(iii)	982,026	34,030,541
Ma Steel International Trade and Economic Co., Ltd.	(iii)	17,399,907	34,322,532
Anhui BRC & Masteel Weldmesh Co., Ltd.	(iii)	89,572,853	80,260,006
Shanghai Baosteel Trading Co., Ltd.	(iii)	4,820,793	–
Shanghai Ouyeel Material Technology Co., Ltd.	(iii)	6,843,970	–
Shenyang Baosteel Northeast Trading Co., Ltd.	(iii)	493,212	–
Others	(iii)	2,190,840	–
		272,174,190	342,640,611

(iii) The transactions with the Holding and its subsidiaries, and transactions with China Baowu and its subsidiaries were conducted on terms mutually agreed according to market prices between the Group and the related parties.

(8) Provision of leasing services to related parties

	Note	2019	2018
Anhui Masteel Surface Engineering Technology Co., Ltd.	(iii)	679,964	–
Phima Intelligence	(iii)	165,000	–
		844,964	–

(iii) The transactions with the Holding and its subsidiaries, and transactions with China Baowu and its subsidiaries were conducted on terms mutually agreed according to market prices between the Group and the related parties.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Significant transactions carried out between the Group and its related parties (Continued)

(9) Interest paid to related parties

	Note	2019	2018
The Holding	(v)	18,942,436	16,078,146
Anhui Masteel Mining Resources Group Co., Ltd.	(v)	7,222,041	5,048,308
Masteel Engineering Technology (Group) Co., Ltd.	(v)	3,571,723	1,890,401
Ma Steel International Trade and Economic Co., Ltd.	(v)	712,010	1,167,170
Xinchuang Environmental Protection	(v)	2,101,896	597,907
Others	(v)	12,674,787	12,135,090
		45,224,893	36,917,022

(v) Masteel Finance absorbed deposits from the Holding and its subsidiaries, and paid interest to them with the interest rates ranging from 0.42%-2.18% in 2019 (2018: 0.42%-2.18%).

(10) Financial service income received from related parties

	Note	2019	2018
The Holding	(vi)	97,635,456	37,875,637
Anhui Masteel Mining Resources Group Co., Ltd.	(vi)	34,475,027	17,893,582
Masteel Chengxing Metal Resources Co., Ltd.	(vi)	6,696,545	—
Anhui Masteel Luo He Mining Co., Ltd.	(vi)	2,602,741	2,607,884
Anhui BRC & Masteel Weldmesh Co., Ltd.	(vi)	2,029,029	2,258,339
Xinchuang Environmental Protection	(vi)	696,123	99,776
Others	(vi)	12,594,253	2,971,537
		156,729,174	63,706,755

(vi) Masteel Finance, a subsidiary of the Group, received financial service income for the financial services it rendered to the Holding and its subsidiaries, including providing loans, bank acceptance notes discounting and entrusted loan. The lending rates were not lower than the benchmark loan interest rates issued by the People's Bank of China, and the other service charge was not lower than the benchmark charge issued by the People's Bank of China.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Significant transactions carried out between the Group and its related parties (Continued)

(11) Income from the purchase of trust products from related parties

	Note	2019	2018
Hwabao Trust Co., Ltd.	(vii)	1,095,890	–

(vii) "Capital Trust Agreement of the Type C Cash Income" was signed between Masteel Finance, a subsidiary of the Company, and Hwabao Trust Co., Ltd., a company controlled by the ultimate controlling party in 2019, which expired on 29 October 2019 with the baseline of 5% per year.

(12) Purchases of land from related parties

	Note	2019	2018
The Holding (Note)	(viii)	64,666,095	–
Masteel Heavy Machinery Manufacturing Co., Ltd.	(viii)	3,184,679	–
Masteel Engineering Technology (Group) Co., Ltd. (Note)	(viii)	54,334,044	–
		122,184,818	–

Note: The Company acquired land from the Holding, and meanwhile according to the "Relocation Compensation Agreement" entered into with Masteel Engineering Technology (Group) Co., Ltd., the Company paid RMB54,334,044 for the compensation to the disposal loss of relocated assets, relocation fee and the loss from suspension of production.

(viii) The transactions with the Holding, Masteel Heavy Machinery Manufacturing Co., Ltd., and Masteel Engineering Technology (Group) Co., Ltd. were conducted based on the valuation result of the fair value of the land.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Significant transactions carried out between the Group and its related parties (Continued)

(13) Sales of land to related party

	Note	2019	2018
Masteel Automobile Transportation Service Co., Ltd.	(ix)	–	2,281,300

(ix) The transactions with Masteel Automobile Transportation Service Co., Ltd. were conducted based on the valuation result of the fair value of the land.

(14) Sales of property, plant and equipment to related party

	Note	2019	2018
Anhui Masteel Dangerous Goods Transportation Co., Ltd.	(x)	–	3,898,400

(x) The transactions with Anhui Masteel Dangerous Goods Transportation Co., Ltd. were conducted based on the valuation result of the dangerous vehicles, the surface assets and land use right of the oil storage station.

(15) Sales of products and provision of services to joint ventures and associates

	Note	2019	2018
Magang Chemicals & Energy	(xi)	1,754,513,290	–
Masteel K. Wah	(xi)	733,723,087	–
BOC-Ma Steel	(xi)	233,754,654	258,659,279
Masteel Scrap	(xi)	17,118,809	–
Ma-Steel OCI Chemical	(xi)	13,172,524	544,956,445
		2,752,282,364	803,615,724

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Significant transactions carried out between the Group and its related parties (Continued)

(16) Purchases of products from joint ventures and associates

	Note	2019	2018
Masteel Scrap	(xi)	3,075,592,758	–
Magang Chemicals & Energy	(xi)	1,452,755,351	–
Henan JinMa Energy	(xi)	791,299,920	1,030,544,023
BOC-Ma Steel	(xi)	551,629,823	540,298,516
Shenglong Chemical	(xi)	2,920,775	–
Ma-Steel OCI Chemical	(xi)	–	5,335,621
		5,874,198,627	1,576,178,160

- (xi) The terms for trading, including sales of coke by-products, sales of gas, wastewater treatment services, power services, providing facilities and utilities, equipment maintenance services, purchase of coke and purchase of gas etc., were determined in accordance with service agreements between the Group and the related parties.

(17) Agency fee to an associate

	Note	2019	2018
Masteel scrap	(xii)	31,366,990	–

- (xii) The transactions above with joint ventures and associates were conducted on terms of mutually agreed according to market prices between the Group and the related parties.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Significant transactions carried out between the Group and its related parties (Continued)

(18) Provision of rental service to joint venture and associates

	Note	2019	2018
Magang Chemicals & Energy	(xii)	99,623	–
BOC-Ma Steel	(xii)	1,250,000	1,250,000
		1,349,623	1,250,000

(xii) The transactions above with joint ventures and associates were conducted on terms mutually agreed according to market prices between the Group and the related parties.

