

2019 Interim Report

H Share Code: 323

A Share Code: 600808



MAANSHAN IRON & STEEL COMPANY LIMITED

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Important Notice

- The board of directors (the “Board”), the supervisory committee, the directors, the supervisors and senior management of the Company warrant that there are no false representations or misleading statements contained in, or material omissions from, this report, and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of the information contained in the interim report.**
- All members of the Board of the Company attended the board meeting.**
- The interim report of the Company is unaudited, but reviewed by the Audit Committee of the Company.**
- Mr. Ding Yi, representative of the Company, Mr. Qian Haifan, person overseeing the accounting operations, and Mr. Xing Qunli, head of Accounting Department, make representations in respect of the truthfulness, accuracy and completeness of the financial statements contained in the interim report.**
- The profit distribution plan for the reporting period or the plan for converting the public reserve fund into share capital after consideration by the board of directors: None**
- Risk relating to forward-looking statements**
The report analyzes major risks faced by the Company. Please refer to “(2) Potential risks” of “2. Other Disclosures” of “REPORT OF THE BOARD” in Section IV for details. Forward-looking statements contained in this report do not constitute any substantive commitments to investors by the Company. Investors should be aware of the relevant risks.
- 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.**
- During the reporting period, there is no violation of regulations, decisions or procedures in relation to provisions of external guarantees.**
- Significant risk warning**
The Company has no significant risk that needs to draw special attention of investors.
- 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:

The Company and Magang	means	Maanshan Iron and Steel Company Limited
The Group	means	the Company and its subsidiaries
The Group Company, The Holding	means	Magang (Group) Holding Company Limited
Shareholders' General Meeting	means	the Shareholders' General Meeting of the Company
Board of Directors or the Board	means	the board of directors of the Company
Audit Committee	means	the Audit Committee of the Board of the Company
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
SSE	means	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	means	RMB yuan
CSRC	means	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
Hong Kong Company	means	Ma Steel (Hong Kong) Iron & Steel Co., Ltd., a controlling subsidiary of the Company
Hefei Company	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
Hongfei Company	means	Maanshan Hongfei Power Energy Co., Ltd., a controlling subsidiary of the Company
Masteel Finance	means	Magang Group Finance Co. Ltd., a controlling subsidiary of the Company
Factoring Company	means	Ma Steel (Shanghai) Commercial Factoring Company Ltd., a controlling subsidiary of the Group Company, and an investee subsidiary of the Company
Environmental Protection Company; Xinchuang Environmental Protection	means	Anhui Xinchuang Energy Saving and Environment Protection Science and Technology Company, Limited, a controlling subsidiary of the Group Company, and an investee subsidiary of the Company
Masteel Scrap	means	Maanshan Masteel Scrap Steel Co., Ltd., a subsidiary and joint venture of the Company
MaSteel K. Wah	means	Anhui Masteel K. Wah New Building Materials Co. Ltd., a subsidiary and joint venture of the Company
Magang Chemicals & Energy	means	Anhui Magang Chemical & Energy Technology Co., Ltd., a subsidiary and joint venture of the Company
Jinma Energy	means	Henan Jinma Energy Co., Ltd., a investee of the Company
MG-VALDUNES	means	MG-VALDUNES S.A.S, a wholly owned subsidiary of the Company
Auditors, Ernst & Young	means	Ernst & Young Hua Ming LLP
Reporting period	means	From 1 January 2019 to 30 June 2019

II. Company Introduction and Major Financial Indicators

1. COMPANY PROFILE

Statutory Chinese name of the Company	馬鞍山鋼鐵股份有限公司
Statutory Chinese short name of the Company	馬鋼股份
Statutory English name of the Company	MAANSHAN IRON & STEEL COMPANY LIMITED
Statutory 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
Correspondence address	No.8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC	Room 1204-16, 12/F, The Chinese Bank Building, 61-65 Des Voeux Road, Central
Telephone	86-555-2888158/2875252	(852) 2155 2649
Fax	86-555-2887284	(852) 2155 9568
Email address	mggfdms@magang.com	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 share); http://www.magang.com.hk (H share)
Email address	mggfdms@magang.com

4. INFORMATION DISCLOSURE AND CHANGES IN LOCATION FOR INSPECTION

Name of newspaper designated for information disclosure	Shanghai Securities News
Internet website designated by CSRC for interim report publication	www.sse.com.cn
Location for inspection of interim 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

6. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS

1. MAJOR ACCOUNTING DATA

Major accounting data	Reporting period (January to June)	Corresponding period of the previous year	Unit: RMB Increase/ decrease at the reporting period as compared to the corresponding period of the previous year (%)
Revenue	37,026,693,821	40,063,041,443	-7.58
Net profit attributable to owners of the parent	1,144,660,011	3,428,518,933	-66.61
Net profit excluding non-recurring gains or losses attributable to owners of the parent	840,593,124	3,056,663,763	-72.50
Net cash flows from operating activities	2,973,012,782	4,232,710,351	-29.76
	As at the end of the reporting period	As at the end of the previous year	Increase/ decrease at the end of the reporting period as compared to the end of the previous year (%)
Net assets attributable to owners of the parent	26,945,085,961	28,173,623,272	-4.36
Total assets	81,963,554,234	76,871,999,293	6.62
Total share capital	7,700,681,186	7,700,681,186	-

II. Company Introduction and Major Financial Indicators (Continued)

2. MAJOR FINANCIAL INDICATORS

Major Financial Indicators	Reporting period (January to June)	Corresponding period of the previous year	Increase/ decrease at the reporting period as compared to the corresponding period of the previous year (%)
Basic earnings per share (RMB/share)	0.1486	0.4452	-66.62
Diluted earnings per share (RMB/share)	0.1486	0.4452	-66.62
Basic earnings per share excluding non-recurring gains or losses (RMB/share)	0.1092	0.3969	-72.49
Return on net assets (weighted average) (%)	3.98	13.39	Decreased by 9.41 percentage points
Return on net assets excluding non-recurring gains or losses (weighted average) (%)	2.92	11.94	Decreased by 9.02 percentage points

7. DIFFERENCES ON ACCOUNTING DATA UNDER ACCOUNTING POLICIES IN DOMESTIC AND ABROAD

☐ Applicable ☒ Not applicable

8. NON-RECURRING GAINS OR LOSSES ITEMS AND AMOUNT

	<i>Unit: RMB</i>
Non-recurring gains or losses items	Amount
Gains/(losses) from disposal of non-current assets	-936,915
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)	319,249,267
Employee termination compensation	-53,332,750
Gains or losses arising from fair value changes of held-for-trading financial assets, derivative financial assets, held-for-trading financial liabilities and derivative financial liabilities, and investment income on disposal of held-for-trading financial assets, derivative financial assets, held-for-trading financial liabilities, derivative financial liabilities and other debt investments other than the hedging business that is related to the normal business of the Company	125,468,214
Net non-recurring income or expenses other than the above items	796,065
Impact of non-controlling interests	-29,176,128
Impact of income tax	-58,000,866
Total	<u><u>304,066,887</u></u>

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

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

Plates:

Major products include hot and cold-rolled thin plates, galvanized plates and coil-coating plates. Hot-rolled thin plates are mostly used in the construction, automobile, bridgebuilding, machinery businesses and petroleum transportation, while cold-rolled thin plates are used in highgrade light industries, home electrical appliances, and medium and highgrade production of automobile parts. Galvanized plates are positioned to be used as automobile plates, home electrical appliances plates, highgrade 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. Highspeed wire rod products are mostly used in the production of fasteners, strand steel wires and spring steel wires, and are occasionally used in construction materials. 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.

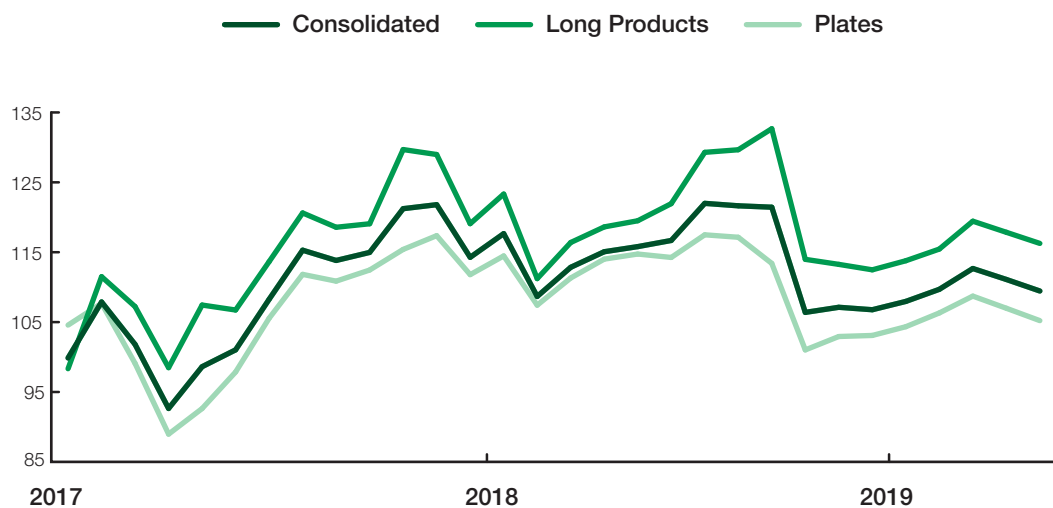
The Company adopts different business models for different products. Plates mainly adopt direct sales, supplemented by dealer sales; long products are mainly sold by dealers, supplemented by direct sales; wheels and axles mainly adopt direct sales.

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

(2) INDUSTRY PERFORMANCE

In the first half of 2019, the risk challenges at home and abroad were increasing significantly. After China modified its macro economic policies in a timely and appropriate manner, the national economy continued to run with an overall stable and progressive growth trend, thus providing support for domestic demand for steel products. However, the iron and steel industry was yet hit by a number of factors such as increase in steel output, fall in steel prices and rapid rise in the prices of raw materials, which squeezed profit margins substantially. From January to June, nationwide crude steel output was approximately 492 million tonnes, up 9.9% year-on-year, while steel product output was approximately 587 million tonnes, up 11.4%. Price index for domestic steel products fluctuated slightly, with the average price index hitting 109.61 points, down 4.4% year-on-year, while long products outperformed plates. The average value of price index for iron ore was 334.32 points, up 32.81% year-on-year.

**Table 1: Consolidated price index for domestic steel products
from the second half of 2017 to the first half of 2019**



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

According to the statistics of CISA, member companies posted a sales profit rate of 5.1% in the first half of the year, down 2 percentage points year-on-year, which was lower than the average profit rate of industrial enterprises above designated size across the country.

2. DESCRIPTION OF MATERIAL CHANGES IN THE COMPANY'S MAJOR ASSETS DURING THE REPORTING PERIOD

During the reporting period, there were no material changes in the Company's equity assets, fixed assets, intangible assets, construction in progress and other major assets. Among these assets, overseas assets amounted to RMB5.15 billion, accounting for 6.29% of total assets.

3. ANALYSIS OF CORE COMPETITIVENESS DURING THE REPORTING PERIOD

The Company always implements the concept of "environmental-friendly operation and green development" by vigorously pushing ahead with the establishment of "environmental-friendly and resource-saving enterprises", so as to strive to build a green and modern urban factory which allows people and nature to live in harmony.

1. ADVANTAGES IN TERMS OF GEOGRAPHICAL LOCATION

The Company is located in the Yangtze River Delta region. As China is carrying out the "Yangtze River Economic Belt Build-up", the integrated development of the Yangtze River Delta region has been upgraded as a national strategy, which is conducive to the Company's enhancement of division of labor and collaboration with the benchmark enterprises in the region. The region has a developed economy, where automobiles, home appliances and other industries are building up, offering a market with a large capacity for the consumption of steel products. Anhui Province has abundant resources such as iron ore, coal and electricity, while Maanshan City is located beside a river, offering convenient transportation.

2. ADVANTAGES IN TERMS OF PRODUCT MIX

Through a restructuring process as well as product upgrades and updates, the Company is able to deliver three unique products with a comprehensive range of specifications, namely "long products, plates and wheels and axles". The features of this product mix can help the Company schedule production in a flexible way, cope with market changes rapidly and create conditions for carrying out product upgrades and industrial chain extension in its next move.

3. ADVANTAGES IN TERMS OF TECHNOLOGY

The Company has established a comprehensive technological innovation system. It has a state-level corporate technology center, an advanced pilot test base and a well-equipped laboratory. It deepens “industry-university-research cooperation” by establishing strategic partnerships with a number of colleges to look into the possibility of jointly establishing an innovation platform for “base construction + original technology”. As at 30 June 2019, the Company had 1,311 valid domestic and foreign patents (including 3 foreign patents) and 4,236 technological secrets (non-patented technology).

4. ADVANTAGES IN TERMS OF CULTURE AND TALENTED PEOPLE

The Company vigorously develops and expands the innovation culture of “being always to be the pioneer; making changes through breakthroughs”; the lean culture of “discharging responsibilities meticulously and building a brand by working diligently and doing our own work really well”; the competition culture of “struggler-oriented, performance-based heroes”; and the “homestead culture of having the morning sun in our heart, heartfelt gratitude, being clean and upright, justice and fairness”, all of which have helped to build up a unique corporate culture system In the long-term development process. The Company always places emphasis on the build-up of a team of key technicians by stepping up the introduction and training of high-end personnel, and cultivating industry leaders and professional leaders. At the end of the reporting period, the Company had a total of 59 senior technical supervisors.

IV. Report of the Board

1. DISCUSSION AND ANALYSIS ON OPERATION

1. PRODUCTION AND OPERATION OF THE COMPANY

During the reporting period, faced with the severe situation of falling steel prices and rapid rise in raw material prices, the Company enhanced “effectiveness and efficiency”, focused on changes and breakthroughs, concentrated on value creation, comprehensively proceeded with lean operation, optimized dynamic balance and tried to alleviate the adverse effects caused by rising costs and the shortage of molten iron resources, so that the overall production remained stable, but the operating performance declined as compared with the same period of last year.

During the reporting period, the Group produced 8.74 million tonnes of pig iron, 9.48 million tonnes of crude steel and 8.91 million tonnes of steel, down by 4.69%, 5.11% and 6.41% respectively as compared with the same period of last year, primarily due to a decrease in the production capacity of pig iron and crude steel in the reporting period as a result 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 2,500-cubic-meter blast furnace from January to February this year. The Group’s revenue amounted to approximately RMB37.027 billion, representing a decrease of 7.58%, primarily due to the decrease in steel sales volume and prices of the Company during the reporting period. Net profit attributable to owners of the parent was approximately RMB1.145 billion, representing a decrease of 66.61%, primarily due to the decrease in revenue and the increase in the costs of some raw materials of the Company during the reporting period.

During the reporting period, the Company’s principal activities included:

- Comprehensively built lean plants so that the system’s coordinated production was stable. With a focus on the overall requirements for “zero as target, creation and cultivating people, sustainable improvement, building and sharing together”, the Company continued to “pilot units take the lead, share their experience with other units and achieve mutual promotion” for gradually improving the promotion system. It formulated a work plan for building lean plants, refined the measures for implementing this plan, integrated the general ironmaking plant and established a sound, new iron-making, steel making and rolling production model after capacity reduction. Major technical and economic indicators improved in the first half year. For example, the comprehensive energy consumption per tonne of steel decreased by 3.6 kgce/t as compared with last year, the overall efficiency of equipment increased by 2.54 percentage points compared with the same period of last year, and the proportion of unscheduled materials decreased by 1.65 percentage points compared with the same period of last year.

- Steadily increased the assured capacity of supply chain. The Company continuously enhanced its market research and transformation capabilities, adjusted its procurement strategy in a timely manner and proactively dealt with various adverse factors such as Vale's dam break in Brazil and hurricanes in Australia, optimized the proportion of procurement of ore traded under long-term contracts and spot ore, and ensured the safety of supply chain for raw materials and fuel.
- Continuously improved the marketing system and sped up the market response. The Company continued to optimize customer channels so that the direct supply ratio increased by 5 percentage points year-on-year to 63.4%. APQP and EVI service models were further improved to continuously enhance customer satisfaction. In the first half of the year, the Group sold a total of 8.87 million tonnes of steel products, including 4.36 million tonnes of long steel products, 4.4 million tonnes of plates and 0.11 million tons of wheels and axles.
- Continuously optimized product mix. The Company carried out its operation based on the principle of maximizing efficiency, committed more resources to the production lines and products with strong profitability, and aggressively carried out product certification. In the first half of the year, the proportion of specialty steel was 56.5%, up 2.5 percentage points compared with the same period of last year; sales volume of auto sheets was approximately 1.39 million tonnes, down 2.1% compared with the same period of last year, which was 13.1 percentage points lower than the decline in nationwide automobile production during the same period. 22 steel grades were certified by various main engine plants such as SAIC Volkswagen, SAIC-GM, Dongfeng Peugeot-Citroën, Dongfeng Trucks and CRCC.
- Aimed at high-end technological innovation. The Company intensively carried out the "base+" technology innovation model, collaborated with Tsinghua University on establishing a joint research center for iron-based new materials, and collaborated with the University of Science and Technology Beijing, and Shanghai Baosight Software Co., Ltd. on implementing 43 smart manufacturing projects. The establishment of the National and Local Joint Engineering Research Center for Advanced Manufacturing Technology for Key Components of Rail Transit was approved by the National Development and Reform Commission.

IV. Report of the Board (Continued)

2. THE ENVIRONMENT FOR PRODUCTION AND OPERATION AND COPING STRATEGIES

The international situation will remain complex and volatile in the second half of the year. Both the International Monetary Fund and the World Bank have lowered their global economic growth projections for 2019. With increased downside pressure on the Chinese domestic economy, China will continue to stick to the general tone of seeking progress while maintaining stability, and apply a proactive fiscal policy and a prudent monetary policy.

The iron and steel industry is encountering various issues such as the arduous task of consolidating the achievements of capacity reduction, high prices of raw materials and environmental protection. Guided by the “differentiated management and control” policy of rewarding the good and punishing the bad, the iron and steel industry will improve its weakness in various areas such as energy conservation, environmental protection and intelligent manufacturing so as to boost green development and promote high quality development.

Guided by various national strategies, the Company will continue to create “effectiveness and efficiency”, focus on breakthroughs and changes, concentrate on value creation, conform to the general trend, strengthen coordination and constantly carry out high quality development. The Company will accomplish the following tasks primarily:

Firstly, by learning from advanced strategic thinking, development concepts and management experience, the Company will adapt to changes in the situation, plan ahead, strengthen the coordination of related factors and enhance development potential;

Secondly, the Company will focus on improving the safety culture of each position, strengthen the safety management of relevant parties, accelerate the implementation of the “blue sky, clear water and clean soil” projects, and continue to build itself into an enterprise which is intrinsically safe and environmental friendly;

Thirdly, the Company will accelerate the construction of various key projects such as Heavy-duty H-beam Project, Environmental Upgrade and Intelligent Renovation Project for Magang’s raw materials store yard, as well as wires and bars deep processing projects for the parts used in high-end automobiles and rail transit, and carry out its quality and intelligent strategy;

Fourthly, the Company will strengthen the operation of the markets on both ends, analyze markets accurately, optimize procurement strategies, expand sales channels and step up the management of customer relationship;

Fifthly, the Company will raise system's economic operation level, ensure the long term stable and smooth operation of the pre iron making process, have the post steel making process guided by marginal benefits, and coordinate efficient production and structural adjustment;

Sixthly, the Company will build lean plants intensively, optimize top-level design, strengthen process control, carry out all-staff improvement and focus on an approach guided by typical examples.

3. FINANCIAL POSITION AND EXCHANGE RATE RISKS

As of 30 June 2019, the total loans of the Group amounted to RMB15,368 million, including short-term loans of RMB10,987 million and long-term loans of RMB4,381 million. Among loans of the Group, there were loans amounting to US\$404 million (of which US\$353 million was import deposit) and Euro 5 million, and all other loans were denominated in Renminbi. Among the Renminbi-denominated loans of the Group, loans amounting to RMB7,112 million carried fixed interest rates and loans amounting to RMB5,438 million carried floating interest rates. Among the foreign currency loans, loans amounting to US\$393 million carried fixed interest rates and US\$11 million carried floating interest rates. Euro denominated loans all carried fixed interest rates.

The short-term commercial paper totaling RMB1 billion issued in June 2018 due with payment completed in June 2019. The Group's magnitude of loans and borrowings varies along with the scale of production and construction projects and there were no overdue loans in the current period. At the end of the reporting period, the Group's asset-liability ratio was 62.78%, representing an increase of 4.40 percentage points as compared with 58.38% at the end of 2018.

At present, the Group finance its capital projects primarily via its own funds. As at the end of the reporting period, banking facilities available to the Group amounted to approximately RMB48,600 million, of which RMB24,545 million was unutilized.

As of 30 June 2019, the Group's cash and bank balances amounted to RMB9,046 million and notes receivable amounted to RMB9,996 million, the majority of which derived from sales proceeds.

IV. Report of the Board (Continued)

In response to US dollar borrowings, the Group hedges the adverse effects of exchange rate changes by reasonably controlling the size of US dollar assets and US dollar interest-bearing liabilities; and properly solidifies the total cost of US dollar financing by timely conducting forward foreign exchange transactions. In addition, the Group's import of raw materials was mainly settled in US dollar, while purchase 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 Company's purchase of equipment in Europe and Japan was not significant and, as a result, the impact of foreign exchange rate fluctuations on procurement payment was relatively immaterial.

4. INTERNAL CONTROL AND RISK MANAGEMENT

The Company has an internal auditing system. Our regulatory auditing department audits and supervises the financial revenue, expenditure and economic activities of the Company. The Company has established an internal control system for every aspect of production, operation and management, including internal environment, risk assessment, social responsibilities, information and communication, internal supervision, human resources, funds management, procurement, asset management, sales, research and development, projects, guarantees, outsourcing, financial reports, comprehensive budget, contract management and information systems. We pay extra attention to high-risk areas, e.g. procurement risks, operational risks, financial risks and risks related to the control over subsidiaries. This system acts as a guideline for the Company's operation, helping the Company effectively recognize and control its major risks.

The Audit Committee reviewed the 2018 internal audit work report of the Company on 23 January 2019, and agreed the internal audit work arrangements for 2019 and submitted it to the Board for consideration.

The Board reviewed and approved the "2018 Internal Control Assessment Report" on 21 March 2019. The report confirms that the Company implemented an effective internal control over all important aspects pursuant to the enterprises internal control norms system and other relevant requirements. The Company appointed Ernst & Young Hua Ming LLP as our auditor to audit the effectiveness of our internal control related to financial report as at 31 December 2018 who has issued a standard unqualified internal control audit report. During the reporting period, the Company enhanced control measures to improve the internal control policy and continued to improve the internal control system to ensure that its internal control always remains effective.

The hearing of "2018 Risk Supervision and Evaluation Report" by the Board of Directors was made on 21 March 2019, confirming that the Company took appropriate control measures for strategic risks, financial risks, market risks, operational risks, legal risks and environmental risks, etc. in 2018 and the risks were under control.

(1) ANALYSIS OF PRINCIPAL OPERATION**1. Analysis of the change in accounts of the financial statements***Unit: RMB*

Accounts	Amount of the current period	Amount of the same period of last year	Change (%)
Revenue	37,026,693,821	40,063,041,443	-7.58
Cost of sales	33,672,424,605	34,002,350,727	-0.97
Selling expenses	431,513,432	465,095,326	-7.22
General and administrative expenses	711,335,104	698,585,993	1.82
Financial expenses	390,006,931	574,785,327	-32.15
Research and development expenditure	354,535,705	381,791,868	-7.14
(Loss)/gain on changes in fair value	26,280,702	-8,960,465	-
Credit impairment losses	43,977,242	22,658,394	94.09
Assets impairment losses	241,775,610	57,950,358	317.21
(Loss)/gain from disposal of assets	-936,915	52,603,426	-101.78
Operating profit	1,384,597,342	4,108,577,831	-66.30
Non-operating income	274,306,453	96,622,262	183.90
Non-operating expenses	1,610,123	2,915,034	-44.76
Profit before tax	1,657,293,672	4,202,285,059	-60.56
Income tax expense	239,613,971	346,039,776	-30.76
Net profit	1,417,679,701	3,856,245,283	-63.24
Net profit attributable to owners of the parent	1,144,660,011	3,428,518,933	-66.61
Net profit attributable to non-controlling interests	273,019,690	427,726,350	-36.17
Net cash flows from operating activities	2,973,012,782	4,232,710,351	-29.76
Net cash flows used in investing activities	-486,598,069	-2,018,412,784	-
Net cash flows used in financing activities	-2,578,769,516	-255,407,786	-

IV. Report of the Board (Continued)

(1) *Explanation of the change in items of the income statement*

Revenue decreased by 7.58% compared with the previous year, mainly due to decrease in sales volume and sales price of steel during the current period.

Cost of sales decreased by 0.97% compared with the previous year, mainly due to increase in purchase price of raw materials and decrease in sales volume of steel during the current period.

Financial expenses decreased by 32.15% compared with the previous year, mainly due to increase in the Company's interest income and decrease in exchange loss during the current period.

Gain on the changes in fair value is RMB26,280,702, while it was a loss of RMB8,960,465 last year, and the main reason is the change in fair value of forward foreign exchange contracts held by the Company during the current period was income.

Credit impairment losses increased by 94.09% compared with the previous year, mainly due to increase in bad debt provision according to "expected credit loss ("ECL") model" during the current period.

Assets impairment losses increased by 317.21% compared with the previous year, mainly due to increase in the Company's provision for inventory depreciation and provision for impairment of fixed assets made by MG-VALDUNES S.A.S, a subsidiary of the Company during the current period.

(Loss)/gain from disposal of assets decreased by 101.78% compared with the previous year, mainly due to the Company's gain from disposal of certain fixed assets and land and recognition of gain from disposal of scrap assets by MaSteel Hefei in last year, but no disposal of significant assets during the current period.

Non-operating income increased by 183.90% compared with the previous year, mainly due to increase in government grants received by the Company and its subsidiary MaSteel Hefei as a result of the reduction in production capacity during the current period.

Non-operating expenses decreased by 44.76% compared with the previous year, mainly due to decrease in fines and other expenses of the Company and its subsidiaries during the current period.

Income tax expense decreased by 30.76% compared with the previous year, mainly due to the profitability of some subsidiaries decreased during the current period.

Operating profit, profit before tax, net profit, and net profit attributable to owners of the parent decreased by 66.30%, 60.56%, 63.24% and 66.61%, respectively, compared with the previous year. These were all mainly due to decrease in sales volume and prices of steel products, increase in the prices of some raw materials and fuels, resulting in a decrease in the gross profit of steel products during the current period.

Net profit attributable to non-controlling interests decreased by 36.17% compared with the previous year, mainly due to decrease in the profitability of some non-wholly-owned subsidiaries during the current period.

(2) *Explanation in the change in items of the statement of cash flows*

Net cash in flows from operating activities decreased by 29.76% compared with the previous year, mainly due to decrease in cash flow resulted from a decrease in sales volume and prices of steel products, and increase in the prices of raw materials and fuels, which resulted in an increase in capital outflows during the current period.

Net cash flows used in investing activities decreased by 75.89% compared with the previous year, mainly due to increase in net cash flow recovered from time deposits and debt investment of MaSteel Finance during the current period.

Net cash flows used in financing activities increased by 909.76% compared with the previous year, mainly due to decrease in new borrowings of the Company, the payment of short-term financing bonds and increase in the dividends of subsidiaries distributed to external parties of the Company during the current period.

2. Others

- (i) *No significant change in the composition or sources of the Company profit.*

IV. Report of the Board (Continued)

(2) DURING THE REPORTING PERIOD, THE COMPANY HAD NO MATERIAL CHANGE IN PROFIT DUE TO NON-PRINCIPAL BUSINESS.

(3) ANALYSIS OF ASSETS AND LIABILITIES

1. Assets and liabilities

Unit: RMB

Item	Closing balance of the current period	Percentage of closing balance of the current period in total assets (%)	Closing balance of last year	Percentage of closing balance of last year in total assets (%)	Year-on-year change (%)
Cash and bank balances	9,045,908,246	11.04	9,762,844,718	12.70	-7.34
Receivables financing	9,996,373,810	12.20	4,970,113,847	6.47	101.13
Other receivables	252,101,927	0.31	147,965,534	0.19	70.38
Inventories	11,515,468,174	14.05	11,053,918,748	14.38	4.18
Financial assets purchased					
under agreements to resell	199,454,377	0.24	2,432,279,109	3.16	-91.80
Loans and advances to customers	5,703,566,034	6.96	2,845,298,103	3.70	100.46
Non-current assets due					
within one year	51,302,205	0.06	101,201,184	0.13	-49.31
Property, plant and equipment	30,696,182,408	37.45	31,545,176,835	41.04	-2.69
Construction in progress	1,829,563,471	2.23	1,662,672,077	2.16	10.04
Right-of-use assets	431,128,508	0.53	-	-	-
Deposits and balances from banks					
and other financial institutions	500,213,889	0.61	900,366,111	1.17	-44.44
Customer deposits	7,746,869,667	9.45	4,915,309,311	6.39	57.61
Short-term loans	10,986,627,110	13.40	10,917,293,181	14.20	0.64
Financial liabilities held for trading	-	-	8,012,670	0.01	-100.00
Notes payable	6,998,754,849	8.54	2,638,271,437	3.43	165.28
Trade payable	7,445,083,046	9.08	7,703,736,542	10.02	-3.36
Payroll and employee					
benefits payable	390,845,491	0.48	563,642,908	0.73	-30.66
Taxes payable	609,957,899	0.74	1,325,517,987	1.72	-53.98
Other payables	5,306,673,942	6.47	3,530,746,914	4.59	50.30
Other current liabilities	-	-	1,026,897,260	1.34	-100.00
Lease liabilities	419,478,118	0.51	-	-	-
Special reserve	47,230,430	0.06	31,037,123	0.04	52.17

- Receivables financing increased by 101.13% compared with the end of last year, mainly due to significant decrease in the endorsement of notes receivable during the current period. (Receivables financing is a new account introduced pursuant to the requirements of the Ministry of Finance's Circular on Amending the Publication of the Format of Financial Statements of General Enterprises for 2019 (Cai Hui [2019] No. 6) to present the receivables measured at fair value through other comprehensive income on the balance sheet date. According to the fund management plan and actual business conditions, the Company presented the notes receivable held under this account, and retrospectively adjusted the comparative data.)
- Other receivables increased by 70.38% compared with the end of the previous year, mainly due to increase in the deposit of seed futures of the Company and the dividends declared but not yet distributed by the associates during the current period.
- Financial assets purchased under agreements to resell decreased by 91.80% compared with the end of the previous year, mainly due to the decrease of reverse purchase of MaSteel Finance this year.
- Loans and advances to customers increased by 100.46% compared with the end of the previous year, mainly due to the increase in notes discounted to MaSteel Finance by the Group's related parties.
- Non-current assets due within one year decreased by 49.31% compared with the end of the previous year, mainly due to the maturity of some of the government bonds held by MaSteel Finance during the current period.
- The right-to-use assets were RMB431,128,508 as at the end of the reporting period, while it was nil at the end of the previous year, mainly due to the recognition of the right-to-use assets based on the present value of the lease payments for the buildings, machinery and equipment rented by the Group following the Company's implementation of the New Lease Standard from 1 January 2019.
- Deposits and balances from banks and other financial institutions decreased by 44.44% compared with the end of the previous year, mainly due to the MaSteel Finance decreased interbank lending funds in this year.