(19) Interest charges for financial services to the joint ventures and associates

	Note	2019	2018
Magang Chemicals & Energy	(xii)	6,835,885	–
BOC-Ma Steel	(xii)	3,846,912	3,494,198
Masteel K. Wah	(xii)	3,131,745	–
Masteel Scrap	(xii)	3,054,902	–
Ma-Steel Commercial Factoring	(xii)	164,563	8,297
Ma-Steel Financial Leasing	(xii)	107,668	13,073
Ma-Steel OCI Chemical	(xii)	7,530	–
		17,149,205	3,515,568

(xii) The transactions above with joint ventures and associates were conducted on terms mutually agreed according to market prices between the Group and the related parties.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Significant transactions carried out between the Group and its related parties (Continued)

(20) Financial service income received from joint ventures and associates

	Note	2019	2018
Masteel Scrap	(xii)	20,172,590	—
Masteel K. Wah	(xii)	943,815	—
Magang Chemicals & Energy	(xii)	283,019	—
		21,399,424	—

(xii) The transactions above with joint ventures and associates were conducted on terms mutually agreed according to market prices between the Group and the related parties.

(21) Guarantee provided by a related party

2019

	Note	Guarantee's name	Guarantee amount	Start date	End date	Has guarantee expired or not
The Holding	(xiii)	The Company	RMB0.916 billion	2014.7	2025.10	Not yet as of the approval date of the report

2018

	Note	Guarantee's name	Guarantee amount	Start date	End date	Has guarantee expired or not
The Holding	(xiii)	The Company	RMB2.717 billion	2014.7	2025.10	Not yet as of the approval date of the report

(xiii) In 2019, the Holding had guaranteed additional certain bank loans of the Group amounting to approximately RMB0.1 billion (2018: approximately RMB2.15 billion) without attached conditions. The Holding had guaranteed part of the bank loans without attached conditions amounting to approximately RMB0.916 billion as of 31 December 2019 (31 December 2018: approximately RMB2.717 billion).

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Significant transactions carried out between the Group and its related parties (Continued)

(22) Borrowings from related parties

2019

No new related party funds were inserted during the current year.

2018

	Amount	Start date	End date
The Holding	40,000,000	2017/8/30	2018/8/29
Anhui Zhonglian Shipping Co., Ltd.	70,000,000	2017/9/26	2018/9/25

- (23) According to the financial service agreement signed by Masteel Finance and the Holding on 15 August 2018, Masteel Finance provided financing services and deposit transactions to the Group and its subsidiaries, and from 1 January 2019 to 31 December 2019, the highest daily outstanding loan should be no more than RMB3.17 billion, and other financial service charge should be no more than RMB0.2 billion. In 2019, the highest daily deposit balance was RMB14.688 billion (2018: RMB3.51 billion); the highest average daily deposit balance on a monthly basis was RMB7.404 billion (2018: RMB3.08 billion); the highest daily loan balance was RMB2.787 billion (2018: RMB0.498 billion); and the highest average daily loan balance on a monthly basis was RMB2.684 billion (2018: RMB0.498 billion).

(24) Remuneration of key management

The total amount of key management remuneration (including forms of cash, benefits in kind and others) totally amounted to RMB5,305,496 during the current year (2018: RMB5,262,438), which excluded the remuneration paid to independent directors and independent supervisors.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Significant transactions carried out between the Group and its related parties (Continued)

(25) Directors' and supervisors' emoluments*

	2019	2018
Fees	447,368	447,368
Other emoluments:		
Salaries, allowances and benefits in kind	524,000	740,000
Performance-related bonuses	2,148,348	1,798,372
Pension scheme contributions	125,920	147,296
	2,798,268	2,685,668
	3,245,636	3,133,036

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Significant transactions carried out between the Group and its related parties (Continued)

(25) Directors' and supervisors' emoluments* (Continued)

(i) Independent directors and independent supervisors

The fees paid to independent directors and independent supervisors during the year were as follows:

	2019	2018
Independent directors		
Ms. Zhang Chunxia	100,000	100,000
Ms. Zhu Shaofang	100,000	100,000
Mr. Wang Xianzhu	100,000	100,000
	300,000	300,000
Independent supervisors		
Ms. Yang Yada	73,684	73,684
Mr. Qin Tongzhou	73,684	73,684
	147,368	147,368
	447,368	447,368

There were no other emoluments except for the above fees paid to the independent directors and independent supervisors during the year (2018: Nil).

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Significant transactions carried out between the Group and its related parties (Continued)

(25) Directors' and supervisors' emoluments* (Continued)

(ii) Non-independent directors and non-independent supervisors

2019	Fees	Salaries, allowances and benefits in kind	Performance- related bonuses	Pension scheme contributions	Total remuneration
Executive directors					
Mr. Ding Yi (Note 1)	-	-	-	-	-
Mr. Qian Haifan	-	160,000	656,124	31,480	847,604
Mr. Zhang Wenyang	-	128,000	498,853	31,480	658,333
	-	288,000	1,154,977	62,960	1,505,937
Non-executive director					
Mr. Ren Tianbao (Note 1)	-	-	-	-	-
	-	-	-	-	-
Supervisors					
Mr. Zhang Xiaofeng	-	144,000	590,512	31,480	765,992
Mr. Yan Kailong	-	92,000	402,859	31,480	526,339
Mr. Zhang Qianchun (Note 1)	-	-	-	-	-
	-	236,000	993,371	62,960	1,292,331
	-	524,000	2,148,348	125,920	2,798,268

Note 1: In 2019, the remuneration of Mr. Ding Yi, Mr. Ren Tianbao and Mr. Zhang Qianchun was paid by the Holding rather than the Company.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Significant transactions carried out between the Group and its related parties (Continued)

(25) Directors' and supervisors' emoluments* (Continued)

(ii) Non-independent directors and non-independent supervisors (Continued)

2018	Fees	Salaries, allowances and benefits in kind	Performance-related bonuses	Pension scheme contributions	Total remuneration
Executive directors					
Mr. Ding Yi (Note 1)	–	–	–	–	–
Mr. Qian Haifan	–	240,000	543,776	36,824	820,600
Mr. Zhang Wenyang	–	192,000	437,417	36,824	666,241
	–	432,000	981,193	73,648	1,486,841
Non-executive director					
Mr. Ren Tianbao (Note 1)	–	–	–	–	–
Supervisors					
Mr. Zhang Xiaofeng	–	216,000	489,399	36,824	742,223
Mr. Yan Kailong	–	92,000	327,780	36,824	456,604
Mr. Zhang Qianchun (Note 1)	–	–	–	–	–
	–	308,000	817,179	73,648	1,198,827
	–	740,000	1,798,372	147,296	2,685,668

Note 1: In 2018, the remuneration of Mr. Ding Yi, Mr. Ren Tianbao and Mr. Zhang Qianchun was paid by the Holding rather than the Company.

There was no arrangement under which an executive director or a supervisor waived or agreed to waive any remuneration during the year (2018: Nil).

Notes to the Financial Statements (Continued)

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X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

5. Significant transactions carried out between the Group and its related parties (Continued)

(26) Five highest paid individuals*

Three of the highest paid employees during the year were directors or supervisors (2018: two), details of whose remuneration are stated in Note X.5 (25) above. Details of the remuneration of the other two highest paid employees (non-director and non-supervisor) in 2019 are as follows (2018: three):

	2019	2018
The Group		
Salaries, allowances and benefits in kind	272,000	600,000
Performance-related bonuses	1,102,337	1,369,749
Pension scheme contributions	62,960	110,472
	1,437,297	2,080,221

In 2019, the remuneration of the remaining two non-director and non-supervisor, as the highest paid employees, fell within the band of nil to HKD1,000,000.

Notes to the Financial Statements (Continued)

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X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

6. Receivables due from/payables due to related parties

	31 December 2019		31 December 2018	
	Carrying amount	Provision	Carrying amount	Provision
Trade receivables				
The Holding and its subsidiaries				
The Holding	29,074	291	21,837	218
Masteel Heavy Machinery Manufacturing Co., Ltd.	4,243,281	42,433	13,883,741	138,837
Ma Steel Powder Metallurgy Co., Ltd.	—	—	12,517,181	125,172
Anhui Masteel Equipment Maintenance Co., Ltd.	8,154,025	81,540	3,488,435	34,884
Masteel Engineering Technology (Group) Co., Ltd.	17,475,806	174,758	6,522,839	65,228
Masteel Automobile Transportation Service Co., Ltd.	—	—	644,120	6,441
Xinchuang Environmental Protection	—	—	586,806	5,868
Others entities controlled by the Holding	802,138	8,021	3,381,706	33,817
	30,704,324	307,043	41,046,665	410,465
The ultimate controlling party and its subsidiaries				
Wuhan Iron and Steel Co., Ltd.	895,388	8,954	—	—
Nanjing Meibao New Building Material Co., Ltd.	936,676	9,367	—	—
	1,832,064	18,321	—	—

Notes to the Financial Statements (Continued)

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X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

6. Receivables due from/payables due to related parties (Continued)

	31 December 2019		31 December 2018	
	Carrying amount	Provision	Carrying amount	Provision
Trade receivables (Continued)				
Associates and joint ventures of the Group				
BOC-Ma Steel	22,988,938	229,889	24,348,505	243,485
Magang Chemicals & Energy	154,574,444	1,545,744	160,493,736	1,604,937
Masteel Scrap	2,528,942	25,290	693,280	97,059
	180,092,324	1,800,923	185,535,521	1,945,481
Other receivables				
The Holding and its subsidiaries				
The Holding	120,000	18,000	120,000	2,400
Masteel Automobile Transportation Service Co., Ltd.	—	—	2,646	53
	120,000	18,000	122,646	2,453

Notes to the Financial Statements (Continued)

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X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

6. Receivables due from/payables due to related parties (Continued)

	31 December 2019	31 December 2018
Prepayments		
The Holding and its subsidiaries		
Masteel Engineering Technology (Group) Co., Ltd.	174,957,075	36,371,547
Ma Steel International Trade and Economic Co., Ltd.	137,943,628	26,362,695
Others entities controlled by the Holding	24,064	206,000
	312,924,767	62,940,242
The ultimate controlling party and its subsidiaries		
Baosteel Resources Holdings (Shanghai) Co., Ltd.	4,239,130	—
Shanghai Baosteel Engineering & Technology Co., Ltd.	8,720,000	—
General Electric (Wuhan) Automation Co., Ltd.	12,796,727	—
	25,755,857	—

Notes to the Financial Statements (Continued)

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X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

6. Receivables due from/payables due to related parties (Continued)

	31 December 2019		31 December 2018	
	Carrying amount	Provision	Carrying amount	Provision
Loans and advances to customers				
The Holding and its subsidiaries				
The Holding	1,150,000,000	30,112,701	100,000,000	2,529,316
Anhui Masteel Mining Resources Group Co., Ltd.	1,905,427,344	49,893,534	1,748,000,000	47,443,230
Masteel Chengxing Metal Resources Co., Ltd.	168,675,353	4,416,757	—	—
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	96,781,831	2,534,228	—	—
Ma Steel International Trade and Economic Co., Ltd.	40,685,180	1,065,340	—	—
Masteel Engineering Technology (Group) Co., Ltd.	36,000,000	942,658	—	—
Masteel Heavy Machinery Manufacturing Co., Ltd.	31,000,000	811,734	—	—
Masteel Fuyuan Metal Resources Co., Ltd.	25,000,000	654,624	—	—

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

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X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

6. Receivables due from/payables due to related parties (Continued)

	31 December 2019		31 December 2018	
	Carrying amount	Provision	Carrying amount	Provision
Shanghai Masteel International Trade and Economic Co., Ltd.	20,000,000	523,699	–	–
Guizhou Xinchuan Environmental Protections Co., Ltd.	10,826,747	283,498	–	–
Anhui Masteel Luo He Mining Co., Ltd.	60,000,000	1,571,097	60,000,000	1,575,194
Anhui BRC & Masteel Weldmesh Co., Ltd.	42,921,836	1,123,906	51,320,245	1,356,455
Anhui Zhonglian Shipping Co., Ltd.	60,538,652	1,585,202	96,347,991	2,426,565
Other entities controlled by the Holding	65,625,061	1,718,389	17,622,774	458,763
	3,713,482,004	97,237,367	2,073,291,010	55,789,523
Associate of the Group				
Masteel Scrap	387,322,833	10,142,032	750,000,000	19,300,651

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

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X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

6. Receivables due from/payables due to related parties (Continued)

	31 December 2019	31 December 2018
Trade payables		
The Holding and its subsidiaries		
The Holding	357,450,871	447,268,951
Masteel Heavy Machinery Manufacturing Co., Ltd.	38,791,801	150,397,700
Xinchuang Environmental Protection	68,696,805	128,756,189
Ma Steel International Trade and Economic Co., Ltd.	109,242	2,448,375
Masteel Engineering Technology (Group) Co., Ltd.	42,919,824	129,671,900
Phima Intelligence	68,741,777	62,385,534
Masteel Transportation Equipment Manufacturing Co., Ltd.	22,543,649	59,672,213
Anhui Masteel Equipment Maintenance Co, Ltd.	68,350,436	88,039,551
Ruitai Masteel New Material Technology Co., Ltd.	217,587	170,731,535
Other entities controlled by the Holding	142,825,248	252,998,147
	810,647,240	1,492,370,095
The ultimate controlling party and its subsidiaries		
Baosteel Resources Holdings (Shanghai) Co., Ltd.	2,256,496	—
Baowu Equipment Intelligent Technology Co., Ltd.	5,601,150	—
Other entities controlled by the ultimate controlling party	10,577,106	—
	18,434,752	—
Joint ventures and associates of the Group		
BOC-Ma Steel	55,179,453	53,705,028
Shenglong Chemical	—	434,506
Henan JinMa Energy	20,202,316	196,042
Magang Chemicals & Energy	127,456,946	125,821,787
Ma-Steel Commercial Factoring (Note)	14,831,313	—
Masteel Scrap	4,822,113	75,080,164
	222,492,141	255,237,527

Notes to the Financial Statements (Continued)

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X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

6. Receivables due from/payables due to related parties (Continued)

Trade payables (Continued)

Note: The balance was from the factoring business between Ma-Steel Commercial Factoring and the Group's third-party suppliers, which discounted their trade receivables from the Group to Ma-Steel Commercial Factoring, and the payables of the Group to these suppliers were transferred to Ma-Steel Commercial Factoring accordingly. The Group did not provide any assistance or service during above factoring business.