IV. Report of the Board (Continued)

- Customer deposits increased by 57.61% compared with the end of the previous year, mainly due to the increase in cash absorbed by MaSteel Finance in this year from the Group's related parties.
- Financial liabilities held for trading is nil, while it was RMB8,012,670 at the end of last year, mainly due to increase in the fair value of forward foreign exchange contracts held by the Company during the current period, which was accounted in financial assets held for trading.
- Bills payable increased by 165.28% compared with the end of the previous year, mainly due to increase in self-issuance bills to settle purchase payments during the current period.
- Payroll and employees benefits payables decreased by 30.66% compared with the end of the previous year, mainly due to the fact that the performance bonuses accrued at the end of last year were distributed during the current period, and the bonus provision was reduced at the end of the current period.
- Taxes payable decreased by 53.98% compared with the end of last year, mainly due to the Company's payment of taxes payable but not paid at the end of last year.
- Other payables increased by 50.30% compared with the end of last year, mainly due to the dividends declared and unpaid by the Company.
- Other current liabilities were nil at the end of the reporting period, while it was RMB1,026,897,260 at the end of previous year, mainly due to the payment of the short-term financing notes issued by the Company last year.
- Lease liability was RMB419,478,118 at the end of the reporting period, while it was nil at the end of previous year, mainly due to the recognition of the lease liability based on the present value of the lease payments for the buildings, machinery and equipment rented by the Group following the Company's implementation of the New Lease Standard from 1 January 2019.
- Special reserve increased by 52.17% compared with the end of the previous year, mainly due to increase in unused safety production fees accrued by the Company during the current period.

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

At the end of the reporting period, the restricted assets of the Company totaling approximately RMB5,974 million consisted of mandatory reserves with the central bank of approximately RMB975 million, bill deposits placed in bank of approximately RMB1,060 million, bank promissory notes pledged for borrowings of approximately RMB4 million, and bank promissory notes pledged for obtaining bank acceptance notes of RMB3,936 million.

(4) INVESTMENT ANALYSIS

1. General analysis of external equity investments

Unit: RMB million

Investment amount as at the end of	
the reporting period of the Company	10,187.71
Changes in investment amount	-306.53
Investment amount as at the end of previous year of the Company	10,494.24
Increase/decrease in investment amount (%)	-2.92

Major companies newly established or with changes in investment during the reporting period:

Unit: RMB million

Invested Company	Shareholding Ratio	Principal Business	New investment amount during reporting period
Ma Steel (Shanghai) Commercial Factoring Co., Ltd.	25%	Accounts receivable financing; collection, payment and settlement of accounts receivable; management and collection; management of sales sub-accounts; and credit risk guarantees related to factoring business.	75
Ma-Steel Rail Transportation Co., Ltd.	100%	R&D, manufacturing, maintenance and sales of wheels and axles of railway wagons and coaches and for urban rail transportation; wheels and axles of high-speed EMU and locomotives; as well as R&D, manufacturing and sales of, and related technical consulting services for, bogies.	40
Masteel (Wuhan) Material Technology Co., Ltd.	85%	R&D of automotives, home appliances and construction machinery materials; production and sales of steel products and stamping parts; warehousing and services.	53
MG-VALDUNES S.A.S.	100%	Design, manufacturing, processing, merchandising, maintenance and repair of all products and equipment used in railway transportation, urban transportation and machinery industries. Sales, import and export of steel products of various shapes.	-599

IV. Report of the Board (Continued)

Notes:

- On 12 June 2019, as approved by the 21st meeting of the 9th session of the Board of Directors of the Company, the Company agreed to establish a joint venture company named Maanshan Hongfei Power Energy Co., Ltd. with Anhui Hongfei New Energy Technology Co., Ltd. and PHIMA Intelligence Technology Co., Ltd. (a holding subsidiary of Magang Group). The company has a registered capital of RMB100 million, of which the Company holds 51% of the equity interest. As at 30 June 2019, registration of the company was completed, but no capital contribution was yet actually made to the company.
- On 12 June 2019, as approved by the 21st meeting of the 9th session of the Board of Directors of the Company, the Company increased its capital to Ma Steel Scrap Steel Co., Ltd. by RMB135 million. Its shareholding ratio is still 45%. As at 30 June 2019, no capital contribution was yet actually made.
- MG-VALDUNES S.A.S continued to make loss after being acquired by the Group following its acquisition by the Company in 2014. Although MG-VALDUNES S.A.S received strong support from the Company in terms of capital, management and personnel, the company itself has also formulated and carried out a revitalization plan. However, it is still making loss. The management of the Company believes that the Company's long-term equity investment in the company has the indicators of impairment. During the current period, the management of the Company engaged an independent third-party evaluation agency to evaluate the company's equity, and based on the evaluation results, made a provision of approximately RMB599 million for impairment of the long-term equity investment. The impairment of the long-term equity investment did not have an impact on the consolidated gains and losses of the Group during the reporting period. During the current period, MG-VALDUNES S.A.S' provision for impairment of fixed assets for its long-term assets amounted to RMB106 million. The impact on the consolidated statements of the Group during the reporting period was a decrease of RMB106 million in profits.

(1) *During the reporting period, the Company did not make significant equity investments.*

(2) *Significant non-equity investment*

Unit: RMB million

Project name	Budgeted total investment	New investment during reporting period	Project progress (%)
Product quality projects	6,956.87	572.61	47%
Energy-saving and environment protection projects	5,226.26	229.05	35%
Modification projects	1,621.30	267.23	79%
Other projects	N/A	43.14	N/A
Tota	N/A	<u>1,112.03</u>	N/A

Details of the main projects are as follows:

Unit: RMB million

Project name	Budgeted total investment	Project progress
Environmental upgrade and intelligent transformation project for Magang's raw materials field	1,500	construction of some greenhouses
Heavy duty H Beam rolling line project	1,650	construction of civil and steel structures
System engineering for coke ovens	1,260	preparations for commencement of works
Energy saving and emission reduction CAPP comprehensive utilization power generation project	1,025	completion of preliminary design review
Renovation project for 1720 acid rolling lines	429	preliminary design
New silo construction project for coal coking company	420	completion of silo sliding mode for the first stage
New large square bland continuous-casting machine and supporting renovation project for special steel company	420	construction of equipment foundation, manufacturing of main equipment
Public auxiliary project under the upgrade and renovation project for Magang's long steel series	360	supporting public auxiliary facilities for heavy-duty H-shaped steel production line under construction
Profiled billet continuous casting machine project for heavy-duty H Beam production lines	330	equipment installation
Capacity upgrade and renovation project for No. 1 galvanizing line of cold rolling plant	280	preliminary design
Wires and bars deep processing project for parts used in high-end automobiles and rail transit	268	ordering of main equipment
Flue gas desulfurization and denitrification project for No. 7 and No. 8 coke ovens of coking plant	150	installation and commissioning of coke oven No. 7
Safety and environmental comprehensive treatment project for raw materials corridor from the port to the iron-making plant	110	preparations for commencement of works
Total	8,202	/

The projects were financed by the Company's own fund and bank loans.

IV. Report of the Board (Continued)

(3) Financial assets measured at fair value

Item	Opening balance	Closing balance	Changes during the period	Unit:RMB
				Impact on the profit of the current period
Financial assets held for trading	2,084,414,075	2,013,174,319	-71,239,756	87,190,722
Financing receivables	4,970,113,847	9,996,373,810	5,026,259,963	-
Other equity instruments investments	263,122,364	264,667,164	1,544,800	-
Total	<u>7,317,650,286</u>	<u>12,274,215,293</u>	<u>4,956,565,007</u>	<u>87,190,722</u>

(5) DURING THE REPORTING PERIOD, THERE WERE NO DISPOSAL OF SIGNIFICANT ASSETS OR EQUITY.

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

1. Anhui Changjiang Iron and Steel Co., Ltd.

Anhui Changjiang Iron and Steel Co., Ltd. has a registered capital of RMB1,200 million, in which the Company holds a direct stake of 55%. It is mainly engaged in the ferrous metallurgy, screw threaded steel, round steel, section steel, angle steel, deformed steel, wire, rod, as well as the sales and the import and export of iron ore, iron ore fines and scrap steel. During the reporting period, it recorded a net profit of approximately RMB534 million. At the end of the reporting period, its total assets and net assets amounted to RMB9,685 million and RMB4,919 million, respectively.

During the reporting period, it recorded a revenue of RMB7,207 million, an operating profit of RMB1,004 million; net profit of approximately RMB534 million, down 37% compared to the same period of last year, mainly due to the increase in the cost of raw materials and fuels, and the decline in the gross profit of products during the reporting period.

2. Magang Group Finance Co., Ltd.

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, agency business to members of the group, guarantee provided; bill acceptance and discounting, loans and finance leasing; assisting members of the group in the collection and payment of transaction amount; approved insurance agency business; entrustment loans for members of the group, internal transfer and bill settlement, design of settlement and liquidation plans, accepting deposits for members of the group. During the reporting period, it recorded a net profit of approximately RMB134 million. At the end of the reporting period, its total assets and net assets amounted to RMB18,304 million and RMB3,000 million, respectively.

Indicator name	Standard value	Actual value for the current period
Capital adequacy ratio	≥10.5%	23.70%
Liquidity ratio	≥25%	36.90%
Non-performing asset ratio	≤4%	—
Non-performing loan ratio	≤5%	—
Adequacy ratio of loan loss reserve	≥100%	209.68%
Proportion of borrowed funds	≥100%	51.80%

3. Other Major Subsidiaries

- Ma Steel (Hefei) Iron & Steel Co., Ltd. has a registered capital of RMB2,500 million, in which the Company holds a direct stake of 71%. It is mainly engaged in metallurgy and extended processing of ferrous metals and sale of resulting products, by-products and semi-finished products; production and sale of coke and coke chemical products and energy, extended processing of iron and steel products, production and sale of metallic products. Net profit for the reporting period amounted to RMB36 million. As at the end of the reporting period, it had total assets amounting to RMB4,278 million and net assets of RMB2,244 million.
- MG-VALDUNES S.A.S., a wholly owned subsidiary of the Group Company, with registered capital of Euro110.2 million, is mainly specialized in design, manufacturing, processing, putting into production, repairing and maintaining of all kinds of products and facilities that are applied in railway transportation, urban transportation and mechanical industry; sales, import and export of various shapes of steel products. During the reporting period, the net losses amounted to RMB152 million; at the end of reporting period, the total assets were RMB649 million, and the net assets were RMB283 million.

IV. Report of the Board (Continued)

- The Company's wholly-owned subsidiary Maanshan Iron & Steel (Australia) Proprietary Limited, with a registered capital of AUD21.7379 million. It is mainly engaged in investment and trading. Net profit for the reporting period amounted RMB27 million. As at the end of the reporting period, it had total assets amounting to RMB223 million and net assets of RMB215 million.
- Ma Steel (Hong Kong) Co., Ltd., a wholly owned subsidiary of the Group Company, has a registered capital of HK\$350 million. It is mainly engaged in the production, sale and agency of steel products and trading of pig iron. Net profit for the reporting period amounted to RMB28 million. As at the end of the reporting period, it had total assets amounting to RMB4,223 million and net assets of RMB345 million.

4. Major Investees

- Henan Jinma Energy Co., Ltd. has a registered capital of RMB535.421 million and the Company directly holds 26.89% of its equity interest. Its main business 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 RMB342 million. At the end of the reporting period, the total assets were RMB4,298 million and the net assets were RMB2,520 million.
- Shenglong Chemical Co., Ltd. has a registered capital of RMB568.8 million and the Company directly holds 31.99% of its equity interest. Its main business include coke, ammonium sulfate, coal coke chemical products (excluding other dangerous chemicals) production and sales; mechanical equipment maintenance, processing (excluding special equipment). The net profit for the reporting period was approximately RMB280 million. At the end of the reporting period, the total assets were RMB3,340 million and the net assets were RMB2,326 million.
- Maanshan BOC-Ma Steel Gases Company Limited has a registered capital of RMB468 million and the Company directly holds 50% equity interest. It's main business include produce, sell air or liquid form of air products, and engage in preparation for other industrial gas products. During the reporting period, the net profits amounted to RMB90 million. At the end of reporting period, the total assets were RMB588 million, and the net assets were RMB537 million.

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

2. OTHER DISCLOSURES

(1) ALERT AND EXPLANATION ON A POSSIBLE ACCUMULATIVE NET LOSS OR A SIGNIFICANT CHANGE OF THE COMPANY'S PROFIT FOR THE PERIOD STARTING FROM THE BEGINNING OF THE YEAR TO THE END OF THE NEXT REPORTING PERIOD

In the third quarter of 2018, the net profit attributable to owners of the parent of the Company was RMB5.584 billion. In the first half of 2019, the net profit attributable to owners of the parent of the Company was RMB1.145 billion. At present, although the price rise of iron ore slowed down, the main raw materials prices are still high. The Company's production and operation are under pressure. Accordingly, it is expected that net profit of the Company for the period starting from the beginning of the year to the end of the next reporting period would possibly meet significant decrease compared to the same period last year.

(2) POTENTIAL RISKS

At present, the national economic development is facing new risks and challenges, with the economy subject to increased downside pressure. As one of the major primary industries of the national economy, the iron and steel industry is more periodic. The supply and demand in the industry is substantially affected by the national economic development and the relevant national industrial and environmental policies, with the possibility of continuing to see substantial fluctuations in the prices of steel products. Iron ore, a major raw materials for the industry, is substantially affected by the international mining prices, while major fuels like coal and coke are substantially affected by the relevant national industrial and environmental policies, such that the production costs of are relatively high. These factors will affect the profitability of the Company's products. The Company's response measures are described in the "production and operation environment and countermeasures" in the preceding paragraph.

(3) OTHER DISCLOSURES

- **Work of Audit Committee**

During the reporting period, the Audit Committee of the board of directors held three meetings. Members of the Audit Committee (Ms. Zhu Shaofang, Ms. Zhang Chunxia and Mr. Wang Xianzhu as independent directors) attended all meetings. Main agenda of the meetings were: review of 2018 internal auditing work report, review of 2018 audited financial report, hearing of 2018 internal control work report, review of 2018 internal control evaluation report, review of auditors' 2018 auditing work summary, review of 2018 remuneration and renewal of engagement with auditors and review of unaudited financial report of the first quarter of 2019 etc.

IV. Report of the Board (Continued)

- **Purchase, Sale or Redemption of Listed Securities of the Company**

During the reporting period, the Company did not redeem any of its listed stocks, nor did the Company and its affiliated companies purchase or resale any of the listed stocks.

- **Pre-emptive Rights**

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

- **Code on Corporate Governance Practices**

During the reporting period, the Company has complied with all the code provisions of the Code on Corporate Governance Practices set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. No deviation behavior from the code was found.

- **Model Code for Securities Transactions by Directors of Listed Issuers**

During the reporting period, the Company had complied with the requirements stipulated by the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. No deviation behavior from the code was found.

- **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 a class general meeting according to Article 88 of the Articles of Association. When the Company convenes Annual General Meeting, any shareholder who meets the conditions specified in Article 60 of the Articles of Association is entitled to file a new bill with the Company in writing. Shareholders may send inquiries or 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).

V. Significant Events

1. 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

All of these general meetings 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>).

2. PROFIT DISTRIBUTION PROPOSAL OR THE PLAN FOR CONVERTING CAPITAL RESERVE TO BONUS SHARES

(1) PROFIT DISTRIBUTION PLAN OR PLAN FOR THE CAPITALIZATION OF CAPITAL RESERVE DECLARED

Whether to distribute or capitalize	No
Bonus Shares Distributed Every Ten Shares (share)	—
Dividends Distributed Every Ten Shares (RMB) (tax included)	—
Transferred Shares Every Ten Shares (share)	—

3. PERFORMANCE OF UNDERTAKINGS

(1) UNDERTAKINGS MADE BY RELATED PARTIES INCLUDING ACTUAL CONTROLLER, SHAREHOLDERS, CONNECTED PARTIES, ACQUIRERS AND THE COMPANY DURING THE REPORTING PERIOD OR SUBSISTING TO THE REPORTING PERIOD

On 24 July 2015, the Company received a letter from the controlling shareholder, the Group Company, informing the Company that the Group Company planned to further undertake acquisition of the Company's A shares 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 that the shares acquired would not be sold within six months subsequent to completion of the further acquisition. For details, please refer to the "Announcement on Intended Increase in Shareholding of the Company's A shares by the Controlling Shareholder" issued by the Company on 25 July 2015. Search address: <http://www.sse.com.cn>; <http://www.hkexnews.hk>.

V. Significant Events (Continued)

The production and operation of the Group Company has improved as affected by the industry. However, operating costs of enterprises have increased as a result of the supply-side reform and the increased pressure from production restrictions due to environmental reasons, which may cause financial strain to it. Moreover, the Group Company is in need for more funds as it was vigorously developing the non-steel industry after its positive response to the initiative for optimizing the industrial structure. Up to now, since it has not raised sufficient funds to finance the further acquisition, the acquisition plan has not yet been formally carried out. Provided that the normal working of funds in production and operation is ensured, the Group Company will proactively raise funds to carry out the acquisition plan in a way complying with applicable laws and regulations, and strictly fulfill its information disclosure obligations.

4. APPOINTMENT AND REMOVAL OF AUDITORS

During the reporting period, the board of directors proposed the renewal of Ernst & Young Hua Ming LLP as the Company's auditor. The resolution was approved by the Company's 2018 Annual General Meeting on 12 June 2019. During the reporting period, the Company did not change to employ accounting firms, nor did accounting firms issue non-standard auditing reports to the Company.

5. THERE WERE NO INSOLVENCY OR RESTRUCTURING RELATED MATTERS DURING THE REPORTING PERIOD

6. THERE WERE NO MAJOR LITIGATION OR ARBITRATION CASES DURING THE REPORTING PERIOD

7. NO PUNISHMENT ON THE LISTED COMPANY AND ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, CONTROLLING SHAREHOLDERS, ACTUAL CONTROLLER AND ACQUIRERS WAS MADE BY COMPETENT AUTHORITIES DURING THE REPORTING PERIOD

8. NO EXPLANATION OF THE CREDIBILITY OF THE COMPANY, ITS CONTROLLING SHAREHOLDERS AND ACTUAL CONTROLLER DURING THE REPORTING PERIOD WAS NEEDED

9. SUBSTANTIAL RELATED PARTY TRANSACTIONS

(1) RELATED PARTY TRANSACTIONS RELATED TO NORMAL OPERATIONS

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

The normal business transactions between the Group and the Holding were carried out in the normal 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 2016-2018 "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. During the period between 1 January 2019 and 30 June 2019, the transaction amount under the agreement was as follows:

	<i>Unit: RMB'000</i>	
	Amount	Proportion of transaction of the same category (%)
Purchase of iron ore, limestone and dolomite	2,063,834	23

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 terms and conditions during the term of the contract.

All Directors of the Board who are not associated with the Holding (including Independent Non-executive Directors) considered that those transactions were set and carried out under normal commercial terms and in accordance with the terms of "Sale and Purchase of Ore Agreement". The terms were no less favorable than the terms agreed between the Company with any independent third part and were in the best interest of the shareholders of the Company as a whole. During the reporting period, the transaction amount was under the annual cap of 2019 for that agreement, amounting to RMB5,233 million.

V. Significant Events (Continued)

(2) *The continuing related party transactions under the 2016-2018 “Energy Saving and Environmental Protection Agreement”*

In 2018, the Company and Environmental Protection Company signed the 2016-2018 “Energy Saving and Environmental Protection Agreement”, as approved at the shareholders’ general meeting. During the period between 1 January 2019 and 30 June 2019, the transaction amount under the agreement was as follows:

	<i>Unit: RMB’000</i>	
	Amount	Proportion of transaction of the same category (%)
Energy saving and environmental protection engineering and services	249,287	12
Sales of useful resources for steel production including slag and coal ash (wastes)	43,814	30
Total	<u>293,101</u>	

The price the Group receives annually from the Environmental Protection Company for the provision of energy conservation and environmental protection projects and services, as well as the price for the sale of available resources to the Environmental Protection Company, is determined by both parties through fair negotiation during the term of the agreement, with reference to the comparable market transaction price and in accordance with the general commercial terms.

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 conducted under normal commercial terms and in accordance with the terms of “Energy Saving and Environmental Protection Agreement”. The terms were fair and were in the best interest of the shareholders of the Company as a whole. During the reporting period, their transaction amount did not exceed the 2019 annual cap of RMB985 million specified in the “Energy Saving and Environmental Protection Agreement”.

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

In 2018, the Company signed 2019-2021 “Continuing Connected Transaction Agreement” with the Holding. The resolution was approved by the Company’s Shareholders’ general meeting. During the period between 1 January 2019 and 30 June 2019, the transaction amount under the agreement, was as follows:

	<i>Unit: RMB’000</i>	
	Amount	Proportion of transaction of the same category (%)
Sales of finished goods related		
commodities and provision of services	240,753	1
Purchase of infrastructure spare-parts and related services	1,823,727	71
Total	<u>2,064,480</u>	

Each year, the Group purchases or sells such products and services from and to the Holding and its subsidiaries, which were priced on the basis of the government-guided prices or market prices. Compared with general commercial terms, their terms were at least as favourable to the Company.

All Directors of the Board who are not associated with the Holding (including Independent Non-executive Directors) considered that, those transactions were conducted under normal commercial terms and in accordance with the terms of the agreement. The terms were fair and were in the best interest of the shareholders of the Company as a whole. Their transaction amount was under the annual cap of 2019 for that agreement, amounting to RMB7,177 million during the reporting period.

V. Significant Events (Continued)

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

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

From 1 January 2019 to 30 June 2019, the amount of transactions under the agreement is as follows:

Unit: RMB'000

Business Nature		Amount of loan or deposit	Interest income/expenses	
Deposit	Maximum daily deposit	8,386,990	Interest expenses	23,875
	Monthly average maximum daily deposit	7,403,844		
Loan	Maximum daily deposit	2,693,000	Interest income	57,972
	Monthly average maximum daily deposit	2,600,667		
Other income				
Net income from handling fee and commission				596
Income from discount interest				901

When Masteel Finance provides the deposit service to the Holding and its subsidiaries, 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. It shall not be higher than the interest rate offered by other independent commercial banks in China to the Holding and its subsidiaries in the same period. When Masteel Finance provides loan services to the Holding and its subsidiaries, 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. It shall not be less than the interest rate charged by other independent commercial banks in China to the Holding and its subsidiaries for the same type of loan interest in the same period. When Masteel Finance provides other financial services to the Holding and its subsidiaries, 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). It shall not be less than the fees charged by other independent commercial banks in China for providing the Holding and its subsidiaries with other financial services of the same type in the same period.

All Directors of the Board who are not associated with the Holding (including Independent Non-executive Directors) considered that those transactions were set and conducted under normal commercial terms and in accordance with the terms of "Financial Services Agreement". The terms were fair and were in the best interest of the shareholders of the Company as a whole. During the reporting period, such transactions were carried out according to the terms for the "Financial Services Agreement" and their transaction amount was under the annual cap of 2019 for that agreement, amounted to the maximum daily loan that did not exceed the daily cap of RMB3,170 million, while interests, handling and service fees were less than RMB200 million.

V. Significant Events (Continued)

(5) *Continuing related party transactions under the “Continuing Connected Transactions Agreement” (Scrap Steel Company) for 2019-2021*

In 2018, the Company signed the Continuing Connected Transactions Agreement (Scrap Steel) for 2019-2021 with Scrap Steel Company, as approved at the shareholders’ general meeting. From 1 January 2019 to 30 June 2019, the amount generated from the connected transactions under the agreement was as follows:

	<i>Unit: RMB’000</i>	
	Amount	Proportion of transaction of the same category (%)
Scrap Steel Company purchased products such as scrap steel materials from the Company	3,967	100
The Company purchased scrap steel as well as agency services and products from Scrap Steel Company	<u>2,263,994</u>	67
Total	<u><u>2,267,961</u></u>	

The transactions between the Group and Scrap Steel Company were priced on the basis of the government-guided prices or market prices. Compared with general commercial terms, their terms were at least as favourable to the Company.

All directors (including independent non-executive directors) of the Board of Directors who are not associated with the Holding and Scrap Steel Company believe that such transactions were concluded by the Group with Scrap Steel Company in the ordinary course of business and conducted on normal commercial terms and pursuant to the agreements for relevant transactions. The terms were fair and reasonable, and in the interests of the shareholders of the Company as a whole. During the reporting period, the total amount of such transactions did not exceed the annual cap for 2019, i.e. RMB3,347 million, as set out in the agreements for relevant transactions.

(6) *Continuing related party transactions under the “Continuing Connected Transactions Agreement” (Chemical Energy Company) for 2019-2021*

In 2018, the Company signed the Continuing Connected Transactions Agreement (Chemical Energy) for 2019-2021 with Chemical Energy Company, as approved at the shareholders’ general meeting. From 1 January 2019 to 30 June 2019, the amount generated from the connected transactions under the agreement was as follows:

	<i>Unit: RMB’000</i>	
	Amount	Proportion of transaction of the same category (%)
Chemical Energy Company purchased the Company’s various products such as waste gas, water and electricity	972,265	100
The Company purchased services and products such as coke oven gas and wastewater treatment services from Chemical Energy Company.	<u>805,159</u>	100
Total	<u><u>1,777,424</u></u>	

The transactions between the Group and Chemical Energy Company were priced on the basis of the government-guided prices or market prices. Compared with general commercial terms, their terms were at least as favourable to the Company.

All directors (including independent non-executive directors) of the Board of Directors who are not associated with the Holding and Chemical Energy Company believe that such transactions were concluded by the Group with Chemical Energy Company in the ordinary course of business and conducted on normal commercial terms and pursuant to the agreements for relevant transactions. The terms were fair and reasonable, and in the interests of the shareholders of the Company as a whole. During the reporting period, the total amount of such transactions did not exceed the annual cap for 2019, i.e. RMB3,759 million, as set out in the agreements for relevant transactions.

V. Significant Events (Continued)

(7) *Continuing related party transactions under the “Continuing Connected Transactions Agreement (MaSteel K. Wah)” for 2019-2021*

In 2018, the Company signed the Continuing Connected Transactions Agreement (MaSteel K. Wah) for 2019-2021 with MaSteel K. Wah, as approved at the shareholders’ general meeting. From 1 January 2019 to 30 June 2019, the amount generated from the connected transactions under the agreement was as follows:

	<i>Unit: RMB’000</i>	
	Amount	Proportion of transaction of the same category (%)
MaSteel K. Wah purchased products		
such as water slag from the Company	<u>338,542</u>	100

The transactions between the Group and MaSteel K. Wah were priced on the basis of the government-guided prices or market prices. Compared with general commercial terms, their terms were at least as favourable to the Company.

All directors (including independent non-executive directors) of the Board of Directors who are not associated with the Holding and MaSteel K. Wah believe that such transactions were concluded by the Group with MaSteel K. Wah in the ordinary course of business and conducted on normal commercial terms and pursuant to the agreements for relevant transactions. The terms were fair and reasonable, and in the interests of the shareholders of the Company as a whole. During the reporting period, the total amount of such transactions did not exceed the annual cap for 2019, i.e. RMB738 million, as set out in the agreements for relevant transactions.

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

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 30 June 2019, the amount of transactions under the agreement is as follows:

	<i>Unit: RMB’000</i>	
	Amount	Proportion of transaction of the same category (%)
Energy, technical support and other products or services purchased by the Holding from the Company	1,548	0.2
Products, printing services and other professional services purchased from the Holding by the Company	<u>130,278</u>	5
Total	<u><u>131,826</u></u>	

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 terms and conditions during the term of the contract.

All Directors of the Board who are not associated with the Holding (including Independent Non-executive Directors) considered that those transactions were set and conducted under normal commercial terms and pursuant to the agreements for relevant transactions. The terms were fair and were in the best interest of the shareholders of the Company as a whole. During the reporting period, such transactions amount did not exceed the specified cap regarding the “Integrated Support Services Agreement” of RMB331 million.

V. Significant Events (Continued)

(2) 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 to Factoring Company	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2019-04-26/600808_20190426_1.pdf
Capital Increase to Masteel Scrap Company and joint investment to establish Masteel Hongfei	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2019-06-13/600808_20190613_3.pdf

10. MATERIAL CONTRACTS AND EXECUTION THEREOF

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

2. GUARANTEES

Unit: RMB100 million

Guarantees Offered by the Company (excluding guarantees offered to subsidiaries)	
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	
Guarantees offered to subsidiaries in 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 (%)	11.40
of which:	
Amount of guarantees offered to shareholders, actual controller and their related parties (C)	—
Amount of debt guarantees offered to those with asset-liability ratio exceeding 70%, directly or indirectly (D)	30
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
Explanation	During the reporting period, the Company provided MG-Valdunes with a guarantee of EUR42 million (equivalent to approximately RMB328 million), actual guarantee of EUR5.2 million (equivalent to approximately RMB40 million); and provided the MaSteel (Hong Kong) with a guarantee for banking facilities of RMB3 billion for its trade financing, actual guarantee of RMB1.22 billion. The asset-liability ratio of MaSteel (Hong Kong) exceeded 70%, and such guarantee was approved by the shareholders' general meeting. Additionally, at the end of the reporting period, Changjiang Steel provided to its wholly-owned subsidiary with a guarantee of RMB150 million, actual guarantee of RMB80 million.

V. Significant Events (Continued)

11. POVERTY ALLEVIATION WORK BY THE LISTED COMPANY

1. TARGETED POVERTY RELIEF PLANNING

Firstly, 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.

Secondly, 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.

Thirdly, the Company helped to expand the role of the resident poverty-relief team in the village in providing targeted poverty relief assistance.

- (1) 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.
- (2) 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.

- (3) 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 rid of poverty with the provision of poverty-relief assistance by villages, towns, counties and the Company.

2. OVERVIEW OF TARGETED POVERTY RELIEF DURING THE REPORTING PERIOD

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 in Funan County and Liji Village of Dicheng Town. Wang Sen served as the captain and the first secretary for the resident poverty-relief team in Malou Village, while Cao 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, so that the mental attitude of party members and cadres has changed dramatically. In particular, Comrade Wang Sen organized the party branch of Malou Village and the Company’s poverty-relief functional department 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.

V. Significant Events (Continued)

3. RESULTS OF TARGETED POVERTY RELIEF EFFORTS

Indicator		Currency: RMB'000 Figures and Progress
I.	Summary	
1.	Number of persons getting rid of poverty (person)	9,950
II.	Breakdown	
1.	Poverty relief by industries	
1.1	Number of persons getting rid of poverty (person)	8,150
2.	Transfer to Employment and Poverty alleviation	
2.1	Number of persons participate in Vocational Skills Training (person/time)	830
2.2	Number of persons achieving employment (person)	500
3.	Educational poverty alleviation	
3.1	Number of students receiving subsidies (person)	630
4.	Bottom protection	
4.1	Number of "Three kinds of persons left-behind" getting help (person)	80
4.2	Number of persons with disabilities in poverty getting help (person)	620
III.	Awards (Content and level)	Wang Sen was awarded as "Good Man in Funan" (county level).

4. PROGRESS IN FULFILLING THE SOCIAL RESPONSIBILITY OF TARGETED POVERTY RELIEF AT THIS STAGE

During the reporting period, in Malou Village and Liji Village, the living environment of 18 poverty-stricken households were improved, industrial poverty relief policies were implemented for 36 households and the National Industry Awards were presented by granting subsidies amounting to RMB136,000. 88 participants were assisted with the implementation of various policies such as subsidies for kindergartens, education aids, tuition and miscellaneous fee reduction and waiver as well as the Rain Dew Programme. They helped 150 people in need with widows and orphans, disabilities and minimum living standards with the implementation of social backup policies to cover health and poverty relief. Moreover, during the Spring Festival, two middle-level managers visited and expressed sympathy to partnered poverty-stricken families in Funan County.

5. FOLLOW-UP TARGETED POVERTY RELIEF PLANS

Firstly, in the second half of the year, cadres and related work units will be organized to conduct a survey on and visit poverty-stricken villages, and express sympathy to families.

Secondly, the 2019 “student loan programme” project will be implemented. During the school year in September, a student loan of RMB2,000 will be granted to each of the school children from the poverty-stricken and marginal households.

Thirdly, the resident poverty-relief cadres in the villages will continue to play the role of targeted services to help poverty-stricken households in implementing various national poverty-relief policies.

V. Significant Events (Continued)

12. 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, the Hefei Company 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	Waste gases	Dust, NO _x , SO ₂	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	Discharged after up-to-standard processing	66 sets	21
	Solid wastes	Iron dust, iron oxide scale, metallurgical slag	Recycled totally	37 sets	–
Changjiang Steel	Waste gases	Dust, NO _x , SO ₂	Discharged after up-to-standard processing	43 sets	50 distributed along the production lines
	Waste water	SS, COD, oil, ammonia nitrogen	Discharged after up-to-standard processing	10 sets	1
	Solid wastes	Iron dust, iron oxide scale, metallurgical slag	Treatment by qualified service provider	–	–
Hefei Company	Waste gases	Dust, acid fog, alkali fog, oil fog	Discharged after up-to-standard processing	11 sets	9 distributed along the production lines
	Waste water	acid and alkali, oil	Discharged after up-to-standard processing	4 sets	1
	Solid wastes	emulsified liquid slag, oil sludge, used oil	Treatment by qualified service provider	–	–

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

Name of Company	Pollutant Category	Typical Pollutants	Emission Permit Limit (Ton/Year)	Total Emissions During the Reporting Period (Ton)
Magang	Waste gases	Dust	34,498.33	2,363
		SO ₂	21,069.82	3,388
		NO _x	39,568.21	7,841
	Waste water	COD	1,565.28	291
		ammonia nitrogen	124.56	13
Changjiang Steel	Waste gases	Dust	10,682.51	2,074.8
		SO ₂	4,462.12	1,490
		NO _x	7,420.48	4,928.2
	Waste water	COD	270	0.43
		ammonia nitrogen	27	0.03
Hefei Company	Waste gases	Dust	51.82	3.22
		SO ₂	6.04	0.74
		NO _x	38.06	14.12
	Waste water	COD	106.82	6.45
		ammonia nitrogen	16.10	0.35
		emulsified liquid slag	Unspecified emission	
	Hazardous wastes		permit limits	358.08
		oil sludge	Unspecified emission	
			permit limits	382.54
		used oil	Unspecified emission	
			permit limits	6.62

The above key enterprises implement the steel industry series emission standards.

V. Significant Events (Continued)

2. Construction and operation of pollution prevention and control facilities

In 2019, the Company arranged the implementation of 105 environmental ultra-low emission transformation projects. At the end of the reporting period, 8 projects were completed and 16 projects were under construction. The Company's various pollution prevention and control facilities were fully equipped, technically feasible and operating normally. On-line surveillance and monitoring facilities were installed at the main discharge outlets of wastewater and waste gas, 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 Company were all operating on-line, which were launched along with the operation of the production lines and were all operating normally. The wastewater pollution prevention and control facilities were operating on-line 24 hours and were all operating normally.

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

The Company strictly implements the national law for environmental impact assessment and the system under which the pollution prevention and control facilities in construction projects should be designed, constructed and put into operation simultaneously with the principal projects. The environmental impact assessment of seven construction projects, including the intelligent environmental transformation of container transportation at the main coking plant, has been approved. Sewage discharge permits have all been obtained for the self-provided power plants as well as coking and steel operations.

Environmental impact assessment files and approvals have been obtained for all production facilities of Changjiang Steel. During the reporting period, an approval reply to the environmental impact report form of the renovation project involving the blast furnace cast house and the mine shaft dedusting facilities was obtained, and an approval reply to the environmental impact report on the 140-tonne electric furnace steelmaking project was obtained.

Environmental impact assessment files and approvals have been obtained for all production facilities of Masteel Hefei Company.

4. Prepared Emergency Response Plans for Environmental Incidents

The Company, Changjiang Steel and Masteel Hefei Company have compiled the “Prepared Emergency Response Plans for Environmental Incidents” in accordance with national requirements and have filed these documents with the local environmental authorities.

5. Environmental Self-monitoring Program

The Company, Changjiang Steel and Masteel Hefei Company have compiled the “Environmental Self-monitoring Program” in accordance with national requirements and have filed this document with the local environmental authorities.

The Company adopts two methods of self-monitoring: continuous automatic monitoring and manual monitoring. At present, the Company has 249 sets of online monitoring devices to carry out continuous and automatic monitoring of discharge outlets without interruption. The monitoring data are stored for more than one year, transmitted synchronously to the environmental authorities, and disclosed on a real-time basis. For the factors that cannot be monitored by online monitoring, third-party manufacturers are entrusted to carry out manual monitoring according to the self-monitoring program, and the monitoring data are disclosed the next day after the monitoring is completed. Changjiang Steel and Masteel Hefei Company conduct self-monitoring in strict compliance with the requirements in the pollutant discharge permits.

6. Other Environmental Information that Should be Disclosed

During the reporting period, the Company was rated as “an advanced collective in the emulation campaign for municipal pollution prevention and control as well as energy saving and emission reduction”. Due to accidental discharges in an unorganized manner, Maanshan City Ecological Environment Bureau imposed a fine of RMB750,000 on the Company. The Company has completed rectification.

(2) NO EXPLANATION ON ENVIRONMENTAL PROTECTION SITUATION OF COMPANIES EXCEPT THE KEY POLLUTANT PRODUCERS.

V. Significant Events (Continued)

13. OTHER MAJOR EVENTS

(1) COMPARE WITH THE PREVIOUS ACCOUNTING PERIOD, THE REASONS FOR AND THE IMPACT OF THE CHANGES IN ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ACCOUNTING METHOD

• THE CHANGES IN ACCOUNTING POLICIES LEASES

On 7 December 2018, the Ministry of Finance published the newly revised “Accounting Standard for Business Enterprises No. 21 – Leases” (“New Lease Standard”), pursuant to which on the commencement date of a lease term, a lessee shall recognise the right-of-use assets and lease liabilities in respect of a leases. The Company began to implement the New Lease Standard from 1 January 2019.

Pursuant to the New Lease Standard, the Company will recognize the right-of-use assets and lease liabilities based on the present value of the minimum lease payments for future rent payable for all leased assets (excluding short-term leases and low-value assets leases which adopt simplified approach from 1 January 2019, and separately recognize depreciation and unrecognized financing expenses, with no adjustment made to the information during a comparable period. This change in the accounting policies resulted in an increase of RMB443,424,793 in the Group’s use-of-rights assets and an increase of RMB443,424,793 in lease liabilities at the beginning of the period. The Company’s use-of-rights assets increased by RMB388,795,738 and lease liabilities increased by RMB388,795,738 at the beginning of the period. The New Lease Standard has no impact on the Group’s and the Company’s undistributed profit and owner’s equity at the beginning of the period. The New Lease Standard is not expected to have a material impact on the Group’s net profit attributable to shareholders of the parent company and on the shareholders’ equity attributable to the parent company for the year of 2019.

- **Changes in Format of Financial Statements**

Pursuant to the requirements of the Ministry of Finance's "Notice on Amending the Publication of Format of the Financial Statements of General Enterprises for 2019" (Cai Kuai [2019] No. 6), "notes receivable and accounts receivable" account was split into "notes receivable" account and "accounts receivable" account, and "notes payable and accounts payable" account was split into "notes payable" account and "accounts payable" account in the financial statements of the Company. A "financing receivables" account was added to present the notes receivable and accounts receivable that were measured at fair value through other comprehensive income on the balance sheet date. The above accounts have been retrospectively adjusted to the comparative data for the previous year. These changes in the accounting policy did not have any impact on the total assets, total liabilities, owner's equity and net profit of the Group and the Company.

(2) DURING THE REPORTING PERIOD, THERE WERE NO CASES WHERE CORRECTIONS TO MAJOR ACCOUNTING ERRORS NEEDED TO BE RESTATED RETROSPECTIVELY.

(3) POSSIBLE CHANGE IN THE ACTUAL CONTROLLER OF THE COMPANY

On 31 May 2019, the State-owned Assets Supervision and Administration Commission of the People's Government of Anhui Province ("Anhui SASAC"), which holds 100% of the equity interest of the Holding, the controlling shareholder of the Company, entered into an Agreement between Anhui SASAC and China Baowu Steel Group Co., Ltd. ("China Baowu"), which is wholly owned by the State-owned Assets Supervision and Administration Commission of the State Council ("State Council SASAC") on the free transfer of the equity interest in Magang (Group) Holding Co., Ltd. ("Agreement"). Pursuant to the Agreement, Anhui SASAC will transfer free of charge to China Baowu its 51% equity interest in the Holding (the "Transfer"). Upon completion of the Transfer, China Baowu will indirectly control 45.54% of the Company's shares through the Holding and exercise control over the Company. The actual controller of the Company will be changed from Anhui SASAC to State Council SASAC. At present, China Baowu and related parties are processing matters related to the Transfer.

VI. Movements in Share Capital and Shareholders

(1) SHARE MOVEMENTS

(1) TABLE ON SHARE MOVEMENTS

1. Table on share movements

	Before the change		Increase/(decrease) during the period					Unit: Share 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

In the reporting period, there was no share movements in ordinary shares.

(2) SHAREHOLDER

1. TOTAL SHAREHOLDER

Numbers of Shareholder as end of the reporting period (unit) 218,314

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

Unit: Share

Name of Shareholder (Full Name)	Shareholding of the top ten shareholders						
	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 ("The Holding")	–	3,506,467,456	45.54	–	None	–	State-owned shareholder
Hong Kong Securities Clearing Company (Nominees) Limited	–164,000	1,716,398,800	22.29	–	Unknown	Unknown	Unknown
Hong Kong Securities Clearing Company Limited	Unknown	256,509,996	3.33	–	Unknown	Unknown	Unknown
Central Huijin Investment Ltd.	–	142,155,000	1.85	–	Unknown	Unknown	State-owned shareholder
Agricultural Bank of China LTD-CSI 500 Trading Open-ended Index Securities Investment Fund	4,199,600	35,876,749	0.47	–	Unknown	Unknown	Unknown
Tibet Futongda Investment Co., Ltd	Unknown	29,610,600	0.38	–	Unknown	Unknown	Unknown
Li Xiaozhong	–	16,759,455	0.22	–	Unknown	Unknown	Unknown
China Merchants Securities Co., Ltd	Unknown	15,508,890	0.20	–	Unknown	Unknown	Unknown
Beijing Haoqing Fortune Investment and Management Co., Ltd. – Steady Haoqing Value No. 8 Investment Fund	–14,302,000	14,351,912	0.19	–	Unknown	Unknown	Unknown
Wells Fargo Fund – Agricultural Bank – China Pacific Life Insurance – China Pacific Life Insurance Dividend Products (Dividends) Entrusted Investment	Unknown	13,705,500	0.18	–	Unknown	Unknown	Unknown

VI. Movements in Share Capital and Shareholders (Continued)

Shareholdings of top 10 shareholders not subject to trading moratorium			
Name of Shareholder	Number of circulating shares not subject to trading moratorium	Type and number of shares	
		Type	Number
Magang (Group) Holding Co., Limited ("The Holding")		Ordinary shares denominated	
	3,506,467,456	in RMB	3,506,467,456
Hong Kong Securities Clearing Company (Nominees) Limited	1,716,398,800	Overseas listed foreign shares	1,716,398,800
Hong Kong Securities Clearing Company Limited		Ordinary shares denominated	
	256,509,996	in RMB	256,509,996
Central Huijin Investment Ltd.		Ordinary shares denominated	
	142,155,000	in RMB	142,155,000
Agricultural Bank of China LTD-CSI 500 Trading Open-ended Index Securities Investment Fund		Ordinary shares denominated	
	35,876,749	in RMB	35,876,749
Tibet Futongda Investment Co., Ltd		Ordinary shares denominated	
	29,610,600	in RMB	29,610,600
Li Xiaozhong		Ordinary shares denominated	
	16,759,455	in RMB	16,759,455
China Merchants Securities Co., Ltd		Ordinary shares denominated	
	15,508,890	in RMB	15,508,890
Beijing Haoqing Fortune Investment and Management Co., Ltd. – Steady Haoqing Value No. 8 Investment Fund		Ordinary shares denominated	
	14,351,912	in RMB	14,351,912
Wells Fargo Fund – Agricultural Bank – China Pacific Life Insurance – China Pacific Life Insurance Dividend Products (Dividends) Entrusted Investment		Ordinary shares denominated	
	13,705,500	in RMB	13,705,500
Notes on the above shareholders'	Magang (Group) Holding Co., Ltd. has no affiliated relation with any of the other foregoing shareholders, nor is it a person acting in concerned 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 concerned action.		
affiliated relation or			
concerned action			

In the reporting period, no other shares held by the Holding 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 1,716,398,800 H Shares of the Company on behalf of multiple clients.

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

As at 30 June 2019, none of the directors, supervisors, senior management or their respective associates had any interests or short positions in the share capital or relevant share capital of the Company or any of its associated corporations (definition refers to the Securities and Futures Ordinance).

As at 30 June 2019, the Company was aware of below interests or short positions recorded according to the Securities and Futures Ordinance, according to the Securities and Futures Ordinance.

VI. Movements in Share Capital and Shareholders (Continued)

Name of the Shareholder	Identity held or deemed to be in equity	Number of shares held or deemed to be in equity of the company's issued H shares (shares)	Percentage of the company's issued H shares (%)
Citigroup Inc.	Beneficial holder	52,000 (Long position)	0.003
	The interests of the corporation controlled by the major shareholder	55,053,705 (Long position)	3.18
		52,678,707 (Short position)	3.03
		155,669,515 (Shares available for lending)	8.98
	Approval of Lending Agent		
BlackRock, Inc.	The interests of the corporation controlled by the major shareholder	117,967,333 (Long position)	6.81
		6,162,000 (Short position)	0.36
		24,883,493 (Long position)	1.44
	The interests of the corporation controlled by the major shareholder	67,640,995 (Short position)	3.90
		940,500 (Long position)	0.05
JP Morgan Chase & Co.	Investment Manager	1,120,000 (Short position)	0.06
		2,637,975 (Long position)	0.14
	Beneficial holder	55,627,789 (Shares available for lending)	3.21
	Approval of Lending Agent		

Save as disclosed above, as at 30 June 2019, the Company was no aware of any interests or short positions recorded according to the Securities and Futures Ordinance, according to the Securities and Futures Ordinance.

(3) THE COMPANY'S CONTROLLING SHAREHOLDERS AND ACTUAL CONTROLLER HAVE NO CHANGE DURING THE REPORTING PERIOD

VII. Directors, Supervisors, Senior Management and Employees

1. CHANGES IN SHAREHOLDING

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

During the reporting period, none of the Directors, Supervisors and Senior Management held any shares of the Company.

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

2. DURING THE REPORTING PERIOD, THE DIRECTORS, SUPERVISORS AND SENIOR MANAGERS OF THE COMPANY REMAINED UNCHANGED.

VIII. Financial Statements

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Consolidated Statement of Financial Position

30 June 2019
Renminbi Yuan

ASSETS		30 June	31 December
	Note V	2019	2018
		Unaudited	Audited
CURRENT ASSETS			
Cash and bank balances	1	9,045,908,246	9,762,844,718
Financial assets held for trading	2	2,013,174,319	2,084,414,075
Trade receivables	3	1,237,844,195	1,121,768,976
Financing receivables	4	9,996,373,810	4,970,113,847
Prepayments	5	649,466,090	712,340,548
Other receivables	6	252,101,927	147,965,534
Inventories	7	11,515,468,174	11,053,918,748
Financial assets purchased under agreements to resell	8	199,454,377	2,432,279,109
Loans and advances to customers	9	5,703,566,034	2,845,298,103
Non-current assets due within one year	10	51,302,205	101,201,184
Other current assets	11	2,887,172,154	3,173,122,975
Total current assets		43,551,831,531	38,405,267,817
NON-CURRENT ASSETS			
Long-term equity investments	12	3,007,031,216	2,809,063,381
Other equity instruments investments	13	264,667,164	263,122,364
Investment properties	14	65,617,636	55,804,755
Property, plant and equipment	15	30,696,182,408	31,545,176,835
Construction in progress	16	1,829,563,471	1,662,672,077
Right-of-use assets	17	431,128,508	–
Intangible assets	18	1,860,731,274	1,855,265,330
Deferred tax assets	19	256,801,026	275,626,734
Total non-current assets		38,411,722,703	38,466,731,476
TOTAL ASSETS		81,963,554,234	76,871,999,293

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

Consolidated Statement of Financial Position (Continued)

30 June 2019
Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY		30 June	31 December
	Note V	2019	2018
		Unaudited	Audited
CURRENT LIABILITIES			
Deposits and balances from banks and other financial institutions	21	500,213,889	900,366,111
Customer deposits	22	7,746,869,667	4,915,309,311
Repurchase agreements	23	1,285,032,037	1,133,772,377
Short-term loans	24	10,986,627,110	10,917,293,181
Financial liabilities held for trading	25	—	8,012,670
Notes payable	26	6,998,754,849	2,638,271,437
Trade payables	27	7,445,083,046	7,703,736,542
Advances from customers	28	3,676,458,851	3,572,594,400
Payroll and employee benefits payable	29	390,845,491	563,642,908
Taxes payable	30	609,957,899	1,325,517,987
Other payables	31	5,306,673,942	3,530,746,914
Non-current liabilities due within one year	32	1,636,709,676	1,470,868,462
Provision	33	30,290,993	29,997,521
Other current liabilities	34	—	1,026,897,260
Total current liabilities		46,613,517,450	39,737,027,081
NON-CURRENT LIABILITIES			
Long-term loans	35	2,890,868,796	3,596,387,552
Lease liabilities	36	419,478,118	—
Long-term employee benefits payable	37	143,217,190	157,371,474
Deferred revenue	38	1,368,917,400	1,364,795,555
Deferred tax liabilities	19	22,783,318	24,066,311
Total non-current liabilities		4,845,264,822	5,142,620,892
Total liabilities		51,458,782,272	44,879,647,973

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

LIABILITIES AND SHAREHOLDERS' EQUITY (CONTINUED)		30 June	31 December
	Note V	2019	2018
		Unaudited	Audited
SHAREHOLDERS' EQUITY			
Share capital	39	7,700,681,186	7,700,681,186
Capital reserve	40	8,352,287,192	8,352,287,192
Other comprehensive income	41	(114,881,624)	(112,702,163)
Special reserve	42	47,230,430	31,037,123
Surplus reserve	43	4,571,901,256	4,571,901,256
General reserve	44	224,841,404	224,841,404
Retained earnings	45	6,163,026,117	7,405,577,274
Equity attributable to owners of the parent		26,945,085,961	28,173,623,272
Non-controlling interests		3,559,686,001	3,818,728,048
Total shareholders' equity		30,504,771,962	31,992,351,320
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		81,963,554,234	76,871,999,293

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

The financial statements were signed by the following persons:

Legal Representative:
Ding Yi

Chief Accountant:
Qian Haifan

Head of Accounting:
Xing Qunli

Consolidated Income Statement

For the six months ended 30 June 2019
Renminbi Yuan

		For the six months ended 30 June	
	Note V	2019 Unaudited	2018 Unaudited
Revenue	46	37,026,693,821	40,063,041,443
Less: Cost of sales	46	33,672,424,605	34,002,350,727
Taxes and surcharges	47	281,198,990	399,818,296
Selling expenses	48	431,513,432	465,095,326
General and administrative expenses	49	711,335,104	698,585,993
R&D expenses	50	354,535,705	381,791,868
Financial expenses	51	390,006,931	574,785,327
including: interest expense		415,505,618	476,375,706
interest income		51,850,462	17,490,196
Add: Other income	52	48,434,334	44,152,109
Investment income	53	410,893,019	560,777,607
including: share of profits of associates and joint ventures		311,705,507	298,820,874
Gain/(loss) on the changes in fair value		26,280,702	(8,960,465)
Credit impairment losses	54	(43,977,242)	(22,658,394)
Assets impairment losses	55	(241,775,610)	(57,950,358)
Gain/(loss) from disposal of assets	56	(936,915)	52,603,426
Operating profit		1,384,597,342	4,108,577,831
Add: Non-operating income	57	274,306,453	96,622,262
Less: Non-operating expenses	58	1,610,123	2,915,034
Profit before tax		1,657,293,672	4,202,285,059
Less: Income tax expense	59	239,613,971	346,039,776
Net profit		1,417,679,701	3,856,245,283
Categorized by operation continuity			
Net profit from continuing operations		1,417,679,701	3,856,245,283
Categorized by ownership			
Net profit attributable to owners of the parent		1,144,660,011	3,428,518,933
Net profit attributable to non-controlling interests		273,019,690	427,726,350

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

	Note V	For the six months ended 30 June	
		2019 Unaudited	2018 Unaudited
Other comprehensive income, net of tax		(2,179,461)	(29,059,186)
Other comprehensive income attributable to owners of the parent, net of tax	41	<u>(2,179,461)</u>	<u>(29,059,186)</u>
Other comprehensive income that could not be reclassified to profit or loss:			
Changes in fair value of other equity instruments investments		1,158,600	(15,964,250)
		1,158,600	(15,964,250)
Other comprehensive income to be reclassified to profit or loss:			
Other comprehensive income that can be reclassified to profit or loss in equity method		665,713	–
Exchange differences on translation of foreign operation		<u>(4,003,774)</u>	<u>(13,094,936)</u>
Other comprehensive income attributable to non-controlling interests, net of tax		<u>–</u>	<u>–</u>
Total comprehensive income		<u>1,415,500,240</u>	<u>3,827,186,097</u>
Attributable to:			
Owners of the parent		<u>1,142,480,550</u>	<u>3,399,459,747</u>
Non-controlling interests		<u>273,019,690</u>	<u>427,726,350</u>
EARNINGS PER SHARE:			
Basic earnings per share	60	<u>14.86 cents</u>	<u>44.52 cents</u>
Diluted earnings per share	60	<u>14.86 cents</u>	<u>44.52 cents</u>

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

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019
Renminbi Yuan

For the six months ended 30 June 2019 (Unaudited)

	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)		
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	3,818,728,048	31,992,351,320
Changes in accounting policies	-	-	-	-	-	-	-	-	-
2. Balance at the beginning of the period	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	3,818,728,048	31,992,351,320
3. Increase/(decrease) during the period									
(1) Total comprehensive income	-	-	(2,179,461)	-	-	-	1,144,660,011	273,019,690	1,415,500,240
(2) Capital invested/withdrawn by shareholders									
(i) Capital invested by shareholders	-	-	-	-	-	-	-	9,375,000	9,375,000
(3) Profits appropriation									
(i) Transfer to surplus reserve	-	-	-	-	-	-	-	-	-
(ii) Transfer to general reserve	-	-	-	-	-	-	-	-	-
(iii) Distribution to shareholders	-	-	-	-	-	-	(2,387,211,168)	(539,403,388)	(2,926,614,556)
(4) Special reserve									
(i) Additions	-	-	-	36,827,317	-	-	-	7,121,553	43,948,870
(ii) Utilisation	-	-	-	(24,228,524)	-	-	-	(9,154,902)	(33,383,426)
(iii) Changes in the share of associates and joint ventures' special reserve, net	-	-	-	3,594,514	-	-	-	-	3,594,514
4. Balance at the end of the period	7,700,681,186	8,352,287,192	(114,881,624)	47,230,430	4,571,901,256	224,841,404	6,163,026,117	3,559,686,001	30,504,771,962

For the six months ended 30 June 2018 (Unaudited)

	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)		
1. Balance at the beginning of the period	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	3,341,524,501	27,237,264,313
Changes in accounting policies	-	-	32,360,498	-	-	-	(20,317,968)	(7,887,756)	4,154,774
2. Balance at the beginning of the period	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	3,333,636,745	27,241,419,087
3. Increase/(decrease) during the period									
(1) Total comprehensive income	-	-	(29,059,186)	-	-	-	3,428,518,933	427,726,350	3,827,186,097
(2) Profits appropriation									
(i) Transfer to surplus reserve	-	-	-	-	348,856,984	-	(348,856,984)	-	-
(ii) Distribution to shareholders	-	-	-	-	-	-	(1,270,612,396)	(446,066,572)	(1,716,678,968)
(3) Special reserve									
(i) Additions	-	-	-	40,661,994	-	-	-	6,672,313	47,334,307
(ii) Utilisation	-	-	-	(40,110,027)	-	-	-	(6,286,830)	(46,396,857)
(iii) Changes in the share of associates and joint ventures' special reserve, net	-	-	-	2,081,948	-	-	-	-	2,081,948
4. Balance at the end of the period	7,700,681,186	8,352,287,192	(120,854,748)	34,563,637	4,448,864,325	191,546,668	5,432,175,348	3,315,682,006	29,354,945,614

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

Consolidated Statement of Cash Flows

For the six months ended 30 June 2019
Renminbi Yuan

	Note V	For the six months ended 30 June	
		2019 Unaudited	2018 Unaudited
1. Cash flows from operating activities			
Cash received from sale of goods and rendering of services		38,463,652,824	42,195,059,784
Tax refunds received		116,620	4,191,303
Net decrease in deposits in central bank and other financial Institution		8,703,151	–
Net increase in repurchase agreements		151,259,660	705,045,294
Net decrease in financial assets purchased under agreements to resell		2,233,558,356	319,711,999
Net increase in customer deposits and deposits from banks and other financial institutions		2,431,408,134	–
Cash received for interest charges, fees and commissions		103,886,118	66,727,395
Cash received relating to other operating activities	61(1)	277,674,501	176,614,437
Sub-total of cash inflows		43,670,259,364	43,467,350,212
Cash paid for purchases of goods and services		(32,731,554,800)	(32,480,242,466)
Net increase in deposits in central bank and other financial institution		–	(13,534,484)
Net increase in loans and advances to customers		(2,900,254,785)	(528,003,855)
Net decrease in customer deposits and deposits from banks and other financial institutions		–	(846,579,499)
Cash paid to or on behalf of employees		(2,427,413,311)	(2,100,937,079)
Taxes and surcharges paid		(2,234,715,773)	(2,683,880,257)
Cash paid for interest charges, fees and commissions		(53,936,919)	(31,693,385)
Cash paid relating to other operating activities	61(2)	(349,370,994)	(549,768,836)
Sub-total of cash outflows		(40,697,246,582)	(39,234,639,861)
Net cash flows from operating activities	62(1)	2,973,012,782	4,232,710,351

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

Consolidated Statement of Cash Flows (Continued)

For the six months ended 30 June 2019
Renminbi Yuan

	Note V	For the six months ended 30 June	
		2019 Unaudited	2018 Unaudited
2. Cash flows from investing activities			
Cash received from disposal of investments		24,461,251,512	28,016,492,050
Cash received from investment income		150,773,649	250,081,329
Proceeds from disposal of items of property, plant and equipment, intangible assets, and other non-current assets		23,140,945	59,599,019
Cash received relating to other investing activities	61(3)	<u>—</u>	<u>5,020,164</u>
Sub-total of cash inflows		<u>24,635,166,106</u>	<u>28,331,192,562</u>
Purchases of property, plant and equipment, intangible assets and other non-current assets		(1,642,283,538)	(1,153,850,786)
Cash paid for investments		(23,438,965,013)	(29,195,716,872)
Net cash from disposal of subsidiaries and other operating units	62(2)	<u>—</u>	<u>(37,688)</u>
Cash paid relating to other investing activities	61(4)	<u>(40,515,624)</u>	<u>—</u>
Sub-total of cash outflows		<u>(25,121,764,175)</u>	<u>(30,349,605,346)</u>
Net cash flows used in investing activities		<u>(486,598,069)</u>	<u>(2,018,412,784)</u>

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

	Note V	For the six months ended 30 June	
		2019 Unaudited	2018 Unaudited
3. Cash flows from financing activities			
Cash received from borrowings		5,043,044,347	7,554,707,131
Cash received from bond issuance		–	1,000,000,000
Cash received from investors		9,375,000	–
Including: capital injection from a subsidiary's non-controlling interests		9,375,000	–
Cash received relating to other financing activities	61(5)	3,471,463	–
Sub-total of cash inflows		5,055,890,810	8,554,707,131
Repayment of borrowings		(6,457,398,006)	(8,527,815,996)
Cash paid for distribution of dividends or profits and for interest expenses		(974,255,130)	(282,298,921)
Including: dividends or profits paid to non-controlling interests by subsidiaries		(533,932,888)	(2,481,210)
Cash paid relating to other financing activities	61(6)	(203,007,190)	–
Sub-total of cash outflows		(7,634,660,326)	(8,810,114,917)
Net cash flows used in financing activities		(2,578,769,516)	(255,407,786)
4. Effect of foreign exchange rate changes on cash and cash equivalents		4,753,512	19,255,014
5. Net (decrease)/increase in cash and cash equivalents		(87,601,291)	1,978,144,795
Add: cash and cash equivalents at the beginning of the period		6,934,175,776	2,940,502,015
6. Cash and cash equivalents at the end of the period	62(3)	6,846,574,485	4,918,646,810

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

Statement of Financial Position

30 June 2019
Renminbi Yuan

ASSETS		30 June	31 December
	Note XIV	2019	2018
		Unaudited	Audited
CURRENT ASSETS			
Cash and bank balances		5,715,490,493	5,993,538,669
Financial assets held for trading		14,466,511	–
Trade receivables	1	2,235,767,272	2,460,866,900
Financing receivables		8,608,605,466	4,692,435,408
Prepayments		709,660,725	997,856,384
Other receivables	2	206,396,136	63,844,132
Inventories		7,980,285,732	7,108,599,357
Other current assets		304,232,960	272,152,842
Total current assets		25,774,905,295	21,589,293,692
NON-CURRENT ASSETS			
Long-term equity investments	3	9,836,057,414	10,146,271,956
Other equity instruments investments		264,667,164	263,122,364
Investment properties		65,417,522	55,593,723
Property, plant and equipment		23,355,131,718	23,828,190,594
Construction in progress		1,550,933,890	1,382,508,379
Right-of-use assets		378,826,617	–
Intangible assets		971,735,096	987,387,010
Deferred tax assets		167,084,024	192,801,687
Total non-current assets		36,589,853,445	36,855,875,713
TOTAL ASSETS		62,364,758,740	58,445,169,405