	31 December 2019	31 December 2018
Other payables		
The Holding and its subsidiaries		
Maanshan Xinchuangbaineng Energy Technology Co., Ltd.	3,972,366	2,306,035
Masteel Automobile Transportation Service Co., Ltd.	736,320	7,115,212
Xinchuang Environmental Protection	357,318	9,406,774
Masteel Engineering Technology (Group) Co., Ltd.	146,174	17,174,664
Anhui Masteel Equipment Maintenance Co., Ltd.	204,865	7,764,547
Maanshan Masteel Electric Repair Co., Ltd.	54,204	191,400
Maanshan Port (Group) Co., Ltd.	–	9,449,910
Other entities controlled by the Holding	1,569,973	25,128,015
	7,041,220	78,536,557
The ultimate controlling party and its subsidiaries		
Shanghai Baosteel Engineering & Technology Co., Ltd.	100,000	–
Others	10,000	–
	110,000	–
Joint venture of the Group		
BOC-Ma Steel	70,000	70,000

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

6. Receivables due from/payables due to related parties (Continued)

	31 December 2019	31 December 2018
Contract liabilities		
The Holding and its subsidiaries		
The Holding	150,785	150,785
Ma Steel International Trade and Economic Co., Ltd.	195,813	3,750,485
Masteel Engineering Technology (Group) Co., Ltd.	30,911,489	22,128,095
Anhui BRC & Masteel Weldmesh Co., Ltd.	—	585,745
Maanshan Iron Construction Group Co., Ltd.	2,260,763	682,723
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	2,185,715	2,185,715
Other entities controlled by the Holding	4,197,247	1,665,681
	39,901,812	31,149,229
The ultimate controlling party and its subsidiaries		
Eastern Steel E-Commerce Co., Ltd.	19,279,696	—
Shanghai Iron & Steel Exchange Co., Ltd.	1,022,114	—
Baosteel Magnetic Industry (Jiangsu) Co., Ltd.	418,161	—
Ouyeel Cloud Commerce Corporation Limited	6,152,039	—
Shanghai Ouyeel Material Technology Co., Ltd.	55,708	—
	26,927,718	—

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

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X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

6. Receivables due from/payables due to related parties (Continued)

	31 December 2019	31 December 2018
Joint ventures and associates of the Group		
Shenglong Chemical	—	11
Masteel K. Wah	13,237,241	8,955,587
	13,237,241	8,955,598
Dividends receivable		
Joint ventures and associates of the Group		
Masteel Scrap	—	8,119,136
Masteel K. Wah	—	1,812,970
Magang Chemicals & Energy	—	8,654,102
	—	18,586,208

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

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X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

6. Receivables due from/payables due to related parties (Continued)

	31 December 2019	31 December 2018
Customer deposits		
The Holding and its subsidiaries		
The Holding	6,943,487,354	1,124,732,783
Masteel Engineering Technology (Group) Co., Ltd.	484,640,854	304,908,015
Masteel Heavy Machinery Manufacturing Co., Ltd.	113,271,840	55,357,489
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	49,056,710	236,275,555
Anhui Masteel Mining Resources Group Co., Ltd.	185,905,021	436,350,337
Xinchuang Environmental Protection	122,580,311	81,293,992
Ma Steel International Trade and Economic Co., Ltd.	102,743,643	35,453,705
Masteel Group Kang Tai Land Development Co., Ltd.	77,467,806	72,713,370
Other entities controlled by the Holding	1,310,323,298	587,520,264
	9,389,476,837	2,934,605,510
Joint venture and associates of the Group		
BOC-Ma Steel	166,045,114	151,648,202
Masteel Scrap	243,307,090	220,531,998
Masteel K. Wah	182,743,983	259,464,886
Magang Chemicals & Energy	466,397,590	757,556,054
Ma-Steel Commercial Factoring	39,404,937	3,433,606
Ma-Steel Financial Leasing	7,099,906	23,367
Ma-Steel OCI Chemical	565,867	–
	1,105,564,487	1,392,658,113

The fee charged by Masteel Finance for the financing services and deposit transactions provided to the Holding and its subsidiaries was determined based on negotiation between the parties.

* As of 31 December 2019, in current assets and current liabilities, except for the interests charged for the deposit and loans provided by Masteel Finance, all other receivables and payables had no interest, no pledge and would be paid in the future.

Notes to the Financial Statements (Continued)

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X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

7. Commitment to related parties

As of 31 December 2019, the Group had no investment commitment to related parties.

XI. COMMITMENTS AND CONTINGENCIES

1. Significant commitments

Capital commitments

	31 December 2019	31 December 2018
Contracted, but not provided for		
Capital commitments	4,779,116,831	2,887,401,034
Investment commitments	13,969,500	13,969,500
	4,793,086,331	2,901,370,534

Loan commitments

	31 December 2019	31 December 2018
Acceptance bill	1,359,403,353	529,327,274

Credit commitments of the Group are the payment commitments made by MaSteel Finance for its customers' acceptance bill.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

XI. COMMITMENTS AND CONTINGENCIES (CONTINUED)

2. Contingencies

Difference of corporate income tax

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

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

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

Pending litigation

As of 31 December 2019, the Group and the Company did not have significant pending litigations.

XII. EVENTS AFTER THE BALANCE SHEET DATE

On 30 March 2020, the 30th meeting of the 9th board of the Company approved the 2019 final cash dividend at RMB0.08 (tax included) per share to shareholders. The profit distribution plan will be submitted for approval in the annual general meeting.

Since the outbreak of novel coronavirus (COVID-19) continues to spread throughout China and to countries across the world in January 2020, the epidemic preventive measures have been going on through the country. The Group will implement the relevant measures and strengthen the support for the prevention and control of the epidemic. The Group will monitor the developments of COVID-19 situation closely, assess and react actively to its impacts on the financial position and operating results of the Group. Up to the date of the report, the assessment is still in progress.

Apart from the above, until the approval date of the financial statements, the Group had no other significant events after the balance sheet date that need to be disclosed.

Notes to the Financial Statements (Continued)

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XIII. OTHER SIGNIFICANT EVENTS

1. Leases

As lessor

The Group had leased certain of its investment properties under operating lease arrangements ranging from two to eighteen years. The periodic rental was fixed during the operating lease periods. In 2019, the rental income recognised by the Group was RMB3,847,825. According to lease contracts, the future minimum lease receivables under non-cancellable leases are as follows:

	31 December 2019	31 December 2018
Remaining lease period		
Within 1 year (inclusive)	3,168,028	1,558,490
1 to 2 years (inclusive)	2,813,050	1,250,000
2 to 3 years, (inclusive)	2,088,028	1,250,000
Over 3 years	4,627,017	1,407,534
	12,696,123	5,466,024

As lessee

The Group had adopted a simplified approach for short-term leases and leases of low-value assets and did not recognise right-of-use assets and lease liabilities accordingly. The expense on short-term leases and leases of low-value assets recognised for the period is as follows:

	2019
Interest expense on lease liabilities	21,539,323
Expenses relating to short-term leases expense accounting for applying the simplified approach	16,816,627
Expenses relating to leases of low-value assets accounting for applying the simplified approach (other than short-term leases)	613,389
Total cash flow for leases	54,643,608

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

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XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

1. Leases (Continued)

As lessee (Continued)

Significant operating leases (applicable for the year of 2018): according to the lease contracts signed with lessors, the minimum lease payments for the irrevocable leases are as follows:

	31 December 2018
Remaining lease period	
Within 1 year (inclusive)	338,912
1 to 2 years (inclusive)	338,912
2 to 3 years (inclusive)	277,720
Over 3 years	—
Total	955,544

2. Operating segment information

Operating segments

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

- Production and sale of iron and steel products and related by-products: the Company and its subsidiaries except for Masteel Finance
- Financial service: Masteel Finance

The Group did not consider financial service as an individual reportable segment, as Masteel Finance mainly offers financial service to internal companies. Therefore, the Group focuses on the production and sale of iron and steel products and by-products, and it is unnecessary for the Group to disclose more detailed information.