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

LIABILITIES AND SHAREHOLDERS' EQUITY	30 June 2019 Unaudited	31 December 2018 Audited
CURRENT LIABILITIES		
Short-term loans	7,580,574,050	6,570,000,000
Financial liabilities held for trading	—	8,012,670
Notes payable	5,110,343,475	1,022,148,850
Trade payables	9,831,446,901	10,288,909,379
Advances from customers	2,395,144,578	2,382,469,502
Payroll and employee benefits payable	289,758,783	428,093,317
Taxes payable	300,526,839	479,009,037
Other payables	4,944,788,204	2,967,729,141
Non-current liabilities due within one year	2,363,053,017	1,345,513,152
Other current liabilities	—	1,026,897,260
Total current liabilities	32,815,635,847	26,518,782,308
NON-CURRENT LIABILITIES		
Long-term loans	4,890,868,796	6,296,387,552
Lease liabilities	370,339,861	—
Long-term employee benefits payable	116,858,609	130,803,630
Deferred revenue	707,096,637	721,934,242
Total non-current liabilities	6,085,163,903	7,149,125,424
Total liabilities	38,900,799,750	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	14,730,780	12,906,467
Special reserve	27,207,591	9,496,082
Surplus reserve	3,735,114,669	3,735,114,669
Retained earnings	3,628,207,287	4,961,045,792
Total shareholders' equity	23,463,958,990	24,777,261,673
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	62,364,758,740	58,445,169,405

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

Income Statement

For the six months ended 30 June 2019
Renminbi Yuan

		For the six months ended 30 June	
	Note XIV	2019 Unaudited	2018 Unaudited
Revenue	4	30,129,367,348	33,692,258,610
Less: Cost of sales	4	28,182,436,294	29,566,665,372
Taxes and surcharges		207,179,728	305,999,623
Selling expenses		181,424,163	220,187,402
General and administrative expenses		508,793,639	478,033,907
R&D expenses		305,314,452	375,773,915
Financial expenses		329,234,762	496,798,257
including: interest expense		358,986,995	415,614,854
interest income		54,012,992	31,785,576
Add: Other income		38,452,855	33,003,460
Investment income	5	1,147,520,945	931,980,371
including: share of profits of associates and joint ventures		301,512,152	298,163,206
Gain/(loss) on the changes in fair value		12,493,247	(9,981,140)
Credit impairment losses		16,643,156	(3,062,918)
Assets impairment losses		(726,383,165)	(53,372,164)
(Loss)/gain from disposal of assets		(191,167)	256,779,130
Operating profit		903,520,181	3,404,146,873
Add: Non-operating income		176,255,495	96,124,755
Less: Non-operating expenses		71,550	1,011,864
Profit before tax		1,079,704,126	3,499,259,764
Less: Income tax expense		25,331,463	10,689,929
Net profit		1,054,372,663	3,488,569,835
Categorized by operation continuity			
Net profit from continuing operations		1,054,372,663	3,488,569,835
Other comprehensive income, net of tax		1,824,313	(15,964,250)
Other comprehensive income that could not be reclassified to profit or loss		1,158,600	(15,964,250)
Changes in fair value of other equity instruments investments		1,158,600	(15,964,250)
Other comprehensive income to be reclassified to profit or loss		665,713	—
Other comprehensive income that can be reclassified to profit or loss in equity method		665,713	—
Total comprehensive income		1,056,196,976	3,472,605,585

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

Statement of Changes in Equity

For the six months ended 30 June 2019
Renminbi Yuan

For the six months ended 30 June 2019 (Unaudited)

	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 period	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 period							
(1) Total comprehensive income	-	-	1,824,313	-	-	1,054,372,663	1,056,196,976
(2) Capital contributions/withdrawal	-	-	-	-	-	-	-
(3) Profit appropriation							
(i) Transfer to surplus reserves	-	-	-	-	-	-	-
(ii) Distribution to shareholders	-	-	-	-	-	(2,387,211,168)	(2,387,211,168)
(4) Special reserve							
(i) Additions	-	-	-	23,883,216	-	-	23,883,216
(ii) Utilization	-	-	-	(9,766,221)	-	-	(9,766,221)
(iii) Changes in the share of associates and joint ventures' special reserve, net	-	-	-	3,594,514	-	-	3,594,514
4. Balance at the end of the period	<u>7,700,681,186</u>	<u>8,358,017,477</u>	<u>14,730,780</u>	<u>27,207,591</u>	<u>3,735,114,669</u>	<u>3,628,207,287</u>	<u>23,463,958,990</u>

For the six months ended 30 June 2018 (Unaudited)

	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 period	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 period							
1) Total comprehensive income	-	-	(15,964,250)	-	-	3,488,569,835	3,472,605,585
2) Capital contributions/withdrawal							
3) Profit appropriation							
(i) Transfer to surplus reserves	-	-	-	-	348,856,984	(348,856,984)	-
(ii) Distribution to shareholders	-	-	-	-	-	(1,270,612,396)	(1,270,612,396)
4) Special reserve							
(i) Additions	-	-	-	22,837,390	-	-	22,837,390
(ii) Utilization	-	-	-	(22,837,390)	-	-	(22,837,390)
(iii) Changes in the share of associates and joint ventures' special reserve, net	-	-	-	2,081,948	-	-	2,081,948
4. Balance at the end of the period	<u>7,700,681,186</u>	<u>8,358,017,477</u>	<u>11,526,064</u>	<u>9,719,477</u>	<u>3,598,807,709</u>	<u>4,180,081,970</u>	<u>23,858,833,883</u>

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

Statement of Cash Flows

For the six months ended 30 June 2019
Renminbi Yuan

	For the six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
1. Cash flows from operating activities		
Cash received from sale of goods and rendering of services	30,606,684,570	32,434,580,728
Cash received relating to other operating activities	232,792,064	352,266,354
Sub-total of cash inflows	30,839,476,634	32,786,847,082
Cash paid for purchase of goods and services	(26,754,317,507)	(23,688,914,407)
Cash paid to or on behalf of employees	(2,046,696,308)	(2,020,006,843)
Taxes and surcharges paid	(639,506,340)	(1,683,603,629)
Cash paid relating to other operating activities	(473,669,997)	(58,065,765)
Sub-total of cash outflows	(29,914,190,152)	(27,450,590,644)
Net cash flows from operating activities	925,286,482	5,336,256,438
2. Cash flows from investing activities		
Cash received from disposal of investments	–	40,952,073
Cash received from investment income	967,328,392	254,884,445
Net cash received from disposal of property, plant and equipment, intangible assets and other long-term assets	15,056,580	173,264,767
Cash received relating to other investing activities	10,324,000	–
Sub-total of cash inflows	992,708,972	469,101,285
Purchase of property, plant and equipment, intangible assets and other non-current assets	(1,423,848,503)	(903,750,387)
Cash paid for investments	(84,570,498)	(890,208,188)
Net cash paid for acquisition of a subsidiary and other operating units	(93,125,000)	(336,014,040)
Cash paid relating to other investing activities	(40,515,624)	–
Sub-total of cash outflows	(1,642,059,625)	(2,129,972,615)
Net cash flows used in investing activities	(649,350,653)	(1,660,871,330)

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

	For the six months ended 30 June	
	2019 Unaudited	2018 Unaudited
3. Cash flows from financing activities		
Cash received from bond issuance	–	1,000,000,000
Cash received from borrowings	3,420,729,602	7,054,795,530
Cash received relating to other financing activities	49,404,372	–
Sub-total of cash inflows	3,470,133,974	8,054,795,530
Repayment of borrowings	(3,888,111,023)	(10,116,667,147)
Cash paid for the distribution of dividend or profits and for interest expenses	(352,869,464)	(430,703,666)
Cash paid relating to other financing activities	(15,561,763)	–
Sub-total of cash outflows	(4,256,542,250)	(10,547,370,813)
Net cash flows used in financing activities	(786,408,276)	(2,492,575,283)
4. Effect of foreign exchange rate changes on cash and cash equivalents	4,667,325	21,188,376
5. (Decrease)/increase in cash and cash equivalents	(505,805,122)	1,203,998,201
Add: Cash and cash equivalents at the beginning of the period	5,825,154,899	3,798,992,422
6. Cash and cash equivalents at the end of the period	5,319,349,777	5,002,990,623

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

Notes to the Interim Financial Statements

30 June 2019
Renminbi Yuan

I. GENERAL INFORMATION OF THE GROUP

Maanshan Iron & Steel Company Limited (the “Company”), a joint stock limited company incorporated after the reorganization 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 30 June 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 financial statements were approved by the board of directors on 29 August 2019.

The scope of the consolidated financial statement is determined on the control basis. The change in the scope of consolidation during the current period is described in Note VI.

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 going concern basis.

As of 30 June 2019, the net current liabilities of the Group amounted to RMB3,061,685,919. The directors of the Company have considered the availability of funding sources, including but not limited to an unutilized banking facilities of RMB24.5 billion as at 30 June 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 six months ended 30 June 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 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 30 June 2019, and the results of their operations and cash flows for the six months ended 30 June 2019.

2. ACCOUNTING PERIOD

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

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 combining entity obtains control of another involving entity on the combination date. The acquisition date is the date on which the combining entity effectively obtains control of the entity being combined.

Notes to the Interim Financial Statements (Continued)

30 June 2019
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

4. BUSINESS COMBINATION (CONTINUED)

Business combination involving entities under common control (Continued)

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.

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 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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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 for the six months ended 30 June 2019. A subsidiary is a company or entity that is controlled by the Company.

The financial 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 unrealized gains and losses resulting from intercompany transactions, and dividends within the Group are fully eliminated on consolidation.

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.

Notes to the Interim Financial Statements (Continued)

30 June 2019
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

5. CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 recognized 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 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; 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, due to the net profit and loss, other comprehensive income and profit distribution related to the original subsidiary. Shareholders' equity recognized in addition to changes in other shareholders' equity, which are transferred to current period profit and loss when control is lost.

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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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 recognized 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 recognized in profit or loss or other comprehensive income.

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 recognized 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.

Notes to the Interim Financial Statements (Continued)

30 June 2019
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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. FINANCIAL INSTRUMENTS (CONTINUED)

Recognition and derecognition of financial instruments (Continued)

A financial asset (either a part of financial asset or a part of a group of similar financial assets) will be derecognized, which means writing 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.

A financial liability is derecognized 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 recognized in profit or loss.

All financial assets purchased or sold in regular way are recognized or derecognized 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.

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 cash flow characteristics of the financial assets, as measured at amortized cost, fair value through other comprehensive income and fair value through profit or loss. A financial asset is measured at its fair value at initial recognition, except 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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. FINANCIAL INSTRUMENTS (CONTINUED)

Classification and measurement of financial assets *(Continued)*

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 recognized as initial investment costs.

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 should be accounted in the profit or loss for the period. This type of financial asset mainly includes cash and bank balances, trade receivables, other receivables, debt investments and long-term receivables. The Group presented the debt investments and long-term receivables due within one year from the balance sheet date as non-current assets due within one year, and the debt investments with the original maturity within one year is presented as other current assets.

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 the interest income, impairment losses and exchange differences should be accounted in the profit or loss for the period, other changes in fair value should be accounted in other comprehensive income. This type of financial asset is presented as other debt investments. Other debt investments due within one year from the balance sheet date are presented as non-current assets due within one year, and other debt investments with original maturities within one year are presented as other current assets. Notes receivable and trade receivables measured at fair value through other comprehensive income are presented as financing receivables.

Notes to the Interim Financial Statements (Continued)

30 June 2019
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. FINANCIAL INSTRUMENTS (CONTINUED)

Classification and measurement of financial assets (Continued)

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 recognized in profit or loss (except for dividends which are clearly recovered as part of the investment costs) and the change in fair value shall be recognized in other comprehensive income, no impairment provision is required. When the financial assets are derecognized, the cumulative gain or loss previously recognized in other comprehensive income should be transferred to retained earnings. This type of financial asset is presented as other equity instruments investments.

A financial asset shall be measured at financial asset held-for-trading if one of the following conditions are met: (a) the purpose of obtaining the relevant financial asset is mainly for selling or repurchasing in the near future; (b) it is part of a portfolio of identifiable financial instruments that are centrally managed, and there is objective evidence that the company has recently adopted Short-term profit-making mode; (c) is a derivative, except for derivatives that are designated as effective hedging instruments and derivatives that qualify for financial guarantee contracts.

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 should be accounted in the profit or loss for the period. Such financial assets are presented as financial assets held for trading and are presented as other non-current financial assets which are more than one year from the balance sheet date and are expected to be held for more than one year.

All affected financial assets are reclassified if and only if the Group changes its business model of managing financial assets.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. FINANCIAL INSTRUMENTS (CONTINUED)

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, other financial liabilities and derivatives designated as effective hedging instruments. 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 recognized 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.

A financial liability is classified as financial liability held for trading if any of the conditions is met: the financial liability is obliged principally for the purpose of trading or redemption in near future; it is part of a portfolio of identified financial instruments that are managed collectively and for which there is evidence of a recent actual pattern of short-term profit-taking; or it is a derivative (except for derivatives constitute financial guarantee contract). Such financial liabilities held for trading are subsequently measured at fair value. All fair value changes are recognized in profit or loss except for those related to hedge accounting.

Once a financial liability is designated as measured at fair value through profit or loss at initial recognition, the Group shall not reclassify it as other financial liability, nor shall the Group reclassify other financial liability to designated financial liability measured at fair value through profit or loss.

Other financial liabilities

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

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. FINANCIAL INSTRUMENTS (CONTINUED)

Impairment of financial assets

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

A credit loss is the difference between the present value of the contractual cash flows that an entity is entitled to receive under the contract discounted at the original effective interest rate and the cash flows an entity expect to receive. In another word, it is the present value of the cash flow shortfall. The Group discounts the cash flows of purchased or original credit-impaired financial assets at adjusted effective interest rates.

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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. FINANCIAL INSTRUMENTS (CONTINUED)

Impairment of financial assets (Continued)

When assessing expected credit losses, the Group considers all reasonable and supportable information, including past events, current condition and future economic forecasts.

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.

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 recognized amounts, and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Financial guarantee contract

A financial guarantee contract is a contract in which the contract holder who has suffered a loss in the issuance direction pays a specified amount when the specific debtor fails to pay the debt in accordance with the terms of the 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.

Notes to the Interim Financial Statements (Continued)

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. FINANCIAL INSTRUMENTS (CONTINUED)

Derivative financial instruments

The Group uses derivatives such as forward exchange contracts to hedge the exchange risk. Derivatives are measured at its fair value at the transaction date at initial recognition and measured at fair value subsequently. Derivatives with positive fair value would be recognized as assets while those with negative fair value would be recognized as liabilities.

The gain or loss arising from change in fair value of derivatives are recognized in profit or loss, except for those related to hedge accounting.

Modification of financial assets

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of financial asset, an entity shall recalculate the carrying amount of the financial asset and shall recognize a modification gain or loss in profit or loss. The carrying amount of the financial asset shall be recalculated as the present value of the renegotiated or modified contractual cash flows that are discounted at the financial asset's original effective interest rate (or credit-adjusted effective interest rate). Any costs or expenses incurred adjust the carrying amount of the modified financial asset and are amortized over the remaining life of the modified financial asset.

Transfer of financial assets

If the Group transfers substantially all the risks and rewards of ownership of the financial assets, it shall derecognize the financial assets. Whereas, if it retains substantially all the risks and rewards of ownership of the assets, it should not derecognize the financial assets.

If the entity neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the entity shall determine whether it has retained control of the financial asset. In this case: (i) if the entity has not retained control, it shall derecognize the financial asset and recognize separately as assets or liabilities any rights and obligations created or retained in the transfer; (ii) if the entity has retained control, it shall continue to recognize the financial asset to the extent of its continuing involvement in the financial asset.

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

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 recognized 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 realizable value. If the cost is in excess of the amounts expected to be realized from their sale or use, provision for inventories is recognized in profit or loss. When the circumstances that previously caused inventories to be written down below cost no longer exist and the net realizable value is higher than the carrying amount, the original amount of the write-down is reversed and charged to profit or loss.

Net realizable 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 should be written off accordingly, and the current period's cost of sales should be reversed.

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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 recognized 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 recognized 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 recognized 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 recognized 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 recognized 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. 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 has been 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.

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. Profits or cash dividends declared to be distributed by the investee should be recognized as investment income in the current period, except for the profits or cash dividends that are declared and already included in the consideration paid to acquire the investment. Also, the Group should consider whether there is impairment for the long-term investments in accordance with the related asset provision policy.

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, the investor recognizes its investment income and adjusts the carrying amount of the investment based on the post-acquisition change in the investor's share of net assets of the investee. 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 recognized). 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 recognizes 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 recognized it in shareholders' equity.

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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 recognized 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 recognized 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 recognized 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 Company 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 profits and losses 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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

13. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recognized 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 derecognized; otherwise, is 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
Buildings	10 – 30 years	3%	3.2 – 9.7%
Plant and machinery	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.

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

14. CONSTRUCTION IN PROGRESS

Construction in progress is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalized 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 when completed and ready for use.

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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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

16. INTANGIBLE ASSETS

Intangible assets are recognized 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 recognized 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.

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

	Useful life
Concession right	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.

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.

Notes to the Interim Financial Statements (Continued)

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

16. INTANGIBLE ASSETS (CONTINUED)

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) its ability to use or sell the intangible asset. (d) 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. (e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset. (f) 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.

17. 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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

18. PAYROLL AND EMPLOYEE BENEFITS PAYABLE

Employee benefits are all forms of consideration 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.

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 recognized in profit or loss at the earlier of:

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

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

18. PAYROLL AND EMPLOYEE BENEFITS PAYABLE (CONTINUED)

Post-employment benefit (defined benefit plans) (Continued)

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognizes the following changes in the net defined benefit obligation under “Cost of sales”, “General and administrative 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.

Termination benefits

An entity is required to recognize termination benefits 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.

19. 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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

20. 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.

21. REVENUE

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 the transfer of major risks and rewards of ownership of goods. 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 transportation, 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 output 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.

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

21. REVENUE (CONTINUED)

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.

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. 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

With existence of a significant financing component in the contract, the Group adjusts the amount of the prom consideration at the amount that reflects the price that a customer would have paid for the promised goods or services if the customer had paid cash for those goods or services when (or as) they transfer to the customer ("adjusted price"). The difference between the contract price and the adjusted price is amortized over the contract period at the interest rate reflecting that discounts the nominal amount of the promised consideration to the price that the customer would pay in cash for the goods or services when (or as) they transfer to the customer.

The Group did not consider the significant financing components in the contract for the expectation that the customer's control over the acquisition of the commodity and the payment of the customer's payment within one year.

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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (*CONTINUED*)

21. REVENUE (*CONTINUED*)

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.

Royalty income

Royalty income is recognized according to the duration and fee rate agreed in the contract terms.

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.

22. 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.

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

22. GOVERNMENT GRANTS (CONTINUED)

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.

23. 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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (*CONTINUED*)

23. INCOME TAX (*CONTINUED*)

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.

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.

Notes to the Interim Financial Statements (Continued)

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

24. RIGHT-OF-USE ASSETS (APPLICABLE SINCE 1 JANUARY 2019)

The Group's right-of-use assets include buildings, plant and machinery, 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 amount 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 straight-line method. If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the lessee shall depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the lessee shall depreciate the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Group remeasures lease liabilities by discounting the revised lease payments and recognises the amount of remeasurement of the lease liabilities as an adjustment to the right-of-use assets. However, if the carrying amount of the right-of-use assets are reduced to zero, yet there is still a further reduction in the measure of lease liabilities, the Group recognises any remaining amount of the remeasurement in profit or loss.

25. LEASE LIABILITIES (APPLICABLE SINCE 1 JANUARY 2019)

At the commencement date, the Group measures the lease liabilities at the present value of the future lease payments except for short term leases and leases of low value assets. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate. The Group calculates interest on the lease liabilities in each period during the lease term using a constant periodic rate and recognises it in profit and loss, except those recognises in cost according to Note III. 14. Variable lease payments not included in the measurement of the lease liability in the period would be recognised in profit or loss when those payments occurs.

A lessee shall remeasure the lease liability by discounting the revised lease payments, if (a) there is a change in the amounts expected to be payable under a residual value guarantee, (b) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, (c) 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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

26. LEASES (APPLICABLE SINCE 1 JANUARY 2019)

At inception of a contract, the Group shall assess 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 or assets 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 or assets for a period of time the Group assesses whether, throughout the period of use, the customer has 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.

Separating components of a contract

For a contract that contains multiple lease components, the Group shall account for each lease component within the contract as a lease separately. The right to use an underlying asset is a separate lease component if:

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

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.

Evaluation of lease term

Lease term is the non-cancellable period of a lease for the Group to use its leased assets. The lease term also covers the period which the Group has an option to extend the lease, and the Group is reasonably certain to exercise that option, and the period the Group has an option to terminate the lease and the Group is reasonably certain not to exercise that option in that period. The Group would reassess whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that within the control of the Group and affects whether the Group is reasonably certain to exercise the according options.

Notes to the Interim Financial Statements (Continued)

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

26. LEASES (APPLICABLE SINCE 1 JANUARY 2019) (CONTINUED)

As a lessee

Please refer to Note III. 24 and Note III. 25 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.

A lessee shall account 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.

For a lease modification that is not accounted for as a separate lease, at the effective date of the lease modification the Group would remeasure 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, if that rate can be readily determined, 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 the above lease liability adjustment, the Group accounted for them separately in terms of the following situation:

- (a) 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. The Group shall recognise in profit or loss any gain or loss relating to the partial or full termination of the lease.
- (b) making a corresponding adjustment to the right-of-use asset for all other lease modifications.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

26. LEASES (APPLICABLE SINCE 1 JANUARY 2019) (CONTINUED)

As a lessee (Continued)

Short-term leases and leases of low value

At the commencement date, the Group recognises leases that due 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. Contingent lease payment would be recognized in profit or loss upon actual occurrence.

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 a finance lease lessor

At the commencement date, the Group would recognise finance lease receivables for assets held under a finance lease in its statement of financial position and terminate the recognition of finance lease assets. At initial measurement, the Group would account for the carrying amount of the receivable at an amount equal to the net investment in the lease. The net investment in a lease is the sum of the unguaranteed residual value and the present value of the unreceived payment discounted by the interest rate implicit in the lease.

The Group would recognise interest income over the lease term, based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease. Variable lease payment to the Group that was not included in the measurement of the net investment in a lease would be recognise in profit and loss upon actual occurrence.

The Group would account for a modification to a finance lease as a separate lease if:

- (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.

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

26. LEASES (APPLICABLE SINCE 1 JANUARY 2019) (CONTINUED)

As a lessor (Continued)

As a finance lease lessor (Continued)

For a modification to a finance lease that is not accounted for as a separate lease, the Group would account for the modification as follows:

- (a) if the lease would have been classified as an operating lease had the modification been in effect at the inception date, the Group would account for the lease modification as a new lease from the effective date of the modification and measure the carrying amount of the underlying asset as the net investment in the lease immediately before the effective date of the lease modification.
- (b) if the lease would have been classified as a finance lease had the modification been in effect at the inception date, the Group would account for the lease according to the modification or rearrangement guidance in Note III. 26.

As an operating lease lessor

The Group would recognise lease payments from operating leases in profit or loss on a straight-line basis. Variable lease payment to the Group would be recognise in profit and loss upon actual occurrence.

The Group would account 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.

27. 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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

27. LEASES (APPLICABLE FOR THE YEAR 2018) (CONTINUED)

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.

28. PROFIT DISTRIBUTION

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

29. 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.

30. 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. After 1 July 2012, the balance of the general reserve should not be less than 1.5% of the balance of the risk assets.

31. FAIR VALUE MEASUREMENT

The Group measures listed equity investment 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.

Notes to the Interim Financial Statements (Continued)

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

31. FAIR VALUE MEASUREMENT (CONTINUED)

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.

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.

32. 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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (*CONTINUED*)

32. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (*CONTINUED*)

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, which have 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.

Operating lease – as lessor

The Group has entered into operating leases on its investment properties. The Group has determined that it retains 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.

Notes to the Interim Financial Statements (Continued)

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (CONTINUED)

Judgments (Continued)

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

As of 30 June 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 interest is below 20%. Thus, the Group accounts for the investment in Xinchuang Environmental Protection as an associate.

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

The Group determines lease term as the non-cancellable period of a lease, together with periods (if applicable) 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 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. Compared with the market price, the contract terms and articles are more economic, the cost of terminating a lease is expensive, and the leased assets are of great importance for the Group's operating and irreplaceable, the Group would reasonably certain to exercise the option to extension. Thus the lease term should include the period covered by the 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 flow, the Group needs to analyse and judge the reasons, time, frequency and value of the sale before the maturity date of the financial assets.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. 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 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 on the basis of the past repayment statistics combining the economic policies, macro-economic indicators and industrial risk factors.

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.

Notes to the Interim Financial Statements (Continued)

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

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 right of return

For contracts with sales clause involving 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 and etc. 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.

Constraint in variable consideration estimate

When the Group assess the variable consideration, it considers all the information that can be reasonably obtained, including historical, current information and forecast information that are reasonably available to the entity and shall identify a reasonable number of possible consideration amounts. When it is estimated that the contract may produce multiple results, the Group estimates the variable consideration amount according to the expectation method. When the contract consists of only two possible outcomes, the Group estimates the variable consideration value according to the most likely value. 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. The Group considers "highly probable" as higher than 50%. 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 consideration estimate is constraint.

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.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (Continued)

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 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.

33. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

Changes in accounting policies

New Lease Standard

In 2018, the Ministry of Finance promulgated the revised “Accounting Standards for Business Enterprises No. 21 – Lease” (“New Lease Standard”). The New Lease Standard sets out a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for short-term leases and leases of low value assets which is similar with the accounting treatment under finance lease. The Group adopted the New Lease Standard using the modified retrospective method as of 1 January 2019. For contracts that existed before the initial application date, the Group will not reassess whether they were leases or contained leases, and the Group applied retrospectively with the cumulative effect of initial adoption as an adjustment to the operating balance of retained earnings as of 1 January 2019, and the comparative information for 2018 was not restated under the transitional rules. For leases before the date of initial adoption, the treatments of the Group are as follows:

- (1) For finance leases before the date of the initial adoption, the Group measured right-of-use assets and lease liabilities separately according to the original book value of the finance leased assets and the lease payable;
- (2) For operating leases before the date of the initial adoption, the Group recognised lease liabilities based on the present value of the remaining lease payments discounted using the incremental borrowing rate at the date of initial adoption, and the Group measured the right-of-use assets at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease;
- (3) The Group had assessed the impairment of right-of-use assets and accounted for them correspondingly.

Notes to the Interim Financial Statements (Continued)

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

33. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

Changes in accounting policies (Continued)

New Lease Standard (Continued)

For operating leases of low value assets and short-term leases within 12 months, the Group had adopted a simplified approach and did not recognized right-of-use assets and lease liabilities. In addition, the Group had adopted the following approach for operating leases before the date of initial adoption:

- (1) When measuring lease liabilities, the Group 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;
- (2) For lease contracts that contain rights of renewal or options of termination, the Group re-determined the lease duration according to the actual exercise of the rights and other updated information;
- (3) As an alternative of the impairment test of right-of-use assets, the Group had accessed whether contracts with lease components were loss contracts and adjusted the right-of-use assets according to the impairment of those contracts upon the date of initial adoption;
- (4) For the changes of leases before the date of initial adoption, the Group had accounted for them according to the final settlement of the changes of leases.

For the remaining minimum lease payments of significant operating leases disclosed in 2018 financial statements, the Group reconciled the present value of the remaining lease payments discounted using the incremental borrowing rate as at 1 January 2019 to the lease liabilities as at 1 January 2019 as follows:

	Unaudited
The minimum lease payment of the significant operating leases as at 31 December 2018	955,544
Plus: the incremental of minimum lease payment caused by the reasonable excise of renewal rights	<u>692,343,252</u>
Minimum lease payment under New Lease Standard as at 1 January 2019	<u>693,298,796</u>
Weighted average of incremental borrowing rate as at 1 January 2019	4.95%
Lease liabilities as at 1 January 2019 (including lease liabilities due within one year)	<u><u>443,424,793</u></u>

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

33. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

Changes in accounting policies (Continued)

New Lease Standard (Continued)

The impacts arising from adoption of New Lease Standard on the balance sheet as at 1 January 2019 are as follows:

Consolidated balance sheet	Current financial statements Unaudited	Applying original standard Unaudited	Impact Unaudited
Right-of-use assets	443,424,793	–	443,424,793
Lease liabilities	427,657,812	–	427,657,812
Lease due liabilities within one year	15,766,981	–	15,766,981
Company balance sheet	Current financial statements Unaudited	Applying original standard Unaudited	Impact Unaudited
Right-of-use assets	388,795,738	–	388,795,738
Lease liabilities	376,644,378	–	376,644,378
Lease due liabilities within one year	12,151,360	–	12,151,360

The impacts arising from adoption of New Lease Standard on the financial statements for the six months ended 30 June 2019 are as following:

Consolidated balance sheet	Current financial statements Unaudited	Applying original standard Unaudited	Impact Unaudited
Right-of-use assets	431,128,508	–	431,128,508
Lease liabilities	419,478,118	–	419,478,118
Lease due liabilities within one year	16,159,484	–	16,159,484

Notes to the Interim Financial Statements (Continued)

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

33. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

Changes in accounting policies (Continued)

New Lease Standard (Continued)

The impacts arising from adoption of New Lease Standard on the financial statements for the six months ended 30 June 2019 are as following: (Continued)

Consolidated income statement	Current financial statements	Applying original standard	Impact
	Unaudited	Unaudited	Unaudited
Cost of sales	923,503	1,145,651	(222,148)
Selling expenses	99,828	218,514	(118,686)
General and administrative expenses	11,272,955	17,305,115	(6,032,160)
Finance expense	10,882,088	–	10,882,088
Company balance sheet	Current financial statements	Applying original standard	Impact
	Unaudited	Unaudited	Unaudited
Right-of-use assets	378,826,617	–	378,826,617
Lease liabilities	370,339,861	–	370,339,861
Lease liabilities due within one year	12,455,225	–	12,455,225
Company income statement	Current financial statements	Applying original standard	Impact
	Unaudited	Unaudited	Unaudited
Cost of sales	9,969,121	15,561,762	(5,592,641)
Finance expense	9,561,110	–	9,561,110

In addition, since the date of initial adoption, the Group would classify the repayment of the principle and interest of lease liabilities as cash outflows of financing activities. The repayment of short term leases and leases of low value assets, which adopted simplified approach, and variable lease payment which is not accounted as lease liabilities will still be classified as cash outflows of operating activities.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

33. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

Changes in accounting policies (Continued)

Changes in Financial Statements Format

According to the Circular of the Ministry of Finance on Revising and Issuing the Format of the Financial Statements of General Enterprises for 2019 (Caikuai [2019] No. 6), 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 measured at fair valued through other comprehensive income on the balance sheet date. In the income statement, research and development expenses would reflect not only the expensed expenditure in the process of research and development but also the amortization of self-developed intangible assets that were originally included in general and administrative expenses. The Group had adjusted the comparative financial statements retrospectively. This change in accounting policy had no impact on the consolidated and company net profit and shareholders' equity.