Other information

Product and service information

External principal operating income

	2019	2018
Sale of steel products	69,168,676,112	74,107,142,467
Sale of steel billets and pig iron	2,590,852,101	2,088,810,111
Sale of coke by-products	43,710,671	933,738,098
Others	5,355,010,744	3,783,555,349
	77,158,249,628	80,913,246,025

Notes to the Financial Statements (Continued)

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XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

2. Operating segment information (Continued)

Geographical information

External principal operating income

	2019	2018
Mainland China	72,555,885,543	75,648,970,094
Overseas and Hong Kong	4,602,364,085	5,264,275,931
	77,158,249,628	80,913,246,025

Non-current assets

	31 December 2019	31 December 2018
Mainland China	39,090,556,947	37,608,891,886
Overseas and Hong Kong	217,815,932	319,090,492
	39,308,372,879	37,927,982,378

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

Major customer information

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

3. Other financial information*

	Group		Company	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Current assets	46,522,057,819	38,405,267,817	23,916,198,032	21,589,293,692
Less: Current liabilities	50,076,547,161	39,737,027,081	33,977,168,360	26,518,782,308
Net current liabilities	(3,554,489,342)	(1,331,759,264)	(10,060,970,328)	(4,929,488,616)

	Group		Company	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Total assets	86,322,043,538	76,871,999,293	62,444,988,565	58,445,169,405
Less: Current liabilities	50,076,547,161	39,737,027,081	33,977,168,360	26,518,782,308
Total assets less current liabilities	36,245,496,377	37,134,972,212	28,467,820,205	31,926,387,097

4. Employee costs (excluding directors' and supervisors' remuneration)(Note X.5 (25))*

	2019	2018
Wages and salaries	3,033,925,593	3,147,531,921
Welfare	835,006,947	823,262,275
Pension scheme contributions (Note)	648,378,138	607,643,897
Employee termination benefits	1,186,857,044	150,464,248
	5,704,167,722	4,728,902,341

Note: As of 31 December 2019 and 31 December 2018, no contribution was capitalized or waived to reduce the Group's liability to pay pension scheme contributions in the future.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

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XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

5. Comparative amounts

As stated in Note III. 34, due to the changes in financial statements format, the Group divided “notes and trade receivables” into “notes receivable” and “trade receivables”, and “notes and trade payables” into “notes payable” and “trade payables” in the balance sheet. The Group also added “financing receivables” to present the notes and trade receivables that are measured at fair value through other comprehensive income on the balance sheet date. Correspondingly, the Group retrospectively represented the comparative amounts to meet the current year’s requirement of disclosure and accounting treatment.

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS

1. Trade receivables

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

The ageing of trade receivables, based on the invoice date, is analyzed below:

	31 December 2019	31 December 2018
Within one year	3,133,767,463	2,340,825,024
One to two years	14,119,742	23,995,607
Two to three years	22,668,320	54,169,295
Over three years	23,184,592	105,690,621
	3,193,740,117	2,524,680,547
Less: Provisions for bad debts	39,323,552	63,813,647
	3,154,416,565	2,460,866,900

The movements of the provision for bad debts were as follows :

	Opening balance	Increase	Reversal	Write-back	Write-off	Other changes	Ending balance
2019	63,813,647	–	(24,490,095)	–	–	–	39,323,552
2018	47,921,020	15,892,627	–	–	–	–	63,813,647

Notes to the Financial Statements (Continued)

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XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

1. Trade receivables (Continued)

The trade receivables balances were analysed as follows :

	31 December 2019				31 December 2018			
	Carrying amount		Provision for bad debts		Carrying amount		Provision for bad debts	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Assessed for bad debt provision individually	2,756,498,204	86	-	-	1,760,653,533	70	-	-
Assessed for bad debt provision in portfolios based credit risk characteristics	437,241,913	14	(39,323,552)	9	764,027,014	30	(63,813,647)	8
	3,193,740,117	100	(39,323,552)		2,524,680,547	100	(63,813,647)	

The provision for bad debts applying other method by the Company was as follows:

	31 December 2019			31 December 2018		
	Carrying amount	Expected credit loss	Expected credit loss	Carrying amount	Expected credit loss	Expected credit loss
	expected to default	percentage (%)	credit loss	expected to default	percentage (%)	credit loss
Trade receivables to subsidiaries	2,756,498,204	-	-	1,760,653,533	-	-

Notes to the Financial Statements (Continued)

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Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

1. Trade receivables (Continued)

The Company's provision for bad debts of trade receivables analyzed by ageing was as follows:

	31 December 2019			31 December 2018		
	Carrying amount expected to default	Expected credit loss ratio (%)	Expected credit loss	Carrying amount expected to default	Expected credit loss ratio (%)	Expected credit loss
Within one year	377,458,746	1	(3,774,587)	672,838,883	1	(6,728,389)
One to two years	14,109,775	15	(2,116,466)	23,995,607	14	(3,359,385)
Two to three years	22,668,320	46	(10,427,427)	23,953,223	51	(12,216,144)
Over three years	23,005,072	100	(23,005,072)	43,239,301	96	(41,509,729)
Total	437,241,913		(39,323,552)	764,027,014		(63,813,647)

In 2019, there were no trade receivables that had been written off (2018: Nil).

As of 31 December 2019 and 31 December 2018, there were no trade receivables that were derecognized due to the transfer of financial assets.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

1. Trade receivables (Continued)

The top five trade receivables classified by debtor were as follows:

31 December 2019

	Relationship with the Company	Ending balance	Ageing	Percentage of trade receivables	Ending balance of provision
Company 1	Subsidiary	1,086,779,332	Within one year	34%	–
Company 2	Subsidiary	705,026,500	Within one year	22%	–
Company 3	Subsidiary	187,619,223	Within one year	6%	–
Company 4	Third party	152,551,557	Within one year	5%	1,525,516
Company 5	Subsidiary	141,949,862	Within one year	4%	–
		2,273,926,474		71%	1,525,516

31 December 2018

	Relationship with the Company	Ending balance	Ageing	Percentage of trade receivables	Ending balance of provision
Company 1	Subsidiary	885,944,872	Within one year	36%	–
Company 2	Subsidiary	298,679,663	Within one year	12%	–
Company 3	Third party	160,493,736	Within one year	7%	1,604,937
Company 4	Third party	145,378,033	Within one year	6%	1,453,780
Company 5	Subsidiary	124,421,700	Within one year	5%	–
		1,614,918,004		66%	3,058,717

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

2. Other receivables

	31 December 2019	31 December 2018
Dividends receivable	—	20,346,208
Other receivables	94,415,995	43,497,924
	94,415,995	63,844,132

Dividends receivable

	31 December 2019	31 December 2018
Other equity instruments investments – MCC17	—	1,760,000
Associate- Masteel Scrap	—	8,119,136
Associate- Masteel K. Wah	—	1,812,970
Associate- Magang Chemicals & Energy	—	8,654,102
	—	20,346,208

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

2. Other receivables (Continued)

Other receivables

An ageing analysis of the other receivables is as follows:

	31 December 2019	31 December 2018
Within one year	94,088,849	44,172,475
One to two years	555,000	37,130
Two to three years	—	243,945
Over three years	410,946,826	410,870,901
	505,590,675	455,324,451
Less: Provision for bad debts	411,174,680	411,826,527
	94,415,995	43,497,924

Other receivables classified by nature:

	31 December 2019	31 December 2018
Due from trading companies	403,317,627	403,317,627
Guarantee for steel futures	47,141,529	74,298
Prepayments of custom duties and VAT	32,041,791	8,425,735
Others	23,089,728	43,506,791
	505,590,675	455,324,451
Less: Provision for bad debts	411,174,680	411,826,527
	94,415,995	43,497,924

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

2. Other receivables (Continued)

Other receivables (Continued)

The movements of bad debt provision based on the 12-month expected credit losses and lifetime credit losses were as follows:

2019

	Stage I	Stage II	Stage III Credit-impaired financial assets (Lifetime expected credit losses)	Total
	12-month expected credit losses	Lifetime expected credit losses		
Opening balance	313,961	8,194,939	403,317,627	411,826,527
Changes due to the opening balance	(2,400)	2,400	—	—
– Shift to Stage II	(2,400)	2,400	—	—
– Shift to Stage III	—	—	—	—
– Back to Stage II	—	—	—	—
– Back to Stage I	—	—	—	—
Accrual	—	—	—	—
Reversal	(234,155)	(417,692)	—	(651,847)
Other changes	—	—	—	—
Closing balance	77,406	7,779,647	403,317,627	411,174,680

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

2. Other receivables (Continued)

Other receivables (Continued)

2018

	Stage I	Stage II	Stage III	Total
	12-month expected credit losses	Lifetime expected credit losses	Credit-impaired financial assets (Lifetime expected credit losses)	
Opening balance	–	7,798,210	415,916,327	423,714,537
Changes due to the opening balance	–	–	–	–
– Shift to Stage II	–	–	–	–
– Shift to Stage III	–	–	–	–
– Back to Stage II	–	–	–	–
– Back to Stage I	–	–	–	–
Accrual	313,961	396,729	–	710,690
Reversal	–	–	(12,598,700)	(12,598,700)
Other changes	–	–	–	–
Closing balance	313,961	8,194,939	403,317,627	411,826,527

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

2. Other receivables (Continued)

Other receivables (Continued)

In 2019, there were no other receivables that had been written off (2018: Nil).

As of 31 December 2019, the top five largest other receivables were as follows:

	Balance	Ratio to total other receivables (%)	Nature	Ageing	Balance of bad debts
Company 1	132,058,434	26	Due from trading companies	More than 3 years	(132,058,434)
Company 2	127,685,368	25	Due from trading companies	More than 3 years	(127,685,368)
Company 3	60,939,960	12	Due from trading companies	More than 3 years	(60,939,960)
Company 4	45,390,133	9	Due from trading companies	More than 3 years	(45,390,133)
Company 5	37,243,732	7	Due from trading companies	More than 3 years	(37,243,732)
	403,317,627	79			(403,317,627)

As of 31 December 2018, the top five largest other receivables were as follows:

	Balance	Ratio to total other receivables (%)	Nature	Ageing	Balance of bad debts
Company 1	132,058,434	29	Due from trading companies	More than 3 years	(132,058,434)
Company 2	127,685,368	28	Due from trading companies	More than 3 years	(127,685,368)
Company 3	60,939,960	13	Due from trading companies	More than 3 years	(60,939,960)
Company 4	45,390,133	10	Due from trading companies	More than 3 years	(45,390,133)
Company 5	37,243,732	8	Due from trading companies	More than 3 years	(37,243,732)
	403,317,627	88			(403,317,627)

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

3. Long-term equity investments

	31 December 2019	31 December 2018
Long-term investments under the equity method		
Joint ventures (i)	272,196,719	268,590,692
Associates (i)	2,979,631,679	2,455,625,221
Long-term investments under the cost method		
Subsidiaries (ii)	8,825,030,687	7,422,056,043
Subtotal	12,076,859,085	10,146,271,956
Less: Provision for impairment	599,167,213	—
Total	11,477,691,872	10,146,271,956

In the opinion of the directors, there was no material restriction on the realization of investments as of 31 December 2019.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

3. Long-term equity investments (Continued)

(i) Investments in joint ventures and associates

2019

	Opening balance	Changes during the year							Ending balance	Impairment at the end of the year
		Increase	Decrease	Investment income under the equity method	Other comprehensive income	Other equity movement	Cash dividend declared	Provision for impairment		
Joint ventures										
BOC-Ma Steel	268,088,957	-	-	88,606,456	-	-	(85,000,000)	-	271,695,413	-
MASTEEL-CMI	501,735	-	-	(429)	-	-	-	-	501,306	-
Associates										
Henan JinMa Energy	613,018,859	-	-	157,352,305	-	2,002,800	(64,800,000)	-	707,573,964	-
Shenglong Chemical	732,685,925	-	-	162,822,030	-	694,949	(79,982,419)	-	816,220,485	-
Shanghai Iron and Steel Electronic	7,790,111	-	(7,484,171)	(305,940)	-	-	-	-	-	-
Xinchuang Environmental Protection	57,681,293	-	-	11,393,478	-	582,123	(2,692,786)	-	66,964,108	-
Ma-Steel OCI Chemical	146,519,873	-	-	5,231,952	-	935,411	(4,800,000)	-	147,887,236	-
Ma-Steel Commercial Factoring (Note)	77,647,587	75,000,000	-	6,999,632	-	-	(2,076,921)	-	157,570,298	-
Magang Chemicals & Energy (Note)	600,632,763	-	-	59,192,523	-	-	-	-	659,825,286	-
Masteel K.Wah.	79,975,786	-	-	22,584,686	-	-	-	-	102,560,472	-
Masteel Scrap	139,673,024	135,000,000	-	46,356,806	-	-	-	-	321,029,830	-
	2,724,215,913	210,000,000	(7,484,171)	560,233,499	-	4,215,283	(239,352,126)	-	3,251,828,398	-

Note: Please refer to Note V.12 for details.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

3. Long-term equity investments (Continued)

(i) Investments in joint ventures and associates (Continued)