The main impact of retrospective adjustment caused by the above changes in accounting policy are as following:

The Group

	The book value presented under original standard 31 December 2018 Audited	The impact of New Lease Standard Unaudited	The impact of changes in financial statements format Unaudited	The book value presented under new standard 1 January 2019 Unaudited
Assets:				
Accounts receivable	–	–	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
Lease liabilities due within one year	–	15,766,981	–	15,766,981

Notes to the Interim Financial Statements (Continued)

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

33. CHANGES IN ACCOUNTING POLICIES AND ESTIMATES (CONTINUED)

Changes in accounting policies (Continued)

Changes in Financial Statements Format (Continued)

The main impact of retrospective adjustment caused by the above changes in accounting policy are as following: (Continued)

The Company

	The book value presented under original standard 31 December 2018 Audited	The impact of New Lease Standard Unaudited	The impact of changes in financial statements format Unaudited	The book value presented under new standard 1 January 2019 Unaudited
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
Lease liabilities due within one year	–	12,151,360	–	12,151,360

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	The Group and certain of its subsidiaries were subject to corporate income tax (“CIT”) at a rate of 25% on their taxable profits. 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, the applicable income tax rate is 28%. MASTEEL AMERICA INC (“Masteel America”) was established and registered in the United States, the applicable income tax rate is 30%.
Land appreciation tax	Payable based on appreciation of land use right and building 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. Environment protection tax was levied since 1 January 2018.
Other taxes	In accordance with tax laws and other relevant regulations.

Notes to the Interim Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. CASH AND BANK BALANCES

	30 June 2019 Unaudited	31 December 2018 Audited
Cash on hand	67,391	90,260
Bank balances	7,011,499,894	7,757,669,516
Other monetary assets	1,059,571,401	1,021,612,231
Mandatory reserves of Masteel Finance deposited in the central bank	974,769,560	983,472,711
	9,045,908,246	9,762,844,718

As of 30 June 2019, the Group's other monetary assets amounting to RMB1,059,571,401 have been pledged to banks as security (31 December 2018: RMB1,021,612,231) for bank acceptance notes and performance guarantees.

As of 30 June 2019, the Group had cash and bank balances amounting to RMB746,380,274 that have been deposited outside the PRC (31 December 2018: RMB822,852,609).

Cash deposited in current accounts earns interest at floating interest rates. The terms of time deposits are from one month, three months to six months respectively, depending on the cash flow demand of the Group. Such deposits earn interest at the respective bank deposit rates. As of 30 June 2019, the Group had time deposits amounting to RMB164,992,800 (31 December 2018: RMB823,584,000) with terms over three months.

2. FINANCIAL ASSETS HELD FOR TRADING

	30 June 2019 Unaudited	31 December 2018 Audited
Financial assets at fair value through profit or loss		
Debt instruments investment	1,998,707,808	2,084,414,075
Futures contracts	10,080,715	—
Forward foreign exchange contracts	4,385,796	—
	2,013,174,319	2,084,414,075

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. FINANCIAL ASSETS HELD FOR TRADING (CONTINUED)

As of 30 June 2019, the Group's debt instruments investment was mainly in funds and financial products.

As of 30 June 2019, there were no major restrictions on the realisation of the Group's debt instruments investment.

As of 30 June 2019, the fair value of futures contracts held by the Group was determined by the settlement price of the Dalian Commodity Exchange and Zhengzhou Commodity Exchange on the last trading date in June 2019.

As of 30 June 2019, the fair value of forward foreign exchange contracts held by the Group was determined by the forward foreign exchange rate on the last trading day in June 2019.

3. TRADE RECEIVABLES

The Group'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:

	30 June 2019 Unaudited	31 December 2018 Audited
Within one year	1,180,704,271	1,090,345,962
One to two years	60,319,097	31,834,919
Two to three years	32,734,028	26,792,202
Over three years	25,821,737	45,506,589
	1,299,579,133	1,194,479,672
Less: Provisions for bad debts	61,734,938	72,710,696
	<u>1,237,844,195</u>	<u>1,121,768,976</u>

Notes to the Interim Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. TRADE RECEIVABLES (CONTINUED)

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

	Opening balance	Increase during the period	Reversal during the period	Write-back due to disposal of a subsidiary	Other changes	Closing balance
30 June 2019	72,710,696	397,341	(11,338,052)	–	(35,047)	61,734,938
31 December 2018	57,534,492	21,483,181	(944,761)	(5,376,915)	14,699	72,710,696

The balances of trade receivables are analyzed as follows:

	30 June 2019 (Unaudited)			
	Book value		Provision for bad debts	
	Amount	Ratio (%)	Amount	Ratio (%)
Assessed bad debt provision individually	–	–	–	–
Assessed bad debt provision in portfolios based on credit risk characteristics	<u>1,299,579,133</u>	<u>100</u>	<u>(61,734,938)</u>	<u>5</u>
	<u><u>1,299,579,133</u></u>	<u><u>100</u></u>	<u><u>(61,734,938)</u></u>	
	31 December 2018 (Audited)			
	Book value		Provision for bad debts	
	Amount	Ratio (%)	Amount	Ratio (%)
Assessed bad debt provision individually	–	–	–	–
Assessed bad debt provision in portfolios based on credit risk characteristics	<u>1,194,479,672</u>	<u>100</u>	<u>(72,710,696)</u>	<u>6</u>
	<u><u>1,194,479,672</u></u>	<u><u>100</u></u>	<u><u>(72,710,696)</u></u>	

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. TRADE RECEIVABLES (CONTINUED)

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

	30 June 2019 (Unaudited)			31 December 2018 (Audited)		
	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	1,180,704,271	1	(11,807,043)	1,090,345,962	1	(10,903,460)
One to two years	60,319,097	14	(8,444,674)	31,834,919	14	(4,456,889)
Two to three years	32,734,028	51	(16,694,354)	26,792,202	51	(13,664,023)
Over three years	25,821,737	96	(24,788,867)	45,506,589	96	(43,686,324)
	1,299,579,133		(61,734,938)	1,194,479,672		(72,710,696)

During the current period, provision for bad debts was RMB397,341 (31 December 2018: RMB21,483,181), the recovery or reversal of provision for bad debts was RMB11,338,052 (31 December 2018: RMB944,761).

During the current period, there was no provision for bad debts write-off (31 December 2018: Nil).

As of 30 June 2019 and 31 December 2018, there was no trade receivables that were derecognized due to the transfer of financial assets.

Notes to the Interim Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. TRADE RECEIVABLES (CONTINUED)

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

30 June 2019 (unaudited)	Relationship with the Group	Ending balance	Ageing	Percentage of trade receivables	Ending balance of bad debts provision
Company 1	Third Party	118,734,528	Within 1 year	10%	(1,187,345)
Company 2	Third Party	71,653,108	Within 1 year	6%	(716,531)
Company 3	Third Party	47,196,374	Within 3 years	4%	(13,622,664)
Company 4	Third Party	41,269,319	Within 1 year	3%	(412,693)
Company 5	Third Party	30,847,505	Within 1 year	2%	(308,475)
		309,700,834		25%	(16,247,708)

31 December 2018 (audited)	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 30 June 2019, the Group had no assets or liabilities deriving from transferring trade receivables in which the Group was continually involved (31 December 2018: Nil).

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. FINANCING RECEIVABLES

	30 June 2019 Unaudited	31 December 2018 Audited
Bank acceptance notes	9,996,283,810	4,970,113,847
Commercial acceptance notes	90,000	—
Less: Provisions for bad debts	—	—
	<u>9,996,373,810</u>	<u>4,970,113,847</u>

As of June 30, 2019, the Group pledged the bank acceptance notes of RMB3,935,764,719 (31 December 2018: Nil) to issue notes payable and the bank acceptance notes of RMB3,510,090 (31 December 2018: Nil) to obtain the short-term loan.

As of the financial position date, the undue notes discounted or endorsed were as follows:

	30 June 2019 (Unaudited)		31 December 2018 (Audited)	
	Derecognized	Not derecognized	Derecognized	Not derecognized
Bank acceptance notes	<u>2,965,037,029</u>	<u>20,765,666</u>	<u>7,398,304,418</u>	<u>159,713,509</u>

As of 30 June 2019 and 31 December 2018, there were no trade receivables transferred from notes receivable because of the drawers' inability to repay.

The Group derecognised notes receivable discounted to financial institutions amounting to RMB2,614,424,172 (2018: RMB119,530,190), and recognised discount expense amounting to RMB28,770,570 (2018: RMB2,083,991) as financial expenses.

Notes to the Interim Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. PREPAYMENTS

Ageing analysis of the prepayments is as follows:

	30 June 2019 (Unaudited)		31 December 2018 (Audited)	
	Book value	Ratio (%)	Book value	Ratio (%)
Within one year	633,944,003	98	696,694,164	98
One to two years	5,257,218	1	5,422,942	1
Two to three years	177,299	-	385,515	-
Over three years	10,087,570	1	9,837,927	1
	649,466,090	100	712,340,548	100

Prepayments aged over one year were mainly unsettled prepayments for the materials and equipment 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:

30 June 2019 (Unaudited)	Relationship with the Group	Ending balance	Ageing	Percentage of prepayments
Company 1	Third Party	150,722,667	Within 1 year	22%
Company 2	Third Party	132,779,070	Within 1 year	19%
Company 3	Third Party	116,164,985	Within 1 year	17%
Company 4	Third Party	48,421,654	Within 1 year	7%
Company 5	Third Party	35,592,754	Within 1 year	5%
		483,681,130		70%
31 December 2018 (Audited)	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%

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. OTHER RECEIVABLES

	30 June 2019 Unaudited	31 December 2018 Audited
Interest receivable	399,008	507,913
Dividends receivable	75,516,578	20,346,208
Other receivables	176,186,341	127,111,413
	252,101,927	147,965,534

Interest receivable

	30 June 2019 Unaudited	31 December 2018 Audited
Interest from time deposits	399,008	507,913
	399,008	507,913

Dividends receivable

	30 June 2019 Unaudited	31 December 2018 Audited
Other equity instruments investments		
– China MCC17 Group Co., Ltd.	1,760,000	1,760,000
Associate – Masteel Scrap	–	8,119,136
Associate – Masteel K. Wah	1,812,970	1,812,970
Associate – Magang Chemicals & Energy	7,968,608	8,654,102
Associate – Shenglong Chemical	63,975,000	–
	75,516,578	20,346,208

Notes to the Interim Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. OTHER RECEIVABLES (CONTINUED)

Other receivables

Ageing analysis of other receivables is as follows:

	30 June 2019 Unaudited	31 December 2018 Audited
Within one year	143,179,000	123,297,588
One to two years	44,166,913	900,006
Two to three years	229,125	7,626,419
Over three years	418,749,550	411,648,933
	606,324,588	543,472,946
Less: Provision for bad debts	430,138,247	416,361,533
	176,186,341	127,111,413

The movements of bad debt provision based on the lifetime credit losses is as follows:

	Opening balance	Increase during the period	Reversal during the period	Write off/ Write-back	Transfer out due to disposal of a subsidiary	Other changes	Ending balance
30 June 2019	416,361,533	13,778,075	-	-	-	(1,361)	430,138,247
31 December 2018	609,385,257	43,735	(23,451,112)	-	(169,618,372)	2,025	416,361,533

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. OTHER RECEIVABLES (CONTINUED)

Other receivables (Continued)

	30 June 2019 (Unaudited)			
	Book value		Provision for bad debts	
	Amount	Ratio (%)	Amount	Ratio (%)
Assessed bad debt provision individually	40,589,922	7	–	–
Assessed bad debt provision in portfolios based on credit risk characteristics	565,734,666	93	430,138,247	76
	606,324,588	100	430,138,247	
31 December 2018 (Audited)				
	Book value		Provision for bad debts	
	Amount	Ratio (%)	Amount	Ratio (%)
Assessed bad debt provision individually	74,298	–	–	–
Assessed bad debt provision in portfolios based on credit risk characteristics	543,398,648	100	416,361,533	77
	543,472,946	100	416,361,533	

Notes to the Interim Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. OTHER RECEIVABLES (CONTINUED)

Other receivables (Continued)

Provision for bad debts of other receivables analyzed by ageing is disclosed as follows:

	30 June 2019 (Unaudited)			31 December 2018 (Audited)		
	Carrying amount expected default	Expected credit loss ratio (%)	Expected credit loss	Carrying amount expected default	Expected credit loss ratio (%)	Provision for bad debts
Within one year	102,589,078	2	(2,051,781)	123,223,290	2	(2,464,466)
One to two years	44,166,913	21	(9,275,052)	900,006	21	(189,001)
Two to three years	229,125	27	(61,864)	7,626,419	27	(2,059,133)
Over three years	418,749,550	100	(418,749,550)	411,648,933	100	(411,648,933)
	565,734,666		(430,138,247)	543,398,648		(416,361,533)

During this current period, the provision for bad debts was RMB13,778,075 (31 December 2018: RMB43,735). There was no recovery or reversal of provision for bad debts (31 December 2018: RMB23,451,112) and no provision for bad debts was due to the change of consolidation scope (31 December 2018: RMB169,618,372).

During the current period, there was no write-off of provision for bad debts (31 December 2018: Nil).

Other receivables analysed by nature were as follows:

	30 June 2019 Unaudited	31 December 2018 Audited
Due from trading companies	432,715,035	432,303,988
Transferring of assets	43,454,334	43,454,334
Prepaid import tariff and VAT deposit	7,136,814	8,425,735
Tax refunds	237,911	237,911
Deposit for steel futures	40,589,922	74,298
Others	82,190,572	58,976,680
	606,324,588	543,472,946
Less: Provision for bad debts	430,138,247	416,361,533
	176,186,341	127,111,413

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. OTHER RECEIVABLES (CONTINUED)

Other receivables (Continued)

As of 30 June 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	22	Due from trading companies	More than 3 years	(132,058,434)
Company 2	127,685,367	21	Due from trading companies	More than 3 years	(127,685,367)
Company 3	60,939,960	10	Due from trading companies	More than 3 years	(60,939,960)
Company 4	45,390,133	7	Due from trading companies	More than 3 years	(45,390,133)
Company 5	43,454,334	7	Due from trading companies	One to two years	(9,125,410)
	<u>409,528,228</u>	<u>67</u>			<u>(375,199,304)</u>

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)
	<u>409,528,228</u>	<u>74</u>			<u>(366,942,981)</u>

Notes to the Interim Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. OTHER RECEIVABLES (CONTINUED)

Other receivables (Continued)

As of 30 June 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 the second half of 2019.

The balances of other receivables as of 30 June 2019 and 31 December 2018 did not contain any amount derecognized due to the transfer of financial assets.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. INVENTORIES

	30 June 2019 (Unaudited)			31 December 2018 (Audited)		
	Carrying amount	Provision for impairment	Carrying amount	Carrying amount	Provision for impairment	Carrying amount
Raw materials	5,481,681,881	(127,380,803)	5,354,301,078	5,357,513,992	(306,614,876)	5,050,899,116
Work in progress	1,185,258,251	(12,510,374)	1,172,747,877	2,122,244,677	(157,296,973)	1,964,947,704
Finished goods	3,663,387,283	(55,501,105)	3,607,886,178	2,983,102,649	(269,855,384)	2,713,247,265
Spare parts	1,208,686,258	(65,555,482)	1,143,130,776	1,136,764,306	(65,356,757)	1,071,407,549
Others	237,402,265	-	237,402,265	253,417,114	-	253,417,114
	11,776,415,938	(260,947,764)	11,515,468,174	11,853,042,738	(799,123,990)	11,053,918,748

The movements of impairment provision against inventories for the period 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 this current period, there was no reversal of impairment provision against inventories (31 December 2018: Nil).

As of 30 June 2019, the Group had no constraint inventories (31 December 2018: Nil).

Notes to the Interim Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. FINANCIAL ASSETS PURCHASED UNDER AGREEMENTS TO RESELL

	30 June	31 December
	2019	2018
	Unaudited	Audited
Bonds	199,543,825	2,433,102,181
Less: Provision for impairment	89,448	823,072
	<u>199,454,377</u>	<u>2,432,279,109</u>

The movements of impairment provision against financial assets purchased under agreements to resell for the period are disclosed in Note V.20.

Financial assets purchased under agreements to resell are bonds that are bought first and to be sold at a fixed price by Masteel Finance according to the resale agreements. The ending balance was bonds repurchased by pledge.

9. LOANS AND ADVANCES TO CUSTOMERS

	30 June	31 December
	2019	2018
	Unaudited	Audited
Loans	2,756,248,034	516,691,043
Discounted notes	3,028,404,421	2,408,706,627
Factoring	41,000,000	—
	5,825,652,455	2,925,397,670
Less : Bad debts provision for loans and advances	122,086,421	80,099,567
	<u>5,703,566,034</u>	<u>2,845,298,103</u>

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

An analysis of loans and advances to customers, based on guarantee methods, is as follows:

	30 June	31 December
	2019	2018
	Unaudited	Audited
Unsecured loans	5,641,652,455	2,801,810,456
Guaranteed loans	60,000,000	60,138,673
Mortgaged loans	20,000,000	—
Pledged loans	104,000,000	63,448,541
	<u>5,825,652,455</u>	<u>2,925,397,670</u>

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 30 June 2019, there was no non-performing loan in the Group’s loans and advances to customers.

The movements of provisions for bad debts against loans and advances between January and June 2019, are as follows (Unaudited):

	Phase I Expected credit loss in next 12 months	Phase II Expected credit loss in the whole lifetime (Individual)	Phase II Expected credit loss in the whole lifetime (In portfolios)	Phase III Financial assets with credit loss already occurred (The whole lifetime)	Total
As at 1 January 2019	80,099,567	—	—	—	80,099,567
Changes in during the period	—	—	—	—	—
– Shift to Phase II	—	—	—	—	—
– Shift to Phase III	—	—	—	—	—
– Back to Phase II	—	—	—	—	—
– Back to Phase I	—	—	—	—	—
Provided	41,986,854	—	—	—	41,986,854
Reversal	—	—	—	—	—
Other changes	—	—	—	—	—
	<u>122,086,421</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>122,086,421</u>

Notes to the Interim Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The movements of provisions for bad debts against loans and advances between January and December 2018, are as follows (Audited):

	Phase I Expected credit loss in next 12 months	Phase II Expected credit loss in the whole lifetime (Individual)	Phase II Expected credit loss in the whole lifetime (In portfolios)	Phase III Financial assets with credit loss already occurred (The whole lifetime)	Total
As at 1 January 2018	36,884,851	-	-	-	36,884,851
Changes in during the year	-	-	-	-	-
- Shift to Phase II	-	-	-	-	-
- Shift to Phase III	-	-	-	-	-
- Back to Phase II	-	-	-	-	-
- Back to Phase I	-	-	-	-	-
Provided	43,727,871	-	-	-	43,727,871
Reversal	(513,155)	-	-	-	(513,155)
Other changes	-	-	-	-	-
	<u>80,099,567</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>80,099,567</u>

Loans and advances to customers due from related parties as of 30 June 2019 and 31 December 2018 are stated in Note X. 6 to the financial statements.

10. NON-CURRENT ASSETS DUE WITHIN ONE YEAR

	30 June 2019 Unaudited	31 December 2018 Audited
Debt instruments investment	<u>51,302,205</u>	<u>101,201,184</u>

Note: Debt instruments investment held by the Group were mainly national bonds purchased by Masteel Finance.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. NON-CURRENT ASSETS DUE WITHIN ONE YEAR (CONTINUED)

Significant national bonds are as follows:

	Par value	Nominal interest rate	Effective interest rate	Purchase date	Maturity date
12 interest-bearing bonds 06	50,000,000	3.25%	3.565%	17 October 2017	6 September 2019

11. OTHER CURRENT ASSETS

	30 June 2019 Unaudited	31 December 2018 Audited
Prepaid income tax	272,152,842	272,152,842
Deductible value added tax	444,294,014	523,930,493
Debt instruments investment (note)	2,170,725,298	2,377,039,640
	2,887,172,154	3,173,122,975

Note: Debt instruments investment held by the Group were mainly interbank deposits purchased by Masteel Finance.

	30 June 2019 (Unaudited)			31 December 2018 (Audited)		
	Book amount	Provision for impairment	Carrying amount	Book amount	Provision for impairment	Carrying amount
Interbank deposits	2,171,290,246	(564,948)	2,170,725,298	2,377,480,744	(441,104)	2,377,039,640

Notes to the Interim Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. OTHER CURRENT ASSETS (CONTINUED)

The movements of provisions for bad debts against debt instruments investment between January and June 2019, are as follows (Unaudited):

	Phase I Expected credit loss in next 12 months	Phase II Expected credit loss in the whole lifetime (Individual)	Phase II Expected credit loss in the whole lifetime (In portfolios)	Phase III Financial assets with credit loss already occurred (The whole lifetime)	Total
As at 1 January 2019	441,104	-	-	-	441,104
Changes in during the period	-	-	-	-	-
- Shift to Phase II	-	-	-	-	-
- Shift to Phase III	-	-	-	-	-
- Back to Phase II	-	-	-	-	-
- Back to Phase I	-	-	-	-	-
Provided	123,844	-	-	-	123,844
Reversal	-	-	-	-	-
Other changes	-	-	-	-	-
	<u>564,948</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>564,948</u>

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. OTHER CURRENT ASSETS (CONTINUED)

The movements of provisions for bad debts against debt instruments investment between January and December 2018, are as follows (Audited):

	Phase I Expected credit loss in next 12 months	Phase II Expected credit loss in the whole lifetime (Individual)	Phase II Expected credit loss in the whole lifetime (In portfolios)	Phase III Financial assets with credit loss already occurred (The whole lifetime)	Total
As at 1 January 2018	187,201	-	-	-	187,201
Changes in during the year	-	-	-	-	-
- Shift to Phase II	-	-	-	-	-
- Shift to Phase III	-	-	-	-	-
- Back to Phase II	-	-	-	-	-
- Back to Phase I	-	-	-	-	-
Provided	253,903	-	-	-	253,903
Reversal	-	-	-	-	-
Other changes	-	-	-	-	-
	<u>441,104</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>441,104</u>

Notes to the Interim Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. LONG-TERM EQUITY INVESTMENTS

30 June 2019 (Unaudited)

	Movements during the period								Closing balance	Impairment at the end of the period
	Opening balance	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	-	-	45,241,177	-	-	(45,000,000)	-	268,330,134	-
Masteel-CMI International Training Centre Co., Ltd. ("MASTEEL-CMI")	501,735	-	-	650	-	-	-	-	502,385	-
Associates										
Henan JinMa Energy Co.,Ltd ("Henan JinMa Energy")	613,018,859	-	-	87,069,229	665,713	984,923	(50,400,000)	-	651,338,724	-
Shenglong Chemical Co., Ltd. ("Shenglong Chemical")	732,685,925	-	-	89,559,941	-	1,819,927	(79,975,000)	-	744,090,793	-
Shanghai Iron and Steel Electronic Deal Center Co., Ltd. ("Shanghai Iron and Steel Electronic")	7,790,111	-	-	(305,940)	-	-	-	-	7,484,171	-
Xinchuang Environmental Protection Ma-Steel OCI Chemical Co., Ltd. ("Ma-Steel OCI Chemical")	57,681,293	-	-	1,800,536	-	300,145	(2,692,788)	-	57,089,186	-
Ma Steel (Shanghai) Commercial Factoring Co., Ltd. ("Ma-Steel Commercial Factoring") (Note)	146,519,873	-	-	3,359,261	-	489,519	(4,800,000)	-	145,568,653	-
Ma Steel (Shanghai) Financial Leasing Co., Ltd. ("Ma-Steel Financial Leasing")	77,647,587	75,000,000	-	3,088,878	-	-	(2,076,921)	-	153,659,544	-
Anhui Magang Chemicals & Energy Technology Co., Ltd. ("Magang Chemicals & Energy")	78,061,708	-	-	3,018,300	-	-	(878,135)	-	80,201,873	-
Anhui Masteel K. Wah New Building Materials Co., Ltd. ("Masteel K. Wah")	600,000,000	-	-	42,005,486	-	-	-	-	642,005,486	-
Maanshan Masteel Scrap Steel Co., Ltd. ("Masteel Scrap")	81,118,544	-	-	13,574,064	-	-	-	-	94,692,608	-
	145,948,789	-	-	16,118,870	-	-	-	-	162,067,659	-
	2,809,063,381	75,000,000	-	304,530,452	665,713	3,594,514	(185,822,844)	-	3,007,031,216	-

* Except for Henan JinMa Energy and Xinchuang Environmental Protection, the above joint ventures and associates accounted for by the equity method are unlisted investments.

Note: On 25 April 2019, 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. The capital injection was completed in May 2019. After the injection, the Company still holds 25% of the equity of Ma-Steel Commercial Factoring.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. LONG-TERM EQUITY INVESTMENTS (CONTINUED)

31 December 2018 (Audited)

	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)	-	732,665,925
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. ("Anhui Linhuan Chemical")	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
	<u>1,525,225,202</u>	<u>977,067,333</u>	<u>(106,810,899)</u>	<u>657,410,287</u>	<u>(2,745,469)</u>	<u>1,858,553</u>	<u>(242,941,626)</u>	<u>-</u>	<u>2,809,063,381</u>

Notes to the Interim Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. OTHER EQUITY INSTRUMENTS INVESTMENTS

30 June 2019 (Unaudited)

	Cost	Changes in fair value accumulated in other comprehensive income	Fair value	Dividend	
				Equity instruments derecognized in the period	Equity instruments held
Henan Longyu Energy Co., Ltd. ("Henan Longyu")	10,000,000	25,147,709	35,147,709	-	-
China MCC17 Group Co., Ltd. ("MCC17")	8,554,800	39,245,385	47,800,185	-	-
Shanghai Luojing Ore Quay Co., Ltd. ("Shanghai Luojing")	88,767,360	(52,474,183)	36,293,177	-	-
Beijing Zhonglian Steel Ecommerce Co., Ltd. ("Zhonglian Steel")	1,000,000	(328,935)	671,065	-	-
Anshan Huatai CDQ Engineering Technology Co., Ltd. ("Anshan Huatai")	400,000	113,241	513,241	-	-
CFHI (Group) Ma'anshan Heavy Industry Co., Ltd. ("CFHI Maanshan")	16,030,500	(10,151,853)	5,878,647	-	-
Guoqi (Beijing) Lightweight of Automotive Technology Institute Co., Ltd. ("Guoqi Institute")	3,000,000	(5,592)	2,994,408	-	-
Linhuan Coking	114,500,456	20,868,276	135,368,732	-	-
	<u>242,253,116</u>	<u>22,414,048</u>	<u>264,667,164</u>	<u>-</u>	<u>-</u>

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. OTHER EQUITY INSTRUMENTS INVESTMENTS (CONTINUED)

31 December 2018 (Audited)

		Changes in fair value accumulated in other comprehensive income	Fair value	Dividend	
	Cost			Equity instruments derecognized in the year	Equity instruments held
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	-	-
Linhuan Coking	114,500,456	6,895,247	121,395,703	-	-
	<u>242,253,116</u>	<u>20,869,248</u>	<u>263,122,364</u>	<u>-</u>	<u>3,380,000</u>

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 Interim Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. INVESTMENT PROPERTIES

Investment properties measured using the cost method:

30 June 2019 (Unaudited)	Plant and buildings
Cost:	
Opening balance	65,075,379
Transferred from property, plant and equipment	11,050,699
Addition	—
Closing balance	76,126,078
Accumulated depreciation:	
Opening balance	9,270,624
Transferred from Property, plant and equipment	363,168
Provided	874,650
Closing balance	10,508,442
Provision for impairment:	
Opening and closing balance	—
Net carrying amount:	
Closing balance	65,617,636
Opening balance	55,804,755

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. INVESTMENT PROPERTIES (CONTINUED)

Investment properties measured using the cost method: (Continued)

31 December 2018 (Audited)	Plant and buildings
Cost:	
Opening balance	65,075,379
Addition	—
Closing balance	<u>65,075,379</u>
Accumulated depreciation:	
Opening balance	7,566,695
Provided	<u>1,703,929</u>
Closing balance	<u>9,270,624</u>
Provision for impairment:	
Opening and closing balance	<u>—</u>
Net carrying amount:	
Closing balance	<u><u>55,804,755</u></u>
Opening balance	<u><u>57,508,684</u></u>

* The Group's investment properties are located in Mainland China, and are held under medium term leases.

15. PROPERTY, PLANT AND EQUIPMENT

	30 June 2019 Unaudited	31 December 2018 Audited
Property, plant and equipment	30,510,432,760	31,344,685,711
Property, plant and equipment to be disposed	<u>185,749,648</u>	<u>200,491,124</u>
	<u><u>30,696,182,408</u></u>	<u><u>31,545,176,835</u></u>

Notes to the Interim Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Property, plant and equipment

30 June 2019 (Unaudited)

	Plant and buildings	Machinery and equipment	Motor vehicles	Office equipment	Land (Note 1)	Total
Cost:						
At the beginning of the period	27,572,998,735	53,301,727,894	283,373,647	272,214,833	11,025,179	81,441,340,288
Addition	247,772	32,969,410	2,439,575	868,419	-	36,525,176
Transferred from construction in progress (Note V. 16)	165,219,728	773,770,474	3,277,763	1,862,000	-	944,129,965
Reclassification	(22,189,593)	21,815,718	133,405	240,470	-	-
Disposal	(2,002,418)	(16,049,933)	(4,074,116)	(1,164,786)	-	(23,291,253)
Transferred to investment properties	(11,050,699)	-	-	-	-	(11,050,699)
Exchange realignment	(49,614)	(774,964)	(30,741)	(22,569)	(42,570)	(920,458)
At the end of the period	27,703,173,911	54,113,458,599	285,119,533	273,998,367	10,982,609	82,386,733,019
Accumulated depreciation:						
At the beginning of the period	13,162,912,193	36,475,481,214	200,142,333	256,190,636	-	50,094,726,376
Provided	342,577,211	1,330,026,373	9,579,021	3,722,944	-	1,685,905,549
Reclassification	(4,102,697)	3,607,948	430,528	64,221	-	-
Disposal	-	(10,212,713)	(3,691,306)	(50,850)	-	(13,954,869)
Transferred to investment properties	(363,168)	-	-	-	-	(363,168)
Exchange realignment	(10,067)	(218,176)	(19,021)	(14,210)	-	(261,474)
At the end of the period	13,501,013,472	37,798,684,646	206,441,555	259,912,741	-	51,766,052,414
Impairment:						
At the beginning of the period	1,928,201	-	-	-	-	1,928,201
Provided (Note 2)	6,106,578	97,218,670	2,228,556	601,388	-	106,155,192
Disposal	-	-	-	-	-	-
Exchange realignment	124,510	1,982,241	45,439	12,262	-	2,164,452
At the end of the period	8,159,289	99,200,911	2,273,995	613,650	-	110,247,845
Net carrying amount:						
At the end of the period	<u>14,194,001,150</u>	<u>16,215,573,042</u>	<u>76,403,983</u>	<u>13,471,976</u>	<u>10,982,609</u>	<u>30,510,432,760</u>
At the beginning of the period	<u>14,408,158,341</u>	<u>16,826,246,680</u>	<u>83,231,314</u>	<u>16,024,197</u>	<u>11,025,179</u>	<u>31,344,685,711</u>

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Property, plant and equipment (Continued)

31 December 2018 (Audited)

	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 end of the year	<u>27,572,998,735</u>	<u>53,301,727,894</u>	<u>283,373,647</u>	<u>272,214,833</u>	<u>11,025,179</u>	<u>81,441,340,288</u>
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 end of the year	<u>13,162,912,193</u>	<u>36,475,481,214</u>	<u>200,142,333</u>	<u>256,190,636</u>	<u>–</u>	<u>50,094,726,376</u>
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 end of the year	<u>1,928,201</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,928,201</u>
Net carrying amount:						
At the end of the year	<u>14,408,158,341</u>	<u>16,826,246,680</u>	<u>83,231,314</u>	<u>16,024,197</u>	<u>11,025,179</u>	<u>31,344,685,711</u>
At the beginning of the year	<u>14,965,436,027</u>	<u>18,054,001,133</u>	<u>83,661,767</u>	<u>16,438,979</u>	<u>10,961,956</u>	<u>33,130,499,862</u>

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V. MAJOR NOTES TO 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 Company assessed the value-in-use of the cash generate unit of MG-VALDUNES as of 30 June 2019 using the future discounted cash flows method. As of 30 June 2019, the cash generate 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. Based on the impairment testing result the Company provided the impairment amounting to RMB106,155,192 for MG-VALDUNE's fixed assets except for land which no impairment indicator was noticed by the management of the Company.