2018

	Opening balance	Changes during the year							Ending balance	Impairment at the end of the year
		Increase	Decrease	Investment income under the equity method	Other comprehensive income	Other equity movement	Cash dividend declared	Provision for impairment		
Joint ventures										
BOC-Ma Steel	334,457,696	-	-	83,631,261	-	-	(150,000,000)	-	268,088,957	-
MASTEEL-CMI	546,153	-	-	(44,418)	-	-	-	-	501,735	-
Associates										
Henan JinMa Energy	441,184,749	-	-	222,404,961	(2,745,469)	(305,382)	(47,520,000)	-	613,018,859	-
Shenglong Chemical	469,646,241	-	-	294,692,833	-	339,819	(31,992,968)	-	732,685,925	-
Shanghai Iron and Steel Electronic	22,759,705	-	-	(2,969,594)	-	-	(12,000,000)	-	7,790,111	-
Xinchuang Environmental Protection	48,584,024	-	-	10,054,228	-	471,699	(1,428,658)	-	57,681,293	-
Anhui Linhuan Chemical (Note)	80,254,391	-	(106,810,899)	26,475,894	-	80,614	-	-	-	-
Ma-Steel OCI Chemical	127,792,243	-	-	17,455,827	-	1,271,803	-	-	146,519,873	-
Ma-Steel Commercial Factoring (Note)	-	75,000,000	-	2,647,587	-	-	-	-	77,647,587	-
Magang Chemicals & Energy	-	600,632,763	-	-	-	-	-	-	600,632,763	-
Masteel K.Wah.	-	79,975,786	-	-	-	-	-	-	79,975,786	-
Masteel Scrap	-	139,673,024	-	-	-	-	-	-	139,673,024	-
	1,525,225,202	895,281,573	(106,810,899)	654,348,579	(2,745,469)	1,858,553	(242,941,626)	-	2,724,215,913	-

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

3. Long-term equity investments (Continued)

(ii) Investments in subsidiaries

2019

	Opening balance	Changes during the year				Ending balance	Impairment at the end of the year	Cash dividends declared
		Increase	Disposal/ cancellation	Other equity movement	Provision for impairment			
Ma Steel (Wuhu)	8,225,885	-	-	-	-	8,225,885	-	11,200,000
Ma Steel (Cihu)	48,465,709	-	-	-	-	48,465,709	-	11,960,000
Ma Steel (Guangzhou) (Note XII.1)	80,000,000	13,058,200	-	-	-	93,058,200	-	1,360,900
Ma Steel (HK)	52,586,550	-	-	-	-	52,586,550	-	-
MG Trading	1,573,766	-	-	-	-	1,573,766	-	-
Holly Industrial	21,478,316	-	-	-	-	21,478,316	-	6,675,672
Ma Steel (Jinhua)	90,000,000	-	-	-	-	90,000,000	-	-
Ma Steel (Australia)	126,312,415	-	-	-	-	126,312,415	-	-
Ma Steel (Hefei)	1,775,000,000	-	-	-	-	1,775,000,000	-	-
Ma Steel (Hefei) Processing	85,596,489	-	-	-	-	85,596,489	-	15,879,000
Ma Steel (Yangzhou) Processing	116,462,300	-	-	-	-	116,462,300	-	10,650,000
Wuhu Technique	106,500,000	-	-	-	-	106,500,000	-	-
Chongqing Material	175,000,000	-	-	-	-	175,000,000	-	14,000,000
Anhui Chang Jiang Iron and Steel	1,234,444,444	-	-	-	-	1,234,444,444	-	627,000,000
Masteel Finance	1,843,172,609	-	-	-	-	1,843,172,609	-	95,023,085
Hefei Materials	140,000,000	-	-	-	-	140,000,000	-	8,750,000
MG-VALDUNES (Note XII.1) (Note 1)	883,022,985	156,060,000	-	-	(599,167,213)	439,915,772	(599,167,213)	-
Ma Steel Hangzhou Sales	10,000,000	-	-	-	-	10,000,000	-	5,501,800
Ma Steel Wuxi Sales	10,000,000	-	-	-	-	10,000,000	-	5,101,300
Ma Steel Nanjing Sales	10,000,000	-	-	-	-	10,000,000	-	5,514,300
Ma Steel Wuhan Sales	10,000,000	-	-	-	-	10,000,000	-	6,141,800
Ma Steel Shanghai Sales	10,000,000	-	-	-	-	10,000,000	-	20,835,400

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

3. Long-term equity investments (Continued)

(i) Investments in subsidiaries (Continued)

2019 (Continued)

	Changes during the year					Ending balance	Impairment at the end of the year	Cash dividends declared
	Opening balance	Increase	Disposal/ cancellation	Other equity movement	Provision for impairment			
Ma Steel Rail Transportation (Note XII.1)	396,021,369	1,126,296,194	-	-	-	1,522,317,563	-	-
Ma Steel Oubang Color-coated	10,050,000	-	-	-	-	10,050,000	-	-
Ma Steel America Inc	3,298,375	-	-	-	-	3,298,375	-	-
Ma Steel Antirust	3,060,000	-	-	-	-	3,060,000	-	-
Mascomental	127,368,631	-	-	-	-	127,368,631	-	-
Meite Metallurgical Power	500,000	-	-	-	-	500,000	-	-
Masteel Middle East (Note XII.1)	2,041,200	3,435,250	-	-	-	5,476,450	-	-
Changchun Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma Steel Hongfei (Note XI.1)	-	51,000,000	-	-	-	51,000,000	-	-
Wuhan Material (Note XII.1)	31,875,000	53,125,000	-	-	-	85,000,000	-	-
Total	7,422,056,043	1,402,974,644	-	-	(599,167,213)	8,225,863,474	(599,167,213)	845,593,257

Note 1: MG-VALDUNES, a wholly-owned subsidiary of the Company, has been in a state of continuous loss since it was acquired and included in the scope of consolidation of the Group in 2014. As at 30 June 2019, the carrying amount of the Company's long-term equity investment of MG-VALDUNES was RMB883,022,985. Due to the accumulated losses, management considered that there were indicators of impairment of the Company's long-term equity investment of MG-VALDUNES. The Management had engaged independent asset appraisers to assess the equity value of MG-VALDUNES and based on the valuation result, the Company recognized the impairment of long-term equity investment amounted to RMB599,167,213.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

3. Long-term equity investments (Continued)

(ii) Investments in subsidiaries (Continued)

2018

	Opening balance	Changes during the year				Ending balance	Impairment at the end of the year	Cash dividends declared
		Increase	Disposal/ cancellation	Other equity movement	Provision for impairment			
Masteel K. Wah	44,443,067	46,353,454	(90,796,521)	-	-	-	-	137,578,608
Ma Steel (Wuhu)	8,225,885	-	-	-	-	8,225,885	-	-
Ma Steel (Cihu)	48,465,709	-	-	-	-	48,465,709	-	23,000,000
Ma Steel (Guangzhou)	80,000,000	-	-	-	-	80,000,000	-	4,048,400
Ma Steel (HK)	52,586,550	-	-	-	-	52,586,550	-	-
MG Trading	1,573,766	-	-	-	-	1,573,766	-	-
Holly Industrial	21,478,316	-	-	-	-	21,478,316	-	6,773,781
Ma Steel (Jinhua)	90,000,000	-	-	-	-	90,000,000	-	-
Ma Steel (Australia)	126,312,415	-	-	-	-	126,312,415	-	-
Ma Steel (Hefei)	1,775,000,000	-	-	-	-	1,775,000,000	-	-
Ma Steel (Hefei) Processing	85,596,489	-	-	-	-	85,596,489	-	6,700,000
Ma Steel (Yangzhou) Processing	116,462,300	-	-	-	-	116,462,300	-	7,100,000
Wuhu Technique	106,500,000	-	-	-	-	106,500,000	-	-
Masteel Scrap	100,000,000	-	(100,000,000)	-	-	-	-	58,016,792
Masteel Shanghai Trading	-	-	-	-	-	-	-	-
Chongqing Material	175,000,000	-	-	-	-	175,000,000	-	5,600,000
Anhui Chang Jiang Iron and Steel	1,234,444,444	-	-	-	-	1,234,444,444	-	528,000,000
Masteel Finance	1,843,172,609	-	-	-	-	1,843,172,609	-	63,362,007

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

3 Long-term equity investments (Continued)

(ii) investments in subsidiaries (Continued)

2018 (Continued)

	Opening balance	Changes during the year				Ending balance	Impairment at the end of the year	Cash dividends declared
		Increase	Disposal/ cancellation	Other equity movement	Provision for impairment			
Hefei Materials	140,000,000	-	-	-	-	140,000,000	-	-
MG-VALDUNES	646,004,985	237,018,000	-	-	-	883,022,985	-	-
Ma Steel Guangzhou Sales	10,000,000	-	(10,000,000)	-	-	-	-	-
Ma Steel Hangzhou Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma Steel Wuxi Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma Steel Chongqing Sales	10,000,000	-	(10,000,000)	-	-	-	-	-
Ma Steel Nanjing Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma Steel Wuhan Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma Steel Shanghai Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma Steel Rail Transportation	396,021,369	-	-	-	-	396,021,369	-	-
Ma Steel Oubang Color-coated	10,050,000	-	-	-	-	10,050,000	-	-
Ma Steel America Inc	3,298,375	-	-	-	-	3,298,375	-	-
Ma Steel Antitrust	3,060,000	-	-	-	-	3,060,000	-	-
Mascometal	127,368,631	-	-	-	-	127,368,631	-	-
Magang Chemical & Energy	-	601,406,140	(601,406,140)	-	-	-	-	79,686,077
Meite Metallurgical Power	-	500,000	-	-	-	500,000	-	-
Masteel Middle East	-	2,041,200	-	-	-	2,041,200	-	-
Changchun Sales	-	10,000,000	-	-	-	10,000,000	-	-
Wuhan Material	-	31,875,000	-	-	-	31,875,000	-	-
	7,305,064,910	929,193,794	(812,202,661)	-	-	7,422,056,043	-	919,865,665

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

4. Revenue and cost of sales

	2019		2018	
	Revenue	Cost of sales	Revenue	Cost of sales
Principal operating income	63,383,415,083	59,692,464,631	66,162,309,714	59,321,456,810
Other operating income	967,620,026	980,365,214	1,070,552,763	979,720,054
	64,351,035,109	60,672,829,845	67,232,862,477	60,301,176,864

Revenue is presented as follows:

	2019	2018
Revenue from contracts with customers	64,345,388,919	67,220,825,421
Rental income	5,646,190	12,037,056
	64,351,035,109	67,232,862,477

Timing of revenue recognition from contracts with customers:

	2019	2018
At a point in time		
Sales of steel products	59,958,126,291	62,863,775,845
Sales of other products	4,359,295,165	4,331,715,847
Over time		
Consulting services	24,409,432	22,577,622
Others	3,558,031	2,756,107
	64,345,388,919	67,220,825,421

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

4. Revenue and cost of sales (Continued)

Revenue recognised that was included in contract liabilities at the beginning of the year:

	2019	2018
Revenue	2,353,822,627	2,586,623,453

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) at the year end is expected to be recognised as revenue as follows:

	2019	2018
Within one year	2,455,027,803	2,382,469,502

5. Investment income

	2019	2018
Investment income from long-term investments under the equity method	560,233,499	654,348,579
Investment income from long-term investments under the cost method	845,593,257	919,865,665
Gain from disposal of subsidiaries	—	135,171,383
Gain from disposal of associates	(16,052)	7,689,556
Gain from changing the cost method to the equity method in disposal of subsidiaries	—	37,313,053
Gain from dividend income from other equity investment in duration	—	3,380,000
Gain from disposal of financial assets held for trading	38,853,174	25,838,839
	1,444,663,878	1,783,607,075

As at the balance sheet date, there was no significant restriction imposed upon the remittance of the Company's investment income.

Supplementary Information

For the year ended 31 December 2019

Renminbi Yuan

1. BREAKDOWN OF NON-RECURRING GAINS OR LOSSES

The calculation of non-recurring gains or losses is in accordance with “Regulation for the preparation of information disclosure by listed securities companies No.1 – Non-recurring Gains or Losses (2008 revised)” (No.43 [2008]) issued by the CSRC.

	2019
Items of non-recurring gains or losses	
Loss from disposal of non-current assets	(77,058,351)
Government grants recognised in current period profit or loss (excluding those having close relationship with the Company's normal business, conforming to the national policies and regulations and enjoying ongoing fixed amount or quantity according to certain standard)	579,015,240
Employee termination compensation	(1,163,531,268)
Gain from disposal of an associate	(16,052)
Except for the effective hedging business related to the ordinary business of the Company, changes in fair value of financial assets and financial liabilities held for trading, as well as the return on investment generated from the disposal of financial assets and financial liabilities held for trading and financial assets at fair value through other comprehensive income	249,161,379
Net non-operating income or expenses other than the above items	3,444,379
	(408,984,673)
Income tax effect	74,456,680
Non-controlling interests effect (net of tax)	23,911,246
Net effect of non-recurring gains or losses	(507,352,599)
Net profit attributable to owners of the parent excluding non-recurring gains or losses	
Net profit attributable to owners of the parent	1,128,148,980
Less: net effect of non-recurring gains or losses	(507,352,599)
Net profit attributable to owners of the parent excluding non-recurring gains or losses	1,635,501,579

Supplementary Information (Continued)

For the year ended 31 December 2019

Renminbi Yuan

2. RETURN ON NET ASSETS AND EARNINGS PER SHARE

2019

	Return on weighted average net assets (%)	Earnings per share (cent/share)	
		Basic	Diluted
Net profit attributable to owners of the parent	4.09	14.65	14.65
Net profit attributable to owners of the parent excluding non-recurring gains or losses	5.94	21.24	21.24

2018

	Return on weighted average net assets (%)	Earnings per share (cent/share)	
		Basic	Diluted
Net profit attributable to owners of the parent	22.68	77.18	77.18
Net profit attributable to owners of the parent excluding non-recurring gains or losses	19.44	66.13	66.13

Return on net assets and earnings per share are calculated based on the formula stipulated in the “Regulation for the preparation of information disclosure for listed securities companies (2010) No.9 – Calculation and disclosure of return on net assets and earnings per share” (2010 revised) issued by the CSRC.

X. Document Available for Inspection

Documents Available for Inspection	Financial statements signed and sealed by the Company's legal representative, chief accountant and head of Accounting Department.
Documents Available for Inspection	Original copy of the audit report, sealed by Ernst & Young Hua Ming LLP and signed and sealed by Ms. An Xiuyan and Mr. Gong Wei, certified public accountants in the PRC.
Documents Available for Inspection	Original copies of all documents and announcements of the Company disclosed in Shanghai Securities News and on the website of the SSE during the reporting period.
Documents Available for Inspection	Annual report announced on the website of the Hong Kong Stock Exchange.
Documents Available for Inspection	The Articles of Association of the Company.
Documents Available for Inspection	Other Related Information.

Chairman: Ding Yi

Submission date approved by the Board of Directors: 30 March 2020



馬 鞍 山 鋼 鐵 股 份 有 限 公 司
Maanshan Iron & Steel Company Limited