As of 30 June 2019, certificates of ownership in respect of 33 buildings of the Group in Mainland China, with an aggregate cost of RMB1,303,217,868 (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

	30 June 2019 Unaudited	31 December 2018 Audited
Plant and buildings	124,032,260	124,035,507
Machinery and equipment	61,710,615	76,448,844
Transportation vehicle and tools	6,773	6,773
	185,749,648	200,491,124

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. CONSTRUCTION IN PROGRESS

	30 June 2019 Unaudited	31 December 2018 Audited
Construction in progress	1,829,563,471	1,662,672,077
Construction materials	—	—
	1,829,563,471	1,662,672,077

Construction in progress

	30 June 2019 (Unaudited)			31 December 2018 (Audited)		
	Carrying amount	Provision for impairment	Carrying amount	Carrying amount	Provision for impairment	Carrying amount
Product quality projects	694,203,442	—	694,203,442	317,713,236	—	317,713,236
Energy-saving and environmental protection projects	454,070,379	—	454,070,379	427,718,198	—	427,718,198
Equipment advancement and other modification projects	418,604,928	—	418,604,928	665,964,168	—	665,964,168
Other projects	262,684,722	—	262,684,722	251,276,475	—	251,276,475
Total	1,829,563,471	—	1,829,563,471	1,662,672,077	—	1,662,672,077

Notes to the Interim Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. CONSTRUCTION IN PROGRESS (CONTINUED)

Construction in progress (Continued)

30 June 2019 (unaudited)

Name of projects	Budget RMB'000	Opening balance RMB	Addition RMB	Transferred to fixed assets RMB (Note V.15)	Transferred to intangible assets RMB (Note V.18)	Closing balance RMB	Source of fund	The proportion of projects investment account for budget (%)	Percentage of Completion (%)	Capitalized interest accumulated RMB	The capitalized interest in current period RMB	The capitalized interest rate in current period (%)
Product quality projects	6,956,871	317,713,235	572,613,933	(196,123,726)	-	694,203,442	Internally financed/loan	47%	47%	11,446,953	-	-
Energy-saving and environmental protection projects	5,226,260	427,718,198	229,046,971	(202,694,790)	-	454,070,379	Internally financed/loan	35%	35%	4,816,770	-	-
Equipment advancement and other modification projects	1,621,304	665,964,168	267,228,241	(514,585,481)	-	418,604,928	Internally financed/loan	79%	79%	7,597,740	-	-
Other projects	N/A	251,276,476	43,139,097	(30,725,968)	(1,004,883)	262,684,722	Internally financed/loan	N/A	N/A	3,005,256	-	-
		<u>1,662,672,077</u>	<u>1,112,026,242</u>	<u>(944,129,965)</u>	<u>(1,004,883)</u>	<u>1,829,563,471</u>						
Less: impairment		-	-	-	-	-						
		<u>1,662,672,077</u>	<u>1,112,026,242</u>	<u>(944,129,965)</u>	<u>(1,004,883)</u>	<u>1,829,563,471</u>				<u>26,866,719</u>		

31 December 2018 (audited)

Name of projects	Budget RMB'000	Opening balance RMB	Addition RMB	Transferred to fixed assets RMB (Note V.15)	Transferred to intangible assets RMB (Note V.18)	Disposal of subsidiaries RMB	Closing balance RMB	Source of fund	The proportion of projects investment account 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	1,497,008,845	(1,755,162,350)	-	-	317,713,235	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	(164,222,663)	(131,130,000)	-	665,964,168	Internally financed/loan	68%	68%	7,597,740	-	-
Other projects	N/A	318,887,776	233,439,549	(285,897,407)	(14,828,200)	(325,242)	251,276,476	Internally financed/loan	N/A	N/A	3,005,256	-	-
		<u>1,805,955,609</u>	<u>2,710,593,314</u>	<u>(2,707,593,404)</u>	<u>(145,958,200)</u>	<u>(325,242)</u>	<u>1,662,672,077</u>						
Less: impairment		-	-	-	-	-	-						
		<u>1,805,955,609</u>	<u>2,710,593,314</u>	<u>(2,707,593,404)</u>	<u>(145,958,200)</u>	<u>(325,242)</u>	<u>1,662,672,077</u>				<u>26,866,719</u>		

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. RIGHT-OF-USE ASSETS

For the six months ended 30 June 2019

	Plant and buildings	Machinery and equipment	Motor vehicles	Land use rights	Total
Cost					
At the beginning of the period	423,374,857	789,969	15,681,935	3,578,032	443,424,793
Changes	—	—	—	—	—
At the end of the period	423,374,857	789,969	15,681,935	3,578,032	443,424,793
Accumulated depreciation:					
At the beginning of the period	—	—	—	—	—
Provided	11,325,703	139,406	784,097	47,079	12,296,285
At the end of the period	11,325,703	139,406	784,097	47,079	12,296,285
Impairment:					
At the beginning of the period	—	—	—	—	—
Changes	—	—	—	—	—
At the end of the period	—	—	—	—	—
Net carrying amount:					
At the end of the period	412,049,154	650,563	14,897,838	3,530,953	431,128,508
At the beginning of the period	423,374,857	789,969	15,681,935	3,578,032	443,424,793

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18. INTANGIBLE ASSETS

30 June 2019 (unaudited)

	Concession rights (Note)	Land use rights	Mining rights	Patent	Total
Cost:					
At the beginning of the period	151,479,110	2,476,152,224	133,744,221	885,668	2,762,261,223
Addition	-	30,603,802	-	1,244,266	31,848,068
Transferred from construction in progress	1,004,883	-	-	-	1,004,883
Exchange realignment	-	-	(260,559)	(3,420)	(263,979)
At the end of the period	152,483,993	2,506,756,026	133,483,662	2,126,514	2,794,850,195
Accumulated amortization:					
At the beginning of the period	42,294,400	730,295,485	133,744,221	661,787	906,995,893
Provided	3,331,327	23,753,578	-	301,237	27,386,142
Exchange realignment	-	-	(260,559)	(2,555)	(263,114)
At the end of the period	45,625,727	754,049,063	133,483,662	960,469	934,118,921
Impairment:					
At the beginning of the year and at the end of the period	-	-	-	-	-
Net carrying amount:					
At the end of the period	106,858,266	1,752,706,963	-	1,166,045	1,860,731,274
At the beginning of the period	109,184,710	1,745,856,739	-	223,881	1,855,265,330

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18. INTANGIBLE ASSETS (CONTINUED)

31 December 2018 (Audited)

	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 end 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 end 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 end of the year	–	–	–	–	–
Net carrying amount:					
At the end 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

Note: The concession right is 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 intangible assets. 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.

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19. DEFERRED TAX ASSETS/LIABILITIES

Deferred tax assets and deferred liabilities before offset:

	30 June 2019 (Unaudited)		31 December 2018 (Audited)	
	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	Deferred tax assets
Deferred tax assets				
Assets impairment provision	213,174,472	53,293,618	298,404,365	77,373,928
Sales incentive	133,873,535	33,468,384	76,803,420	19,200,855
Payroll payable	134,699,276	35,381,119	134,725,737	35,389,057
Government grants	385,311,346	96,327,836	385,311,344	96,327,836
Deductible tax loss	-	-	-	-
Others	172,641,517	45,053,725	199,271,234	52,577,064
	1,039,700,146	263,524,682	1,094,516,100	280,868,740
	30 June 2019 (Unaudited)		31 December 2018 (Audited)	
	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	91,133,272	22,783,318	96,265,248	24,066,311
Changes in fair value of financial products and funds	4,480,576	1,120,144	-	-
Changes in fair value of other equity instruments investment	22,414,048	5,603,512	20,869,248	5,217,312
Others	-	-	98,772	24,694
	118,027,896	29,506,974	117,233,268	29,308,317

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19. DEFERRED TAX ASSETS/LIABILITIES (CONTINUED)

Net amount of deferred tax assets/liabilities after offset:

	30 June 2019 (Unaudited)		31 December 2018 (Audited)	
	Offset amount	Net amount	Offset amount	Net amount
Deferred tax assets	6,723,656	256,801,026	5,242,006	275,626,734
Deferred tax liabilities	6,723,656	22,783,318	5,242,006	24,066,311

The Group's unrecognized deferred tax assets arising from deductible temporary differences and deductible tax losses were as follows:

	30 June 2019 Unaudited	31 December 2018 Audited
Deductible temporary differences	2,792,578,401	3,016,694,768
Deductible tax losses	1,437,029,847	1,941,057,921
	4,229,608,248	4,957,752,689

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19. DEFERRED TAX ASSETS/LIABILITIES (CONTINUED)

Unrecognized deferred tax liabilities arising from deductible tax losses will expire in the following years:

	30 June 2019 Unaudited	31 December 2018 Audited
To expire in 2019	65,282,981	62,311,487
To expire in 2020	846,589,342	890,751,120
To expire in 2021	67,022,420	614,727,132
To expire in 2022	2,980,746	119,141,311
To expire in 2023 and subsequent years (Note)	455,154,358	254,126,871
Total	<u>1,437,029,847</u>	<u>1,941,057,921</u>

Note: Oversea subsidiaries of the Company have deductible tax losses amounting to RMB66,011,803 without expiration date.

The Group considered 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 unrecognized taxable temporary differences were as follows:

	30 June 2019 Unaudited	31 December 2018 Audited
Taxable temporary differences (Note)	<u>1,283,229,770</u>	<u>1,395,768,725</u>

Note: The Group's taxable temporary differences of unrecognized deferred tax liabilities generated from long-term equity investment 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 equity investments in these joint ventures and associates in the foreseeable future, it had not recognize deferred tax liabilities according to the above mentioned taxable temporary differences.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20. ASSETS IMPAIRMENT PROVISIONS

30 June 2019 (Unaudited)

	Opening balance (Note)	Increase during the period	Decrease during the period			Closing balance
			Reversal	Write-back/ write-off	Exchange realignment	
Provisions for bad debts	569,171,796	56,162,270	(11,338,052)	-	(36,408)	613,959,606
Including: Trade receivables	72,710,696	397,341	(11,338,052)	-	(35,047)	61,734,938
Other receivables	416,361,533	13,778,075	-	-	(1,361)	430,138,247
Loans and advances to customers	80,099,567	41,986,854	-	-	-	122,086,421
Financial assets purchased under agreements to resell	823,072	-	(733,624)	-	-	89,448
Debt instruments investment	441,104	123,844	-	-	-	564,948
Inventory impairment provision	799,123,990	135,620,418	-	(673,706,666)	(89,978)	260,947,764
Including: Raw materials	306,614,876	115,619,816	-	(294,816,946)	(36,943)	127,380,803
Work in progress	157,296,973	3,524,784	-	(148,282,411)	(28,972)	12,510,374
Finished goods	269,855,384	15,274,444	-	(229,608,234)	(20,489)	55,501,105
Spare parts	65,356,757	1,201,374	-	(999,075)	(3,574)	65,555,482
Property, plant and equipment impairment provision	1,928,201	106,155,192	-	-	2,164,452	110,247,845
Including: Buildings and plant Machinery and equipment	1,928,201	6,106,578	-	-	124,510	8,159,289
Transportation vehicles and tools	-	97,218,670	-	-	1,982,241	99,200,911
Office equipment	-	2,228,556	-	-	45,439	2,273,995
	-	601,388	-	-	12,262	613,650
	<u>1,371,488,163</u>	<u>298,061,724</u>	<u>(12,071,676)</u>	<u>(673,706,666)</u>	<u>2,038,066</u>	<u>985,809,611</u>

Notes to the Interim Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20. ASSETS IMPAIRMENT PROVISIONS (CONTINUED)

31 December 2018 (Audited)

	Opening balance (Note)	Increase during the year	Decrease during the year				Closing balance
			Reversal	Write-back/ write-off	Disposal of subsidiaries	Exchange realignment	
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	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	104,408,146	-	-	(102,479,945)	-	-	1,928,201
Machinery and equipment	487,885,152	-	-	(487,885,152)	-	-	-
Transportation vehicles and tools	619,468	-	-	(619,468)	-	-	-
	<u>1,496,015,015</u>	<u>820,770,794</u>	<u>(24,911,152)</u>	<u>(732,095,675)</u>	<u>(188,575,020)</u>	<u>284,201</u>	<u>1,371,488,163</u>

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 corresponding inventories.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**21. DEPOSITS AND BALANCES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS**

	30 June	31 December
	2019	2018
	Unaudited	Audited
Domestic bank deposits	500,213,889	900,366,111

22. CUSTOMER DEPOSITS

	30 June	31 December
	2019	2018
	Unaudited	Audited
Demand deposits	6,847,261,725	4,062,206,474
Notice deposits	394,536,400	541,791,622
Time deposits	505,071,542	311,311,215
	7,746,869,667	4,915,309,311

Details of customer deposits of Masteel Finance related to the related parties as of 30 June 2019 and 31 December 2018 are disclosed in Note X.6.

23. REPURCHASE AGREEMENTS

	30 June	31 December
	2019	2018
	Unaudited	Audited
Bonds	148,488,875	283,348,863
Notes	1,136,543,162	850,423,514
	1,285,032,037	1,133,772,377

Repurchase agreements is the money arising from notes and bonds discounted by Masteel Finance to other financial institutions according to the repurchase agreements.

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

24. SHORT-TERM LOANS

	30 June 2019 Unaudited	31 December 2018 Audited
Pledged loans (Note 1)	3,510,090	–
Guaranteed loans (Note 2)	1,050,000,000	950,000,000
Unsecured loans	6,501,896,883	6,265,000,000
Inward documentary notes and letters of credit	3,431,220,137	3,702,293,181
	10,986,627,110	10,917,293,181

Note 1: As of 30 June 2019, the Group obtained the bank loan of RMB3,510,090 (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 30 June 2019, the interest rates of the above short-term loans ranged from 2.830%-5.050% (31 December 2018: 2.870%-5.050%).

As of 30 June 2019, the Group had no overdue short-term loans.

25. FINANCIAL LIABILITIES HELD FOR TRADING

	30 June 2019 Unaudited	31 December 2018 Audited
Derivative financial liabilities		
– Forward foreign exchange contracts	–	8,012,670

26. NOTES PAYABLES

	30 June 2019 Unaudited	31 December 2018 Audited
Bank acceptance notes	6,998,754,849	2,638,271,437
	6,998,754,849	2,638,271,437

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

26. NOTES PAYABLES (CONTINUED)

As of 30 June 2019 and 31 December 2018, the ageing of the Group's notes payable was all within six months, and there were no overdue notes.

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:

	30 June 2019 Unaudited	31 December 2018 Audited
Within one year	7,339,733,961	7,551,105,922
One to two years	29,747,882	39,150,817
Two to three years	10,493,316	22,709,232
Over three years	65,107,887	90,770,571
	<u>7,445,083,046</u>	<u>7,703,736,542</u>

The amounts of related parties among the balances of notes and trade payables as of 30 June 2019 and 31 December 2018 are stated in Note X.6 to the financial statements.

As of 30 June 2019, the material trade payables aged over one year were as follows:

	Amount due	Reason for non-settlement
Company 1	19,000,000	Note
Company 2	4,755,173	Note
Company 3	4,360,000	Note
Company 4	2,586,499	Note
Company 5	2,248,596	Note
	<u>32,950,268</u>	

Note: The Group's trade payables aged over one year are mainly due to equipment and construction proceeds pending for settlement.

Notes to the Interim Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

28. ADVANCES FROM CUSTOMERS

	30 June	31 December
	2019	2018
	Unaudited	Audited
Advances from customers	<u>3,676,458,851</u>	<u>3,572,594,400</u>

As of 30 June 2019, the material advances received aged over one year were as follows:

	Amount of advance received	Reason for outstanding
Company 1	1,476,399	Note
Company 2	1,473,059	Note
Company 3	1,091,774	Note
Company 4	865,529	Note
Company 5	<u>818,575</u>	Note
	<u>5,725,336</u>	

Note: The Group's advances from customers aged over one year were mainly due to contracts that were not fully executed.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

29. PAYROLL AND EMPLOYEE BENEFITS PAYABLE

30 June 2019 (Unaudited)

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Short-term employee benefits	487,882,993	1,860,893,811	2,022,821,222	325,955,582
Post-employment benefits (defined contribution plans)	8,374,667	317,975,887	317,258,098	9,092,456
Supplementary retirement benefits due within one year (i) (Note V.37)	1,020,924	–	3,942	1,016,982
One-off termination compensation (ii)	–	53,332,750	53,332,750	–
Early retirement benefits due within one year (Note V.37)	66,364,324	21,598,309	33,182,162	54,780,471
	<u>563,642,908</u>	<u>2,253,800,757</u>	<u>2,426,598,174</u>	<u>390,845,491</u>

31 December 2018 (Audited)

	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
	<u>654,822,505</u>	<u>4,737,024,607</u>	<u>4,828,204,204</u>	<u>563,642,908</u>

(i) MG-VALDUNES 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 discounted 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 Company to its employees due to human resource optimization.

Notes to the Interim Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

29. PAYROLL AND EMPLOYEE BENEFITS PAYABLE (CONTINUED)

Short-term employee benefits:

30 June 2019 (Unaudited)

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Salaries, bonuses and subsidies	417,736,774	1,358,509,337	1,618,146,944	158,099,167
Welfare	41,041,480	116,543,645	69,139,532	88,445,593
Social insurance	7,713	163,017,853	134,198,301	28,827,265
Including: Medical insurance	3,179	142,807,744	124,950,167	17,860,756
Work-related injury insurance	4,193	16,430,157	6,026,988	10,407,362
Maternity insurance	341	3,779,952	3,221,146	559,147
Housing fund	23,090,488	174,579,647	171,812,727	25,857,408
Labor union fee and employee fee	6,006,538	48,243,329	29,523,718	24,726,149
	<u>487,882,993</u>	<u>1,860,893,811</u>	<u>2,022,821,222</u>	<u>325,955,582</u>

31 December 2018 (Audited)

	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 fee	5,509,475	93,014,002	92,516,939	6,006,538
	<u>565,738,070</u>	<u>3,973,779,936</u>	<u>4,051,635,013</u>	<u>487,882,993</u>

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

29. PAYROLL AND EMPLOYEE BENEFITS PAYABLE (CONTINUED)

Defined contribution plans:

30 June 2019 (Unaudited)

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Pension insurance	5,676	257,073,414	256,917,295	161,795
Unemployment insurance	913	11,754,952	10,696,050	1,059,815
Supplementary pension scheme	8,368,078	49,147,521	49,644,753	7,870,846
	8,374,667	317,975,887	317,258,098	9,092,456

31 December 2018 (Audited)

	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 30 June 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 Interim Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

30. TAXES PAYABLE

	30 June 2019 Unaudited	31 December 2018 Audited
Value-added tax	163,156,362	544,873,710
Corporate income tax	190,960,972	343,992,816
Land use tax	86,997,955	116,465,613
Individual income tax	2,082,693	110,073,047
Water conservancy funds	94,320,294	77,688,904
City construction and maintenance tax	15,261,355	49,690,863
Environment protection tax	10,997,580	12,816,164
Other taxes	46,180,688	69,916,870
	609,957,899	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

	30 June 2019 Unaudited	31 December 2018 Audited
Interest payables	110,426,323	118,764,492
Dividends payable	2,399,294,401	6,612,733
Other payables	2,796,953,218	3,405,369,689
	5,306,673,942	3,530,746,914

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**31. OTHER PAYABLES (CONTINUED)****Interest payables**

	30 June	31 December
	2019	2018
	Unaudited	Audited
Interest payables for short-term loans	101,777,851	108,540,149
Instalment interest payables for long-term loans repayable on due date	<u>8,648,472</u>	<u>10,224,343</u>
	<u>110,426,323</u>	<u>118,764,492</u>

As of 30 June 2019, there was no overdue interest payable.

Dividends payable

	30 June	31 December
	2019	2018
	Unaudited	Audited
Dividends paid to ordinary share holders	2,393,823,901	6,612,733
Dividends paid to non-controlling interests	<u>5,470,500</u>	<u>—</u>
	<u>2,399,294,401</u>	<u>6,612,733</u>

As of 30 June 2019, due to the unclaimed dividends declared from the year 2007 to 2011, the Group has accumulated unpaid dividends payable over one year amounting to RMB6,612,733.

Notes to the Interim Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31. OTHER PAYABLES (CONTINUED)

Other payables

	30 June 2019 Unaudited	31 December 2018 Audited
Payable for forfeiting	948,133,553	1,423,959,369
Special funds (Note 1)	608,320,246	514,353,560
Payable for construction, maintenance and inspection fees	398,970,123	444,470,596
Sales incentives	244,414,121	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	35,643,360	41,117,478
Service fees payable	19,783,025	21,071,470
Accrued interest for letters of credit	3,544,689	4,046,598
Others	300,575,617	367,361,822
	2,796,953,218	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 cancelation of the collection of the special found for industrial enterprise restructure.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31. OTHER PAYABLES (CONTINUED)

Other payables (Continued)

At of 30 June 2019, significant other payables aged over one year were as follows:

	Amount payable	Reason for non-settlement
Company 1	502,822,019	Note
Company 2	152,568,484	Note
Company 3	85,000,000	Note
Company 4	47,169,811	Note
Company 5	8,000,000	Note
	795,560,314	

Note: The Group's other payables aged over one year were mainly special funds, advance for the settlement of employees and projects, tax risk provision and the performance guarantee received for the construction and purchase of materials. Since the project did not meet terms of settlement, or the contracts were not completed, the payments were not settled.

32. NON-CURRENT LIABILITIES DUE WITHIN ONE YEAR

	30 June 2019 Unaudited	31 December 2018 Audited
Long-term loans due within one year (Note V.35)	1,489,682,792	1,260,868,462
Lease liabilities due within one year (Note V.36)	16,159,484	—
Long-term payables due within one year	130,867,400	210,000,000
	1,636,709,676	1,470,868,462

Notes to the Interim Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

33. PROVISION

30 June 2019 (Unaudited)

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Pending litigation or arbitration	7,134,461	174,063	297,414	7,011,110
Pending onerous contract (Note 1)	19,502,965	–	75,305	19,427,660
Others	3,360,095	3,361,061	2,868,933	3,852,223
	<u>29,997,521</u>	<u>3,535,124</u>	<u>3,241,652</u>	<u>30,290,993</u>

31 December 2018 (Audited)

	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 1)	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
	<u>38,537,369</u>	<u>27,366,348</u>	<u>35,906,196</u>	<u>29,997,521</u>

Note 1: As of 30 June 2019, the accrued liabilities of the pending onerous contract represented expected loss from executing some sales orders signed by the Group's subsidiary, MG-VALDUNES. Management estimated that the cost of executing those orders would exceed the agreed price and the Group estimated provision accordingly.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**34. OTHER CURRENT LIABILITIES**

	30 June	31 December
	2019	2018
	Unaudited	Audited
Short-term financing bonds	<u><u>-</u></u>	<u><u>1,026,897,260</u></u>

35. LONG-TERM LOANS

	30 June	31 December
	2019	2018
	Unaudited	Audited
Guaranteed loans (Note)	1,336,396,688	1,767,026,304
Unsecured loans	<u>3,044,154,900</u>	<u>3,090,229,710</u>
	4,380,551,588	4,857,256,014
Less: Long-term loans due within one year (Note V.32)	<u>1,489,682,792</u>	<u>1,260,868,462</u>
	<u><u>2,890,868,796</u></u>	<u><u>3,596,387,552</u></u>

Note: The guaranteed loans were provided by the Holding for free as disclosed in Note X.5.

As of 30 June 2019, the interest rates of the above long-term loans ranged from 1.20% to 5.94% (31 December 2018: 1.20% to 5.94%).

Notes to the Interim Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35. LONG-TERM LOANS (CONTINUED)

Analysis on the due date of long-term loans is as follows:

	30 June 2019 Unaudited	31 December 2018 Audited
Within one year or on demand (Note V.32)	1,489,682,792	1,260,868,462
One to two years (inclusive)	2,242,168,796	2,117,187,552
Two to three years (inclusive)	550,000,000	1,350,000,000
Three to five years (inclusive)	85,500,000	50,000,000
Over five years	13,200,000	79,200,000
	<u>4,380,551,588</u>	<u>4,857,256,014</u>

Note: As of 30 June 2019, there was no notes pledged for non-current liabilities due within one year (31 December 2018: Nil).

36. LEASE LIABILITIES

	30 June 2019 Unaudited
Plant and buildings	416,350,833
Machinery and equipment	657,465
Motor vehicles	15,068,073
Land use rights	<u>3,561,231</u>
	435,637,602
Less: Lease liabilities due within one year (Note V.32)	<u>16,159,484</u>
	<u>419,478,118</u>

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

37. LONG-TERM PAYROLL AND EMPLOYEE BENEFITS PAYABLE

	30 June 2019 Unaudited	31 December 2018 Audited
1. Post-employment benefits		
– net liability of defined benefit plans (Note 1)	171,639,081	197,167,953
Less: Early retirement benefits due within one year	54,780,471	66,364,324
2. Supplementary retirement benefits (Note 2)	27,375,562	27,588,769
Less: Supplementary retirement benefits due within one year	1,016,982	1,020,924
	143,217,190	157,371,474

Note 1: Post-employment benefits – net defined benefit liability

		Unrecognized				Less:	
30 June 2019	Opening		financing		Closing	Due within	Closing
(Unaudited)	balance	Increase	expense	Decrease	balance	one year	balance
Early retirement							
benefits	197,167,953	–	7,653,290	33,182,162	171,639,081	54,780,471	116,858,610

Note 2: Supplementary retirement benefit

30 June 2019 (Unaudited)	Opening balance	Increase	Decrease	Closing balance	Less: Due within one year	Closing balance
Supplementary retirement benefits	27,588,769	–	213,207	27,375,562	1,016,982	26,358,580

Notes to the Interim Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

37. LONG-TERM EMPLOYEE BENEFITS PAYABLE (CONTINUED)

Early retirement benefits expected to be paid by the Group:

	30 June 2019 Unaudited	31 December 2018 Audited
Undiscounted value		
Within one year	54,780,471	66,364,324
One to two years	37,336,987	43,196,619
Two to three years	28,457,423	31,477,355
Over three years	66,288,890	79,007,635
	186,863,771	220,045,933
Financing expense unrecognised	(15,224,690)	(22,877,980)
	171,639,081	197,167,953
Less: Due within one year	54,780,471	66,364,324
	116,858,610	130,803,629

Early retirement benefit scheme was implemented by the Company 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 the amount of early retirement benefits needed to be paid in the future years using a growth rate of 2.24% 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 treasure bond rate of 30 June 2019 and accounted in general and administrative expenses. As of 30 June 2019, the current portion of the payment responsibility that would be paid with 12 months was accounted for in short-term employee benefits.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

38. DEFERRED REVENUE

30 June 2019 (Unaudited)

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Compensation of land purchasing and storage (Note)	535,750,210	–	–	535,750,210
Government grants	829,045,345	37,686,131	33,564,286	833,167,190
	1,364,795,555	37,686,131	33,564,286	1,368,917,400

31 December 2018 (Audited)

	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 grants	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 Interim Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

38. DEFERRED REVENUE (CONTINUED)

As of 30 June 2019, liabilities related to government grants were as follows:

	Opening balance	Increase during the current period	Included in other income	Closing balance	Related to assets/ income
Technological transformation fund					
for Phase II silicon steel	77,441,669	-	(2,200,000)	75,241,669	assets
Subsidy for hot-rolled 1580 project	34,848,750	-	(990,000)	33,858,750	assets
New-zone Thermal Power Plant					
CCPP system engineering	22,441,972	-	(2,156,000)	20,285,972	assets
EMU steel wheel production line project	30,574,990	-	(1,100,000)	29,474,990	assets
Environmental subsidy funds for					
flue gas desulfurization and					
135 MW thermal power	11,812,100	-	(283,800)	11,528,300	assets
Fixed assets subsidy for thin plate					
project	49,458,023	-	(2,364,247)	47,093,776	assets
Environmental funds for desulfurization					
project of 3rd iron plant's flue gas					
(BOT)	12,288,243	-	(295,242)	11,993,001	assets
Alloy bar production line refinement					
project of electric furnace plant	31,865,400	-	(741,840)	31,123,560	assets
Subsidy for Maanshan railway industry					
(Maanshan)	11,144,100	-	(504,000)	10,640,100	assets
Comprehensive utilization of gas					
for power generation of					
a thermal power plant	22,517,583	-	(545,380)	21,972,203	assets
Subsidy funds for 4# blast					
furnace project	175,862,663	-	(4,312,002)	171,550,661	assets
Intelligent manufacturing special fund	-	18,000,000	-	18,000,000	assets
Subsidies for galvanizing projects	9,322,034	3,109,800	(415,297)	12,016,537	assets
Others	339,467,818	16,576,331	(17,656,478)	338,387,671	assets
Total	829,045,345	37,686,131	(33,564,286)	833,167,190	

Note: The compensation for disposal of land use rights was counted into deferred income, which was received from Hefei Land Reserve Center by Ma Steel (Hefei).

V. MAJOR NOTES TO 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 current 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 utilization 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	<u>810,352,214</u>	<u>79,097,213</u>	<u>(60,404,082)</u>	<u>829,045,345</u>	

Notes to the Interim Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

39. SHARE CAPITAL

30 June 2019 (Unaudited)

Registered, issued and fully paid	Opening balance		Increase/(decrease) during the period			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	7,700,681,186	100.0	-	-	-	7,700,681,186	100.0

31 December 2018 (Audited)

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	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 per value for each A share or H share is RMB1.00.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

40. CAPITAL RESERVE

30 June 2019 (Unaudited)

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Share premium	8,332,628,114	–	–	8,332,628,114
Others	19,659,078	–	–	19,659,078
Total	<u>8,352,287,192</u>	<u>–</u>	<u>–</u>	<u>8,352,287,192</u>

31 December 2018 (Audited)

	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	<u>8,348,726,741</u>	<u>3,560,451</u>	<u>–</u>	<u>8,352,287,192</u>

Notes to the Interim Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

41. OTHER COMPREHENSIVE INCOME

Accumulated balance of other comprehensive income attributable to owners of the parent in the consolidation statement of financial position:

	1 January 2019 Unaudited	Increase/ (decrease) Unaudited	30 June 2019 Unaudited
Other comprehensive income that may not be reclassified to profit or loss			
Change in fair value of other equity instruments investments	15,651,936	1,158,600	16,810,536
Other comprehensive income that will be reclassified to profit or loss			
Other comprehensive income to be reclassified to profit or loss under the equity method	(2,745,469)	665,713	(2,079,756)
Exchange differences arising from foreign currency translation	<u>(125,608,630)</u>	<u>(4,003,774)</u>	<u>(129,612,404)</u>
	<u>(112,702,163)</u>	<u>(2,179,461)</u>	<u>(114,881,624)</u>

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

41. OTHER COMPREHENSIVE INCOME (CONTINUED)

Amount of other comprehensive income in the consolidation income statement:

For the six months ended 30 June 2019 (Unaudited)

	Amount before tax	Less: charged to other comprehensive income before and reclassified to profit or loss in current period	Less: charged to other comprehensive income before and reclassified to retained earnings in current period	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	1,544,800	-	-	(386,200)	1,158,600	-
Other comprehensive income that will be reclassified to profit or loss						
Other comprehensive income to be reclassified to profit or loss under the equity method	665,713	-	-	-	665,713	-
Exchange differences arising from foreign currency translation	(4,003,774)	-	-	-	(4,003,774)	-
	<u>(1,793,261)</u>	<u>-</u>	<u>-</u>	<u>(386,200)</u>	<u>(2,179,461)</u>	<u>-</u>

Notes to the Interim Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

41. OTHER COMPREHENSIVE INCOME (CONTINUED)

For the six months ended 30 June 2018 (Unaudited)

	Amount before tax	Less: charged to other comprehensive income before and reclassified to profit or loss in current period	Less: charged to other comprehensive income before and reclassified to retained earnings in current period	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	(21,285,666)	-	-	5,321,416	(15,964,250)	-
Other comprehensive income that will be reclassified to profit or loss						
Exchange differences arising from foreign currency translation	(13,094,936)	-	-	-	(13,094,936)	-
	<u>(34,380,602)</u>	<u>-</u>	<u>-</u>	<u>5,321,416</u>	<u>(29,059,186)</u>	<u>-</u>

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

42. SPECIAL RESERVE

30 June 2019 (Unaudited)

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Safety fund	<u>31,037,123</u>	<u>40,421,831</u>	<u>(24,228,524)</u>	<u>47,230,430</u>

31 December 2018 (Audited)

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Safety fund	<u>31,929,722</u>	<u>113,276,676</u>	<u>(114,169,275)</u>	<u>31,037,123</u>

Special reserve is the safety fund accrued according to the article of 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 Interim Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

43. SURPLUS RESERVE

30 June 2019 (Unaudited)

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Statutory reserve (Note i)	3,881,550,020	-	-	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
	4,571,901,256	-	-	4,571,901,256

31 December 2018 (Audited)

	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.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**43. SURPLUS RESERVE (CONTINUED)**

- (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.

44. GENERAL RESERVE

	30 June 2019 Unaudited	31 December 2018 Audited
General reserve (Note)	<u>224,841,404</u>	<u>224,841,404</u>

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

	30 June 2019 Unaudited	31 December 2018 Audited
Retained earnings at end of last year	7,405,577,274	3,643,443,763
Accounting policies changes	<u>–</u>	<u>(20,317,968)</u>
Retained earnings at beginning of the period	7,405,577,274	3,623,125,795
Net profit attributable to owners of the parent	1,144,660,011	5,943,286,585
Less: Transfer to surplus reserve	–	471,893,915
Transfer to general reserve	–	33,294,736
Distribute to shareholders (Note V. 64)	<u>2,387,211,168</u>	<u>1,655,646,455</u>
Retained earnings at the end of the year	<u>6,163,026,117</u>	<u>7,405,577,274</u>

Notes to the Interim Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

46. REVENUE AND COST OF SALES

	For the six months ended 30 June			
	2019 (Unaudited)		2018 (Unaudited)	
	Revenue	Cost of sales	Revenue	Cost of sales
Principal operating income	36,386,178,608	33,073,018,737	39,496,862,420	33,340,407,278
Other operating income	640,515,213	599,405,868	566,179,023	661,943,449
	37,026,693,821	33,672,424,605	40,063,041,443	34,002,350,727

Revenue is presented as follows:

	For the six months ended 30 June	
	2019 Unaudited	2018 Unaudited
Sale of products	36,821,279,888	39,924,210,183
Rendering of services	98,955,950	73,179,076
Rental income	2,680,771	4,050,119
Others	103,777,212	61,602,065
	37,026,693,821	40,063,041,443

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

46. REVENUE AND COST OF SALES (CONTINUED)

Rental income is presented as follows:

	For the six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
Operating lease	2,680,771	4,050,119

Timing of revenue recognition

	For the six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
Recognize at a point in time		
Sale of steel products	34,841,817,090	37,579,412,905
Sales of other products	1,979,462,798	2,344,797,278
Recognize over time		
Financial services	103,777,212	61,602,065
Processing	46,009,187	35,561,120
Packaging services	18,021,441	15,569,211
Lease income	2,680,771	4,050,119
Others	34,925,322	22,048,745
	37,026,693,821	40,063,041,443

Note: For sales of products, the Group satisfies a performance obligation when customer obtained the control of the relevant products, and for providing of services, the Group satisfies a performance obligation based on performance progress over the contract period. The maturity on contract payment of the Group is from 30 to 90 days, without of significant financing component. 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 variable consideration based on the expected or the most probable value. However, the sales price including variable considerations should not exceed the amount of revenue accumulatively recognized which is not likely to be significantly reversed when the uncertainty disappears.

For Disaggregated revenue information, please refer to Note XIII.2.

Notes to the Interim Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

47. TAXES AND SURCHARGES

	For the six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
City construction and maintenance tax	61,088,453	100,318,895
Land usage tax	48,643,011	103,261,094
Education surcharge	40,706,466	76,195,659
Property tax	52,239,081	52,205,172
Environment protection tax	24,836,745	32,570,175
Stamp duty	17,761,220	22,638,893
Water conservancy funds	29,053,902	7,396,546
Vehicle and vessel usage tax	114,668	121,593
Other taxes	6,755,444	5,110,269
	281,198,990	399,818,296

48. SELLING EXPENSES

	For the six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
Transportation fees	336,403,448	376,320,917
Employee benefits	46,576,152	41,301,151
Insurance premium	2,198,233	7,646,864
Others	46,335,599	39,826,394
	431,513,432	465,095,326

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

49. GENERAL AND ADMINISTRATIVE EXPENSES

	For the six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
Employee benefits	290,327,852	282,562,849
Employee termination benefits	53,332,750	53,852,419
Office expenses	167,297,723	124,020,523
Rental fees	18,855,771	35,243,439
Amortization of intangible assets	21,720,314	22,437,478
Depreciation of property, plant and equipment	34,286,697	25,356,918
Travel and entertainment expenses	12,252,518	14,536,892
Maintenance expenses	10,967,748	12,988,620
Auditors' remuneration	1,190,691	4,614,827
Others	101,103,040	122,972,028
	711,335,104	698,585,993

50. R&D EXPENSES

	For the six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
Employee benefits	119,762,410	121,829,050
Equipment expenditure	74,365,329	117,367,800
Material costs	94,773,761	102,849,855
Testing and processing expenses	19,175,298	18,982,001
Outsourced research expenses	23,365,024	8,230,879
Fuel and power expenses	8,279,582	2,496,559
Others	14,814,301	10,035,724
	354,535,705	381,791,868

Notes to the Interim Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51. FINANCIAL EXPENSES

	For the six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
Interest expense (Note)	415,505,618	476,375,706
Including: Lease liabilities interest expense	10,882,088	–
Less: interest income	51,850,462	17,490,196
Less: capitalized interest	–	–
Exchange loss	7,701,744	93,720,882
Others	18,650,031	22,178,935
	<u>390,006,931</u>	<u>574,785,327</u>

Note: The Group's interest expense included interest on bank loans, lease liabilities and short-term commercial paper.

Interest income is as follows:

	For the six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
Bank deposit	<u>51,850,462</u>	<u>17,490,196</u>

For the six months ended 30 June 2019, the above interest income did not include interests generated from financial assets impairment (For the six months ended 30 June: Nil).

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

52. OTHER INCOME

	For the six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
Government grants related to daily operating activities	47,349,002	44,152,109
Refund of withholding individual income tax commission	1,085,332	—
	48,434,334	44,152,109

The government grants related to daily operating activities are as follows:

For the six months ended 30 June	For the six months ended 30 June		Related to assets/ income Unaudited
	2019	2018	
	Unaudited	Unaudited	
Tax refund of development zone	—	1,020,000	income
Province financial subsidy fund for three supplies and one management transformation	10,705,600	5,998,400	income
Total investment support fund for wire and bar production line	—	1,200,000	income
Top 20 tax awards	—	250,000	income
Outstanding contribution award	—	170,000	income
Government outstanding contribution award	—	50,000	income
Government award in Yushan district	—	30,000	income
Social insurance stable subsidy	—	10,198	income
Dangtu county employment management service center GSP stable subsidy in 2017	—	140,000	income
Purchasing center receiving refunds from Maanshan port waterway administration	—	307,584	income
High-tech zone outstanding contribution award	150,000	—	income
Deduction and exemption of land usage tax	116,620	—	income
Skill allowance of Hefei labor bureau	36,000	—	income

Notes to the Interim Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

52. OTHER INCOME (CONTINUED)

The government subsidies related to daily operating activities are as follows: (Continued)

For the six months ended 30 June	For the six months ended 30 June		Related to assets/income
	2019	2018	
	Unaudited	Unaudited	Unaudited
Baoshan district Yangxing town (settlement support fund)	270,000	–	income
Subsidy of land usage tax	1,563,000	1,781,800	income
Advanced manufacturing capital	600,000	–	income
Technological transformation fund for phase II silicon steel	2,200,000	2,200,000	assets
Subsidy for hot-rolled 1580 project	990,000	990,000	assets
New-zone thermal power plant CCGP system engineering	2,156,000	2,156,000	assets
EMU steel wheel production line project	1,100,000	1,100,000	assets
Environmental subsidy funds for flue gas desulfurization and 135 MW thermal power	283,800	283,800	assets
Fixed assets subsidy for thin plate project	2,364,247	2,691,480	assets
Environmental funds for desulfurization project of 3rd iron plant's flue gas (BOT)	295,242	295,240	assets
Engineering of alloy bar finishing production line in electric furnace plant	741,840	741,840	assets
Subsidy for Maanshan railway industry (Maanshan)	504,000	504,000	assets
Comprehensive utilization of gas for power generation of a thermal power plant	545,380	545,380	assets
Subsidy fund for 4# blast furnace project	4,312,002	4,312,000	assets
Subsidies for galvanizing projects	415,297	–	assets
Other subsidies related to income	343,496	3,053,084	income
Other subsidies related to assets	17,656,478	14,321,303	assets
	47,349,002	44,152,109	

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

53. INVESTMENT INCOME

	For the six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
Investment income from long-term equity investments under the equity method	311,705,507	298,820,874
Gain from disposal of subsidiaries	–	173,624,062
Gain from disposal of financial assets held for trading	60,910,020	61,809,574
Gain from disposal of debt instruments investment	38,277,492	26,523,097
	410,893,019	560,777,607

54. CREDIT IMPAIRMENT LOSSES

	For the six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
Bad debts impairment	44,824,218	22,751,923
Debt instruments investment impairment	123,844	75,220
Provision – loan commitment	(237,196)	(166,625)
Impairment losses for financial assets purchased under agreement to resell	(733,624)	(2,124)
	43,977,242	22,658,394

55. ASSETS IMPAIRMENT LOSSES

	For the six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
Provision for inventories	135,620,418	57,950,358
Impairment of fixed assets	106,155,192	–
	241,775,610	57,950,358

Notes to the Interim Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

56. GAIN/(LOSS) FROM DISPOSAL OF ASSETS

	For the six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
(Loss)/gain on disposal of fixed assets	(936,915)	33,366,694
Gain on disposal of intangible assets	—	19,236,732
	<u>(936,915)</u>	<u>52,603,426</u>

57. NON-OPERATING INCOME

	For the six months ended 30 June		Included in non-recurring gains or losses for the six months ended
	2019	2018	30 June
	Unaudited	Unaudited	Unaudited
Government grants	271,900,265	93,314,943	271,900,265
Others	<u>2,406,188</u>	<u>3,307,319</u>	<u>2,406,188</u>
	<u>274,306,453</u>	<u>96,622,262</u>	<u>274,306,453</u>

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

57. NON-OPERATING INCOME (CONTINUED)

Government grants included in the non-operating income are as follows:

	For the six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
Employee settlement for productivity shutting down	175,815,265	93,102,943
Special fund for the elimination of backward capacities	95,885,000	—
Others	200,000	212,000
	<u>271,900,265</u>	<u>93,314,943</u>

58. NON-OPERATING EXPENSES

	For the six months ended 30 June		Included in non-recurring gains or losses for the six months ended
	2019	2018	30 June
	Unaudited	Unaudited	Unaudited
Public welfare donation	311,800	245,350	311,800
Penalty expenditure	1,225,770	1,409,769	1,225,770
Others	72,553	1,259,915	72,553
	<u>1,610,123</u>	<u>2,915,034</u>	<u>1,610,123</u>

Notes to the Interim Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

59. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
Mainland China current income tax expense	215,832,933	352,431,459
Hong Kong current income tax expense	3,934,644	173,230
Overseas current income tax expense	2,689,879	21,423,667
Deferred tax expense/(gain)	17,156,515	(27,988,580)
	239,613,971	346,039,776

Reconciliation between income tax and profit before tax is as follows:

	For the six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
Profit before tax	1,657,293,672	4,202,285,059
Tax at the applicable tax rate of 25% (Note)	414,323,418	1,050,571,265
Effect of different tax rates of subsidiaries	(5,140,443)	(9,203,354)
Non-deductible expenses	29,911,164	45,610,738
Adjustment of current income tax of previous period	(9,619,042)	1,256,455
Other tax preference	(57,429,156)	(46,971,739)
Income not subject to tax	(8,707,094)	(5,469,750)
Unrecognized deductible temporary difference and tax losses	108,968,932	40,044,092
Utilized previous years' unrecognized tax losses	(20,360,277)	(655,092,712)
Reversal of the deductible temporary difference unrecognized in previous period	(132,526,690)	–
Share of profit or loss of joint ventures and associates	(79,806,841)	(74,705,219)
Tax charge at the Group's effective rate	239,613,971	346,039,776
The Group's effective rate	14.46%	8.23%

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.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

60. EARNINGS PER SHARE

	For the six months ended 30 June	
	2019	2018
	cent/share	cent/share
	Unaudited	Unaudited
Basic earnings per share		
Continuing operations	<u>14.86</u>	<u>44.52</u>
Diluted earnings per share		
Continuing operations	<u>14.86</u>	<u>44.52</u>

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 six months ended 30 June 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:

	For the six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
Earnings		
Profit attributable to owners of the parent		
Continuing operations	<u>1,144,660,011</u>	<u>3,428,518,933</u>
Number of shares		
Weighted average number of ordinary shares in issue	<u>7,700,681,186</u>	<u>7,700,681,186</u>

Notes to the Interim Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

61. NOTES TO THE STATEMENT OF CASH FLOWS

	For the six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
(1) Cash received relating to other operating activities:		
Employee relocation compensation received		
from government	175,815,265	93,681,782
Interest income	37,818,765	17,490,196
Government grants	52,639,559	62,135,140
Others	11,400,912	3,307,319
	<u>277,674,501</u>	<u>176,614,437</u>
(2) Cash paid relating to other operating activities:		
Office expenses	131,995,556	124,020,523
Increase in deposit for notes, credit and guarantee	37,959,170	84,852,593
Safety fund	33,383,426	46,396,857
Bank charges	14,108,928	22,178,935
Travel and entertainment expenses	20,007,501	38,504,901
Insurance expenses	4,950,862	19,639,808
Environmental improvement fee	159,942	12,812,685
R&D expenses	14,814,301	39,605,563
Others	91,991,308	161,756,971
	<u>349,370,994</u>	<u>549,768,836</u>

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

61. NOTES TO THE STATEMENT OF CASH FLOWS (CONTINUED)

		For the six months ended 30 June	
		2019	2018
		Unaudited	Unaudited
(3)	Cash received relating to other investing activities:		
	Receive of steel futures deposits	<u> — </u>	<u> 5,020,164 </u>
(4)	Cash paid relating to other investing activities:		
	Steel futures deposits	<u> 40,515,624 </u>	<u> — </u>
(5)	Cash received relating to other financing activities:		
	Discounted notes	<u> 3,471,463 </u>	<u> — </u>
(6)	Cash paid relating to other financing activities:		
	Withholding shareholder's individual income tax	<u> 105,205,310 </u>	<u> — </u>
	Shareholder's loan	<u> 79,132,600 </u>	<u> — </u>
	Lease liabilities expenditure	<u> 18,669,280 </u>	<u> — </u>
		<u> 203,007,190 </u>	<u> — </u>

Notes to the Interim Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

62. SUPPLEMENTS TO THE STATEMENT OF CASH FLOWS

(1) Reconciliation of net profit to cash flows from operating activities

	For the six months ended 30 June	
	2019 Unaudited	2018 Unaudited
Net profit	1,417,679,701	3,856,245,283
Add: Credit impairment losses	43,977,242	22,658,394
Provision for asset impairment losses	241,775,610	57,950,358
Depreciation of property, plant and equipment	1,685,905,549	1,907,822,898
Amortization of right-of-use assets	12,296,285	–
Amortization of intangible assets	27,386,142	130,031,305
Amortization of investment properties	874,650	874,650
Amortization of deferred revenue	(33,564,286)	(30,141,043)
Disposal loss/(gain) of non-current assets	936,915	(52,603,426)
Increase in special reserve	16,193,307	2,633,915
Financial expenses	250,053,646	451,648,499
Investment income	(410,893,019)	(560,777,607)
(Gain)/loss on fair value changes	(26,280,702)	8,960,465
Decrease/(increase) in deferred tax assets	18,825,708	(22,654,197)
Decrease in deferred tax liabilities	(1,282,993)	(5,334,383)
Increase in inventories	76,626,800	54,881,355
(Increase)/decrease in operating receivables	(6,125,472,054)	1,343,412,297
Increase/(decrease) in operating payables	5,777,974,281	(2,932,898,412)
Net cash flows from operating activities	<u>2,973,012,782</u>	<u>4,232,710,351</u>
Endorsement of bank acceptance notes received for the sales of goods and the provision of services	<u>873,429,761</u>	<u>7,622,409,222</u>

Note: The Group had no significant non-cash investing and financing activities (2018: Nil).

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

62. SUPPLEMENTS TO THE STATEMENT OF CASH FLOWS (CONTINUED)

(2) Disposal of subsidiaries and other business units

	For the six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
Consideration for disposal of a subsidiary and other business units	-	-
Cash and cash equivalents received from disposal of subsidiaries and other operation units	-	-
Less: Cash and cash equivalents held by subsidiaries and other operation units disposed	-	37,688
	<u>-</u>	<u>37,688</u>
Net cash impact of disposal of a subsidiary and other operating units	<u>-</u>	<u>(37,688)</u>

(3) Cash and cash equivalents

Net changes of cash and cash equivalents:

	For the six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
Ending balance of cash	6,846,574,485	4,918,646,810
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	-	-
	<u>-</u>	<u>-</u>
Net (decrease)/increase in cash and cash equivalents	<u>(87,601,291)</u>	<u>1,978,144,795</u>

Notes to the Interim Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

62. SUPPLEMENTS TO THE STATEMENT OF CASH FLOWS (CONTINUED)

(3) Cash and cash equivalents (Continued)

Net changes of cash and cash equivalents: (Continued)

	30 June 2019 Unaudited	30 June 2018 Unaudited
Cash		
Including: Cash on hand	67,391	5,126
Balances in banks without restriction	<u>6,846,507,094</u>	<u>4,918,641,684</u>
Ending balance of cash and cash equivalents	<u><u>6,846,574,485</u></u>	<u><u>4,918,646,810</u></u>

63. RESTRICTED ASSETS

	30 June 2019 Unaudited	31 December 2018 Audited	
Cash and bank balances (Note V.1)	2,034,340,961	2,005,084,942	(i)
Financing receivables (Note V.4)	<u>3,939,274,809</u>	<u>—</u>	(ii)
	<u><u>5,973,615,770</u></u>	<u><u>2,005,084,942</u></u>	

(i) As of 30 June 2019, the Group's restricted cash and bank balances include cash deposits as collateral amounting to RMB1,059,571,401 (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 RMB974,769,560 (31 December 2018: RMB983,472,711).

(ii) As of 30 June 2019, the group pledged the bank acceptance notes of RMB3,935,764,719 (31 December 2018: Nil) to issue notes payable and the bank acceptance notes of RMB3,510,090 (31 December 2018: Nil) to obtain the short-term loan.

V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

64. DIVIDENDS

According to the “2018 Annual Profit Distribution Plan” approved by the Company’s 2018 Annual General Meeting on 12 June 2019, the Company 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). As of 30 June 2019, dividends had not been paid as of 30 June 2019 and it was included in other payables of the financial statements.

65. MONETARY ITEMS DENOMINATED IN FOREIGN CURRENCIES

	30 June 2019 (Unaudited)			31 December 2018 (Audited)		
	Original currency	Exchange rate	RMB	Original currency	Exchange rate	RMB
Cash and bank balances						
HKD	6,651,599	0.8797	5,851,412	1,517,268	0.8762	1,329,430
USD	320,285,037	6.8747	2,201,863,544	631,932,431	6.8632	4,337,078,660
EUR	8,524,946	7.8170	66,639,503	22,951,320	7.8473	180,105,893
JPY	5,731	0.0638	366	7,928	0.0619	491
AUD	40,698,674	4.8156	195,988,535	33,968,172	4.8250	163,896,430
CAD	3,505	5.2490	18,398	835,221	5.0381	4,207,927
GBP	693	8.7113	6,037	573	8.6762	4,971
ZAR	78,740	0.4852	38,205	15,683	0.4735	7,426
AED	504,528	1.8716	944,275	973,493	1.8679	1,818,388
			2,471,350,275			4,688,449,616
Financial assets held for trading						
EUR	340,859	7.8170	2,664,495	275,027	7.8473	2,158,219
Trade receivables						
USD	19,038,282	6.8747	130,882,477	14,235,363	6.8632	97,700,143
EUR	15,834,866	7.8170	123,781,148	10,490,857	7.8473	82,324,902
CAD	1,786,459	5.2490	9,377,123	534,340	5.0381	2,692,058
AUD	2,574,512	4.8156	12,397,820	1,284,500	4.8250	6,197,713
HKD	208,623,051	0.8797	183,525,698	50,520,844	0.8762	44,266,364
ZAR	7,033,000	0.4852	3,412,412	8,286,750	0.4735	3,923,776
			463,376,678			237,104,956

Notes to the Interim Financial Statements (Continued)

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V. MAJOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

65. MONETARY ITEMS DENOMINATED IN FOREIGN CURRENCIES (CONTINUED)

	30 June 2019 (Unaudited)			31 December 2018 (Audited)		
	Original currency	Exchange rate	RMB	Original currency	Exchange rate	RMB
Other receivables						
HKD	593,965	0.8797	522,511	3,362,587	0.8762	2,946,299
EUR	2,829,954	7.8170	22,121,750	2,538,412	7.8473	19,919,680
AUD	21	4.8156	101	40	4.8250	193
USD	4,151	6.8747	28,537	4,151	6.8632	28,489
			<u>22,672,899</u>			<u>22,894,661</u>
Trade payables						
AUD	17,325	4.8156	83,430	–	4.8250	–
USD	9,045,827	6.8747	62,187,347	8,919,581	6.8632	61,216,868
EUR	197,378	7.8170	1,542,904	3,381,062	7.8473	26,532,208
HKD	–	0.8797	–	969,501	0.8762	849,477
CAD	–	5.2490	–	1,500	5.0381	7,557
			<u>63,813,681</u>			<u>88,606,110</u>
Other payables						
AUD	6,000	4.8156	28,894	97,454	4.8250	470,216
HKD	4,029,613	0.8797	3,544,851	4,618,349	0.8762	4,046,597
EUR	1,331,666	7.8170	10,409,633	2,061,315	7.8473	16,175,757
USD	137,916,851	6.8747	948,136,976	207,477,470	6.8632	1,423,959,372
AED	–	1.8716	–	211,160	1.8679	394,426
			<u>962,120,354</u>			<u>1,445,046,368</u>
Short-term loan						
USD	376,040,050	6.8747	2,585,162,532	526,501,762	6.8632	3,613,486,893
			<u>2,585,162,532</u>			<u>3,613,486,893</u>
Long-term loan due within one year						
USD	7,360,000	6.8747	50,597,792	7,360,000	6.8632	50,513,152
EUR	5,000,000	7.8170	39,085,000	14,700,000	7.8473	115,355,310
			<u>89,682,792</u>			<u>165,868,462</u>
Long-term loan						
USD	20,680,000	6.8747	142,168,796	24,360,000	6.8632	167,187,552
			<u>142,168,796</u>			<u>167,187,552</u>

VI. CHANGE IN THE SCOPE OF CONSOLIDATION

1. NEWLY ESTABLISHED SUBSIDIARY

For the six months ended 30 June 2019, the Company established the following subsidiaries, and has included them in the scope of consolidation since then.

	Date of establishment	Registered capital	Percentage of equity	Investment form	Capital paid as of the period end
Masteel Hongfei Electricity Power Co.,Ltd. (Note)	June 2019	RMB100,000,000	51%	Cash	RMB0

Note: On 12 June 2019, approved by the 21st meeting of the 9th Board of Directors of the Company, the Company established Masteel Hongfei Electricity Power Co., Ltd. ("Masteel Hongfei") together with Anhui Hongfei New Energy Technology Co., Ltd. and Feimazhike Automation and Information Technology Co., Ltd., which is a subsidiary of the Holding. The registered capital of Masteel Hongfei is RMB100 million and the Company holds 51% of its equity interest. As of 30 June 2019, Masteel Hongfei has completed its registration, but the Company has yet injected capital to it.

2. DISPOSAL OF A SUBSIDIARY

For six months ended 30 June 2019, there were no disposal subsidiaries.

3. CHANGES IN SCOPE OF CONSOLIDATION FOR OTHER REASONS

For six months ended 30 June 2019, there is no change in the scope of consolidation for other reasons.

Notes to the Interim Financial Statements (Continued)

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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) Processing and Distribution Co., Ltd. ("Ma Steel (Guangzhou)")	Guangdong, PRC	Guangdong, PRC	Manufacturing	RMB120,000,000	66.67	–
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	–
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	–

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. INTERESTS IN SUBSIDIARIES (CONTINUED)

Details of the subsidiaries are as follows: (Continued)

						Percentage of equity (%)	
	Place of operation	Place of registration	Business nature		Paid-in capital	Direct	Indirect
Subsidiaries acquired by establishment or investment							
(Continued)							
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 1)	France	France	Manufacturing		EUR110,200,000	100	–
Ma'anshan Oubang Color-coated Technology Co., Ltd. ("Ma Steel Oubang Color-coated")	Anhui, PRC	Anhui, PRC	Manufacturing		RMB50,000,000	67	–
(Masteel Oubang Color-coated")							
Masteel America	USA	USA	Service industry		USD500,000	100	–
Anhui Ma Steel Antirust Material Technology Co., Ltd. ("Ma Steel Antirust")	Anhui, PRC	Anhui, PRC	Manufacturing		RMB10,000,000	51	–
Meite Metallurgical Power	Anhui, PRC	Anhui, PRC	Service industry		RMB500,000	100	–
Ma Steel MiddleEast	Dubai	Dubai	Trading		AED4,000,000	100	–
Changchun Sales	Changchun, PRC	Changchun, PRC	Trading		RMB10,000,000	100	–
Wuhan Material (Note 1)	Wuhan, PRC	Wuhan, PRC	Manufacturing		RMB250,000,000	85	–
Masteel Hongfei (Note VI.1)	Anhui, PRC	Anhui, PRC	Service industry		RMB100,000,000	51	–
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	–
ChangJiang Steel	Anhui, PRC	Anhui, PRC	Manufacturing		RMB1,200,000,000	55	–
Ma-Steel Rail Transportation Co., Ltd. ("Ma-Steel Rail Transportation") (Note 2)	Anhui, PRC	Anhui, PRC	Manufacturing		RMB400,000,000	100	–
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 2018, the Company invested 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 interest, respectively. The Company completed the first phase of capital contribution of RMB31,875,000 on 12 November 2018. The Company completed the second phase of capital contribution of RMB53,125,000 in the current period.

Note 2: For the six month ended 30 June 2019, the Company injected capital amounting to RMB40,000,000 to Ma-Steel Rail Transportation.

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VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. INTERESTS IN SUBSIDIARIES (CONTINUED)

Subsidiaries which had material non-controlling interests are as follows:

	For the six month ended 30 June	
	2019/ 30 June 2019 Unaudited	2018/ 31 December 2018 Unaudited/ Audited
The proportion of equity held by non-controlling interests:		
Ma Steel (Hefei)	29%	29%
Changjiang Steel	45%	45%
Masteel Finance	9%	9%
Profit or loss attributable to non-controlling interests:		
Ma Steel (Hefei)	10,546,543	15,800,671
Changjiang Steel	240,083,465	382,789,275
Masteel Finance	12,095,720	12,182,769
Dividends paid to non-controlling interests:		
Ma Steel (Hefei)	—	—
Changjiang 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:		
Ma Steel (Hefei)	650,659,468	639,682,701
Changjiang Steel	2,213,425,787	2,488,805,895
Masteel Finance	270,036,729	267,338,897

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)	Changjiang Steel	Masteel Finance
30 June 2019 or for the six months ended 30 June 2019 (Unaudited)			
Current assets	1,251,487,517	5,537,802,774	16,042,368,838
Non-current assets	3,026,639,233	4,147,509,803	2,261,144,982
Total assets	<u>4,278,126,750</u>	<u>9,685,312,577</u>	<u>18,303,513,820</u>
Current liabilities	(1,433,148,646)	(4,669,868,063)	(15,303,022,932)
Non-current liabilities	(601,324,766)	(96,720,542)	(82,784)
Total liabilities	<u>(2,034,473,412)</u>	<u>(4,766,588,605)</u>	<u>(15,303,105,716)</u>
Revenue	2,094,990,722	7,337,725,833	192,136,092
Net profit	36,367,391	533,518,812	134,396,892
Total comprehensive income	<u>36,367,391</u>	<u>533,518,812</u>	<u>134,396,892</u>
Net cash flows from operating activities	<u>(73,998,907)</u>	<u>(632,096,096)</u>	<u>830,428,685</u>

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VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. INTERESTS IN SUBSIDIARIES (CONTINUED)

	Ma Steel (Hefei)	Changjiang Steel	Masteel Finance
31 December 2018 (Audited) or for the six months ended 30 June 2018 (Unaudited)			
Current assets	1,567,807,947	6,812,129,772	13,694,181,891
Non-current assets	<u>3,178,015,241</u>	<u>4,224,413,085</u>	<u>2,517,527,194</u>
Total assets	<u><u>4,745,823,188</u></u>	<u><u>11,036,542,857</u></u>	<u><u>16,211,709,085</u></u>
Current liabilities	(1,679,655,280)	(5,362,859,556)	(13,241,102,137)
Non-current liabilities	<u>(860,365,492)</u>	<u>(143,003,535)</u>	<u>(174,764)</u>
Total liabilities	<u><u>(2,540,020,772)</u></u>	<u><u>(5,505,863,091)</u></u>	<u><u>(13,241,276,901)</u></u>
Revenue	2,724,528,391	7,113,010,984	131,312,175
Net profit	54,485,074	850,642,833	135,364,095
Total comprehensive income	<u><u>54,485,074</u></u>	<u><u>850,642,833</u></u>	<u><u>135,364,095</u></u>
Net cash flows from operating activities	<u><u>21,935,881</u></u>	<u><u>964,413,456</u></u>	<u><u>213,528,340</u></u>

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
Shanghai Iron and Steel Electronic	Shanghai, PRC	Shanghai, PRC	Manufacturing	RMB20,000,000	20	–	Equity method
Xinchuang Environmental Protection (Note 1)	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
Masteel Scrap	Anhui, PRC	Anhui, PRC	Manufacturing	RMB100,000,000	45	–	Equity method
Masteel K. Wah	Anhui, PRC	Anhui, PRC	Manufacturing	USD8,389,000	30	–	Equity method
Magang Chemicals & Energy	Anhui, PRC	Anhui, PRC	Manufacturing	RMB600,000,000	45	–	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

Note 1: As of 30 June 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 was less than 20%. Thus, the equity investment in Xinchuang Environmental Protection was accounted as an associate.

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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 by 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.

	30 June 2019 or for the six months ended 30 June 2019	31 December 2018 or for the six months ended 30 June 2018
Current assets	392,321,380	412,434,918
Non-current assets	195,219,244	208,914,826
Total assets	587,540,624	621,349,744
Current liabilities	46,243,069	85,171,831
Non-current liabilities	4,637,288	—
Total liabilities	50,880,357	85,171,831
Non-controlling interests	—	—
Equity attributable to owners of the parent	536,660,267	536,177,913
The Group's share of net assets	268,330,134	268,088,957
Adjustment	—	—
The carrying value of the investment	268,330,134	268,088,957
Revenue	279,573,669	276,145,030
Income tax expense	30,226,198	30,232,045
Net profit	90,482,354	87,264,404
Other comprehensive income	—	—
Total comprehensive income	90,482,354	87,264,404
Dividends received	45,000,000	120,000,000

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. INTERESTS IN JOINT VENTURES AND ASSOCIATES (CONTINUED)

Henan JinMa Energy and Shenglong Chemical are the Group's material associates and are accounted by 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:

	30 June 2019 or for the six months ended 30 June 2019	31 December 2018 or for the six months ended 30 June 2018
Henan JinMa Energy		
Current assets	2,445,178,846	2,391,446,000
Non-current assets	1,853,103,924	1,683,056,000
Total assets	4,298,282,770	4,074,502,000
Current liabilities	1,490,977,678	1,420,505,000
Non-current liabilities	287,520,006	276,286,000
Total liabilities	1,778,497,684	1,696,791,000
Non-controlling interests	97,551,082	97,983,000
Equity attributable to owners of the parent	2,422,234,004	2,279,728,000
The Group's share of net assets	651,338,724	613,018,859
Adjustment	—	—
The carrying value of the investment	651,338,724	613,018,859
Revenue	3,968,372,796	3,293,855,000
Income tax expenses	112,066,949	128,974,000
Net profit	342,038,760	371,406,000
Total comprehensive income	344,397,900	371,406,000
Dividends received	50,400,000	40,320,000

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VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. INTERESTS IN JOINT VENTURES AND ASSOCIATES (CONTINUED)

	30 June 2019 or for the six months ended 30 June 2019	31 December 2018 or for the six months ended 30 June 2018
Shenglong Chemical		
Current assets	1,853,514,002	1,545,284,586
Non-current assets	1,486,625,746	1,532,216,940
Total assets	3,340,139,748	3,077,501,526
Current liabilities	1,006,064,977	779,078,109
Non-current liabilities	8,064,165	8,064,165
Total liabilities	1,014,129,142	787,142,274
Non-controlling interests	—	—
Equity attributable to owners of the parent	2,326,010,606	2,290,359,252
The Group's share of net assets	744,090,793	732,685,925
Adjustment	—	—
The carrying value of the investment	744,090,793	732,685,925
Revenue	3,009,673,830	2,325,144,510
Income tax expense	280,475,399	125,291,248
Net profit	279,962,305	407,646,350
Total comprehensive income	279,962,305	407,646,350
Dividends received	16,000,000	32,000,000

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. INTERESTS IN JOINT VENTURES AND ASSOCIATES (CONTINUED)

	30 June 2019 or for the six months ended 30 June 2019	31 December 2018
Magang Chemicals & Energy		
Current assets	558,080,327	813,929,850
Non-current assets	966,573,564	574,829,336
Total assets	1,524,653,891	1,388,759,186
Current liabilities	96,568,893	54,019,713
Non-current liabilities	—	—
Total liabilities	96,568,893	54,019,713
Non-controlling interests	—	—
Equity attributable to owners of the parent	1,428,084,998	1,334,739,473
The Group's share of net assets	642,638,249	600,632,763
Adjustment	(632,763)	(632,763)
The carrying value of the investment	642,005,486	600,000,000
Revenue	1,296,458,289	—
Income tax expense	25,368,749	—
Net profit	93,345,525	—
Total comprehensive income	93,345,525	—
Dividends received	—	—

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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 are as follows:

	30 June 2019 Unaudited	31 December 2019 Audited
Joint ventures		
The carrying value of the Group's investments	502,385	501,735
	For the six months ended June	
	2019	2018
	Unaudited	Unaudited
Total shown as below (calculated according to the respective equity holding percentage)		
Net profit/(loss)	650	(535)
Other comprehensive income	—	—
Total comprehensive income	650	(535)
	30 June	31 December
	2019	2018
	Unaudited	Audited
Associates		
The carrying value of the Group's investments	700,763,694	594,767,905
	For the six months ended	
	30 June 2019	30 June 2018
	Unaudited	Unaudited
Total shown as below (calculated according to the respective equity holding percentage)		
Net profit	47,829,024	27,054,475
Other comprehensive income	—	—
Total comprehensive income	47,829,024	27,054,475

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:

30 June 2019 (Unaudited)

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 balances	-	-	9,045,908,246	-	-	9,045,908,246
Financial assets held for trading	2,013,174,319	-	-	-	-	2,013,174,319
Financing receivables	-	-	-	9,996,373,810	-	9,996,373,810
Trade receivables	-	-	1,237,844,195	-	-	1,237,844,195
Other receivables	-	-	240,532,027	-	-	240,532,027
Financial assets purchased under agreements to resell	-	-	199,454,377	-	-	199,454,377
Loans and advances to customers	-	-	5,703,566,034	-	-	5,703,566,034
Debt instruments investment	-	-	2,222,027,503	-	-	2,222,027,503
Other equity instruments investments	-	-	-	-	264,667,164	264,667,164
	<u>2,013,174,319</u>	<u>-</u>	<u>18,649,332,382</u>	<u>9,996,373,810</u>	<u>264,667,164</u>	<u>30,923,547,675</u>

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	-	-	500,213,889	500,213,889
Customer deposits	-	-	7,746,869,667	7,746,869,667
Repurchase agreements	-	-	1,285,032,037	1,285,032,037
Short-term loans	-	-	10,986,627,110	10,986,627,110
Notes payable	-	-	6,998,754,849	6,998,754,849
Trade payables	-	-	7,445,083,046	7,445,083,046
Other payables	-	-	4,417,114,546	4,417,114,546
Non-current liabilities due within one year	-	-	1,636,709,676	1,636,709,676
Long-term loans	-	-	2,890,868,796	2,890,868,796
Lease liabilities	-	-	419,478,118	419,478,118
	<u>-</u>	<u>-</u>	<u>44,326,751,734</u>	<u>44,326,751,734</u>

Notes to the Interim Financial Statements (Continued)

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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 (Audited)

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 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
	<u>2,084,414,075</u>	<u>-</u>	<u>18,735,975,284</u>	<u>4,970,113,847</u>	<u>263,122,364</u>	<u>26,053,625,570</u>

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
	<u>8,012,670</u>	<u>-</u>	<u>37,097,293,109</u>	<u>37,105,305,779</u>

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

2. OFFSETTING OF FINANCIAL INSTRUMENTS

For the six months ended 30 June 2019, there were no offsetting arrangements for account receivables (2018: Nil).

3. TRANSFER OF FINANCIAL ASSETS

Financial assets transferred but not yet fully derecognized

As of 30 June 2019, the Group endorsed (but not yet fully derecognized) bank acceptance notes to its suppliers with a carrying amount of RMB17,255,576 for settlement of trade payables (31 December 2018: RMB159,713,509), and the bank acceptance notes discounted to banks which was not derecognized was amounting to RMB3,510,090 (31 December 2018: Nil). As of 30 June 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 30 June 2019, the carrying amount of trade payables settled by the Group through them amounted to RMB17,255,576 (31 December 2018: RMB159,713,509). As of 30 June 2019, the short term loans obtained from the pledge of Notes receivables were amounting to RMB3,510,090 (31 December 2018: Nil).

Transferred financial assets fully derecognized but with continuing involvement

As of 30 June 2019, the Group endorsed (and fully derecognized) bank acceptance notes to its suppliers with a carrying amount of RMB712,703,157 (31 December 2018: RMB7,398,304,418) for settlement of trade payables, and the bank acceptance notes discounted to banks which was fully derecognized were amounting to RMB2,252,333,872 (31 December 2018: Nil). As of 30 June 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.

For the six month ended 30 June 2019, no gain or loss was recognized in 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.

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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 exchange rate risk). The Group's principal financial instruments are comprised of cash and bank balances, financial assets held for trading, debt instruments investment, loans, 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 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.

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS *(CONTINUED)*

4. FINANCIAL INSTRUMENTS RISK *(CONTINUED)*

Credit risk *(Continued)*

The Group's other financial assets comprise debt instruments investment, 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.

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 10% (2018: 13%) and 25% (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 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, meaning the present value of cash shortfall.

Based on the credit risk changes since financial instruments' initial recognition, the Group calculates expected credit losses in three different phases:

- Phase 1: Financial instruments whose credit risk have not increased significantly 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.
- Phase 2: Financial instruments whose credit risk have increased significantly but without objective evidence for impairment 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.
- Phase 3: Financial instruments that is evidently credit-impaired at the financial position date 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.

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VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. FINANCIAL INSTRUMENTS RISK (CONTINUED)

Credit risk (Continued)

Measurement of expected credit losses (Continued)

For a financial instruments, whose loss allowance had 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 current period, the Group should measure the loss allowance of 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 maxim criteria are triggered, the Group determines the credit risk of a financial instruments has increased significantly:

Quantitative criteria:

- As of the financial position date, the default risk in the rest of expected lifetime has increased over specific percentage.

Qualitative criteria:

- Material adverse change occurs in the operation or financial position of main debtors or receiving warning customer lists.

Maximum criteria:

- The overdue of debtors' contract payment (including principle and interest) has reached specific period.

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 under the new financial instruments standards, 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;
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- any principle, advances, interest or corporate bond investment of a debtor has been overdue for certain period of time.

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.

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VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. FINANCIAL INSTRUMENTS RISK (CONTINUED)

Credit risk (Continued)

Parameters of expected credit losses measurement

Depending on whether credit risk has increased significantly or whether impairment has occurred, the Group measures 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 and according to the requirements of the new financial instrument standards under Accounting Standards for Business Enterprises, the Group will consider the quantitative analysis of historical statistics (such as the credit rate of the counter party, 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 probability that a debtor fails to fulfil its repayment duty in 12 month 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-economy 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 incurs and is calculated basing 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.

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. FINANCIAL INSTRUMENTS RISK (CONTINUED)

Credit risk (Continued)

Forecasting information

Forecasting information are used in both assessment of whether the credit risk has been increased significantly and calculation of expected credit losses. The Group identifies key economic indicators that will influence the credit risk of different business and expected credit losses by analyzing historical statistics.

These indicators will have different impact on default probability and default loss rate for different types of business. In the process, the Group will apply management judgment. Based on the result of judgment, the Group will forecast those indicators every half a year and apply regression analysis to determine the impact of the indicators on default probability and loss rate.

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 the credit risk level is disclosed as follows:

30 June 2019 (Unaudited)

	Carrying amount (unsecured)		Carrying amount (secured)	
	In 12 months Expected credit losses	In the rest of expected lifetime Expected credit losses	In 12 months Expected credit losses	In the rest of expected lifetime Expected credit losses
Loans	2,518,342,216	-	180,143,968	-
Discounted notes	2,964,939,074	-	-	-
Factoring	40,140,776	-	-	-
Financial assets purchased under agreements to resell	199,454,377	-	-	-
Debt instruments investment	2,222,027,503	-	-	-
	7,944,903,946	-	180,143,968	-

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VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. FINANCIAL INSTRUMENTS RISK (CONTINUED)

Credit risk (Continued)

Forecasting information (Continued)

31 December 2018 (Audited)

	Carrying amount (unsecured)		Carrying amount (secured)	
	In 12 months Expected credit losses	In the rest of expected lifetime Expected credit losses	In 12 months Expected credit losses	In the rest of expected 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	–	–	–
	<u>7,635,541,034</u>	<u>–</u>	<u>120,277,002</u>	<u>–</u>

As of 30 June 2019, the Group's trade receivables that were not considered to be impaired mainly relate to a number of independent customers that had a good track record with the Group.

Based on past experience, the directors of the Group were of the opinion that no provision for impairment was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable as of 30 June 2019.

Liquidity risk

The Group applies a liquidity planning tool to manage liquidity risk of funding shortfalls, which takes both 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 30 June 2019, 93% of the Group's debts were due within one year (31 December 2018: 89%).

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. FINANCIAL INSTRUMENTS RISK (CONTINUED)

Liquidity risk (Continued)

A liquidity analysis of the undiscounted contractual cash flows of the financial liabilities is as shown in below table.

30 June 2019 (Unaudited)

	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	500,213,889	-	-	-	-	500,213,889
Short-term loans	10,986,627,110	-	-	-	-	10,986,627,110
Customer deposits	7,746,869,667	-	-	-	-	7,746,869,667
Repurchase agreements	1,285,032,037	-	-	-	-	1,285,032,037
Notes payable	6,998,754,849	-	-	-	-	6,998,754,849
Trade payables	7,445,083,046	-	-	-	-	7,445,083,046
Other payables	4,417,114,546	-	-	-	-	4,417,114,546
Non-current liabilities due within one year	1,636,709,676	-	-	-	-	1,636,709,676
Long-term loans	376,660,515	2,344,167,491	555,133,132	86,628,618	14,877,866	3,377,467,622
Lease liabilities	21,179,075	37,110,021	35,763,216	71,334,815	493,082,906	658,470,033
Total	41,414,244,410	2,381,277,512	590,896,348	157,963,433	507,960,772	45,052,342,475

31 December 2018 (Audited)

	Within 1 year	1-2 years	2-3 years	3-5 years	Over 5 years	Total
Short-term loans	10,917,293,181	-	-	-	-	10,917,293,181
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
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

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VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. FINANCIAL INSTRUMENTS RISK (CONTINUED)

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.

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/(loss) (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	Increase/ (decrease) in net profit
For the six month ended 30 June 2019 (Unaudited)		
RMB	50	(10,564,888)
USD	50	(145,488)
EUR	50	–
RMB	(50)	10,564,888
USD	(50)	145,488
EUR	(50)	–
For the six month ended 30 June 2018 (Unaudited)		
RMB	50	(9,152,169)
USD	50	(136,009)
EUR	50	–
RMB	(50)	9,152,169
USD	(50)	136,009
EUR	(50)	–

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. FINANCIAL INSTRUMENTS RISK (CONTINUED)

Market risk (Continued)

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 are 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 Australian dollars and Hong Kong Dollars. Fluctuations of the exchange rates of Renminbi against these foreign currencies can affect the Group's results of operations.

The carrying amounts and related maximum exposure to foreign currency risk of 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 Notes V. 65 of the financial statements.

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).

30 June 2019 (Unaudited)

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in net profit	Increase/ (decrease) in other comprehensive income	Increase/ (decrease) in equity
Depreciation of RMB to USD	1%	(10,979,156)	48,995	(10,930,161)
Depreciation of RMB to EUR	1%	119,822	2,326,142	2,445,964
Depreciation of RMB to AUD	1%	–	2,285,793	2,285,793
Depreciation of RMB to HKD	1%	230	3,999,929	4,000,159
Appreciation of RMB to USD	–1%	10,979,156	(48,995)	10,930,161
Appreciation of RMB to EUR	–1%	(119,822)	(2,326,142)	(2,445,964)
Appreciation of RMB to AUD	–1%	–	(2,285,793)	(2,285,793)
Appreciation of RMB to HKD	–1%	(230)	(3,999,929)	(4,000,159)

Notes to the Interim Financial Statements (Continued)

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VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. FINANCIAL INSTRUMENTS RISK (CONTINUED)

Market risk (Continued)

Exchange rate risk (Continued)

31 December 2018 (Audited)

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in net profit	Increase/ (decrease) in other comprehensive income	Increase/ (decrease) in equity
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 adjusts it 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 six months ended 30 June 2019, capital management objectives, policies or procedures of the Group did not change.

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 the amount of adjusted capital plus net debt, and the target gearing ratio for the Group is between 50% and 70%. Net debt includes customer deposits, bank loans, notes payables, trade payables, payroll and employee benefits payable, and other payables, 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:

	30 June 2019 Unaudited	31 December 2018 Audited
Deposits and balances from banks and other Institutions	500,213,889	900,366,111
Customer deposits	7,746,869,667	4,915,309,311
Repurchase agreements	1,285,032,037	1,133,772,377
Short-term loans	10,986,627,110	10,917,293,181
Financial liabilities held for trading	–	8,012,670
Notes payable	6,998,754,849	2,638,271,437
Trade payables	7,445,083,046	7,703,736,542
Payroll and employee benefits payable	390,845,491	563,642,908
Other payables	5,306,673,942	3,530,746,914
Other current liabilities	–	1,026,897,260
Non-current liabilities due within one year	1,636,709,676	1,470,868,462
Long-term loans	2,890,868,796	3,596,387,552
Lease liabilities	419,478,118	–
Long-term employee benefits payable	143,217,190	157,371,474
Less: Cash and bank balances	9,045,908,246	9,762,844,718
Net liabilities	36,704,465,565	28,799,831,481
Capital attributable to owners of the parent	26,945,085,961	28,173,623,272
Adjusted capital	26,945,085,961	28,173,623,272
Capital and net liabilities	63,649,551,526	56,973,454,753
Gearing ratio	58%	51%

Notes to the Interim Financial Statements (Continued)

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IX. DISCLOSURE OF FAIR VALUE

1. FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

30 June 2019 (Unaudited)

	Inputs used by fair value measurement			Total
	Quoted prices	Significant	Significant	
	in active	observable	unobservable	
	markets	inputs	inputs	
	Level 1	Level 2	Level 3	
Financial assets				
Recurring fair value measurement for:				
Financial assets				
held for trading	449,401,736	–	1,563,772,583	2,013,174,319
Financing receivables	–	9,996,373,810	–	9,996,373,810
Other equity instruments				
investments	–	120,425,377	144,241,787	264,667,164
	<u>449,401,736</u>	<u>10,116,799,187</u>	<u>1,708,014,370</u>	<u>12,274,215,293</u>

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 June 2019. The fair value of forward foreign exchange contracts was determined by the forward foreign exchange rate on the last trading day of June 2019. The fair value of the future contracts was determined by the settlement price of the Dalian Commodity Exchange and Zhengzhou Commodity Exchange on the last trading date in the first half year of 2019.

The Group's level 2 fair value measurement items mainly include unlisted equity investment. 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 30 June 2019 and the information of the comparable listed companies in the same industry. The fair value of notes receivable measured at fair value through other comprehensive income was discounted by the market interest rate.

IX. DISCLOSURE OF FAIR VALUE (CONTINUED)

1. FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE (CONTINUED)

30 June 2019 (Unaudited) (Continued)

The Group's level 3 fair value measurement items mainly include financial products and unlisted equity investment not available for the comparable company multiplier method. The fair value of financial 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 were determined by net asset basis method as of 30 June 2019.

31 December 2018 (Audited)

	Inputs used by 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
	<u>1,984,154,986</u>	<u>5,103,024,730</u>	<u>230,470,570</u>	<u>7,317,650,286</u>
Financial liabilities				
Recurring fair value measurement for:				
Financial liabilities measured at fair value through profit and loss	–	8,012,670	–	8,012,670

Notes to the Interim Financial Statements (Continued)

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IX. DISCLOSURE OF FAIR VALUE (CONTINUED)

2. FINANCIAL ASSETS AND LIABILITIES DISCLOSED AT FAIR VALUE

30 June 2019 (Unaudited)

	Inputs used by fair value measurement			Total
	Quoted prices	Significant	Significant	
	in active	observable	unobservable	
	markets	inputs	inputs	
	Level 1	Level 2	Level 3	
Financial liabilities				
Long-term loans	-	3,072,748,062	-	3,072,748,062

31 December 2018 (Audited)

	Inputs used by fair value measurement			Total
	Quoted prices	Significant	Significant	
	in active	observable	unobservable	
	markets	inputs	inputs	
	Level 1	Level 2	Level 3	
Financial liabilities				
Long-term loans	-	4,070,494,820	-	4,070,494,820

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 the financial instruments that the difference between the fair values and carrying amounts is very little and equity instruments for which no price can be quoted in an active market and whose fair value cannot be reliably measured.

	Carrying amounts		Fair values	
	30 June	31 December	30 June	31 December
	2019	2018	2019	2018
	Unaudited	Audited	Unaudited	Audited
Financial liabilities				
Long-term loans	2,890,868,796	3,596,387,552	3,072,748,062	4,070,494,820

IX. DISCLOSURE OF FAIR VALUE (CONTINUED)

3. VALUATION OF FAIR VALUE (CONTINUED)

Fair value of financial instruments (Continued)

Management had assessed the fair value of cash, trade receivables, other receivables, debt instruments investment, 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. Since the residual terms of the above-mentioned items were not long, their fair values were similar to the book values.

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 the non-current part of held to maturity investments 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 30 June 2019, the default risk for the long-term loans was evaluated as not significant.

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS

1. PARENT COMPANY

Name of parent	Place of registration	Business nature	Registered capital RMB	Share of equity interests (%)	Share of voting rights (%)
The Holding	Anhui, PRC	Manufacturing	6,298,290,000	45.535	45.535

The Company is ultimately controlled by the Holding.

2. SUBSIDIARIES

Details of the subsidiaries are stated in Note VII.1 to the financial statements.

Notes to the Interim Financial Statements (Continued)

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X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

3. ASSOCIATES AND JOINT VENTURES

Details of associates and joint ventures are stated in Note VII.2 to the financial statements.

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
Feimazhike Automation and Information Technology Co., Ltd.	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

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. OTHER RELATED PARTIES (CONTINUED)

Name	Relationship with the Company
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
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
Maanshan Masteel Electric Repair Co., Ltd.	Controlled by the Holding
Ma Steel Powder Metallurgy Co., Ltd.	Controlled by the Holding

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X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

4. OTHER RELATED PARTIES (CONTINUED)

Name	Relationship with the Company
Anhui Masteel Mining Resources Group Co., Ltd. (Note)	Controlled by the Holding
Anhui Masteel ChangRang Energy Co. Ltd.	Controlled by the Holding
Meitai Macao Commercial Service offshore., Ltd	Controlled by the Holding
Shanxi Fuma Carbon Material technology Co. Ltd	Controlled by the Holding
Ma anshan 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 Guohong Enterprise Management Consulting 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 Anhui Masteel Mining Resources Group Co., Ltd., and the transactions and balances of the related part are disclosed under the heading of Anhui Masteel Mining Resources Group Co., Ltd.

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)**5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES****(1) Purchases of ore from related parties**

	Note	For the six months ended June	
		2019 Unaudited	2018 Unaudited
The Holding	(i)	<u>2,063,834,130</u>	<u>1,874,411,815</u>
		<u>2,063,834,130</u>	<u>1,874,411,815</u>

- (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.

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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)

(2) Fees paid for labour, logistics and other services

	Note	For the six months ended June	
		2019 Unaudited	2018 Unaudited
The Holding	(ii)	4,420,463	29,294,578
Ruitai Masteel New Material Technology Co., Ltd.	(ii)	414,399,948	441,296,171
Anhui Masteel Equipment Maintenance Co., Ltd.	(ii)	228,853,135	287,662,127
Xinchuang Environmental Protection Masteel Heavy Machinery Manufacturing Co., Ltd.	(ii)	234,142,689	266,018,472
Masteel Engineering Technology (Group) Co., Ltd.	(ii)	134,041,696	222,043,168
Masteel Automobile Transportation Service Co., Ltd.	(ii)	85,770,847	128,392,970
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(ii)	169,498,774	124,088,338
Feimazhike Automation and Information Technology Co., Ltd.	(ii)	98,221,411	116,027,259
Masteel Transportation Equipment Manufacturing Co., Ltd.	(ii)	191,831,014	102,479,632
Magang (Group) logistics Co., Ltd.	(ii)	22,133,729	64,961,885
Anhui Zhonglian Shipping Co., Ltd.	(ii)	11,618,454	98,941,151
Maanshan Port (Group) Co., Ltd.	(ii)	24,536,614	92,564,908
Ma Steel International Trade and Economic Co., Ltd.	(ii)	–	90,771,344
Masteel Refractory Materials Co., Ltd.	(ii)	110,146	11,962,556
Maanshan Xinchuangbaineng Energy Technology Co., Ltd	(ii)	–	36,833,193
Others	(ii)	20,857,802	25,321,797
		73,735,321	187,358,732
		1,714,172,043	2,326,018,281

- (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, contract of transportation service, equipment repair and maintenance services, and engineering design services, were determined in accordance with a service agreement between the Group and the Holding.

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	For the six months ended June	
		2019 Unaudited	2018 Unaudited
Ma Steel International Trade and Economic Co., Ltd.	(iii)	<u>9,124,860</u>	<u>1,000,358</u>

(iii) The transactions with the Holding and its subsidiaries were conducted on terms of mutually agreed according to market prices between the Group and the related parties.

(4) Rental expenses

	Note	For the six months ended June	
		2019 Unaudited	2018 Unaudited
The Holding	(iv)	<u>29,316,077</u>	<u>28,297,620</u>

(iv) The Holding leased a building to the Group and the rental was determined by terms of mutually agreed between the Group and the Holding.

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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)

(5) Purchases of fixed assets and construction services

	Note	For the six months ended June	
		2019 Unaudited	2018 Unaudited
Masteel Engineering Technology (Group) Co., Ltd.	(iii)	375,393,590	256,263,024
Maanshan Iron Construction Group Co., Ltd.	(iii)	23,371,719	53,904,103
Xinchuang Environmental Protection	(iii)	15,144,378	61,115,440
Feimazhike Automation and Information Technology Co., Ltd.	(iii)	–	49,960,438
Maanshan Jiahua Commodity Concrete Co., Ltd.	(iii)	10,450,712	7,210,439
Masteel Transportation Equipment Manufacturing Co., Ltd.	(iii)	2,949,225	–
Others	(iii)	23,369,205	6,582,044
		450,678,829	435,035,488

(iii) The transactions with the Holding and its subsidiaries were conducted on terms of mutually agreed according to market prices between the Group and the related parties.

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)**5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES (CONTINUED)****(6) Fees received for the supply of utilities, services and other goods**

	Note	For the six months ended June	
		2019 Unaudited	2018 Unaudited
The Holding	(iii)	48,177	1,545,854
Xinchuang Environmental Protection	(iii)	43,813,590	5,603,481
Masteel Engineering Technology (Group) Co., Ltd.	(iii)	2,747,635	58,513,817
Ma Steel Powder Metallurgy Co., Ltd.	(iii)	43,392,169	30,899,542
Maanshan Iron Construction Group Co., Ltd.	(iii)	–	18,170,330
Anhui Masteel Equipment Maintenance Co., Ltd.	(iii)	3,693,197	10,831,176
Maanshan Xinchuangbaineng Energy Technology Co., Ltd.	(iii)	–	6,882,658
Masteel Heavy Machinery Manufacturing Co., Ltd.	(iii)	12,019,523	13,276,044
Feimazhike Automation and Information Technology Co., Ltd.	(iii)	2,812,488	4,280,957
Maanshan Jia Hua Commodity Concrete Co., Ltd.	(iii)	3,285,341	3,764,698
Maanshan Port (Group) Co., Ltd.	(iii)	–	1,539,280
Ruitai Masteel New Material Technology Co., Ltd.	(iii)	4,051,877	1,466,298
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(iii)	2,926,288	449,949
Masteel Transportation Equipment Manufacturing Co., Ltd.	(iii)	1,487,113	337,925
Masteel Refractory Materials Co., Ltd.	(iii)	17,841	30,351
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	(iii)	–	6,275
Others	(iii)	23,525,655	12,421,927
		143,820,894	170,020,562

(iii) The transactions with the Holding and its subsidiaries were conducted on terms of mutually agreed according to market prices between the Group and the related parties.

Notes to the Interim 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)

(7) Sales of steel products

	Note	For the six months ended June	
		2019 Unaudited	2018 Unaudited
Masteel Engineering Technology (Group) Co., Ltd.	(iii)	91,933,435	100,799,290
Anhui BRC & Masteel Weldmesh Co., Ltd.	(iii)	36,530,990	35,416,054
Masteel Heavy Machinery Manufacturing Co., Ltd.	(iii)	464,509	29,731,208
Ma Steel International Trade and Economic Co., Ltd.	(iii)	12,973,664	16,972,416
		141,902,598	182,918,968

(iii) The transactions with the Holding and its subsidiaries were conducted on terms of mutually agreed according to market prices between the Group and the related parties.

(8) Provide leasing services to related parties

	Note	For the six months ended June	
		2019 Unaudited	2018 Unaudited
Anhui Masteel Surface Engineering Technology Co., Ltd.	(iii)	308,728	—
Feimazhike Automation and Information Technology Co., Ltd.	(iii)	82,500	—
		391,228	—

(iii) The transactions with the Holding and its subsidiaries were conducted on terms of mutually agreed according to market prices between the Group and the related parties.

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)**5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES (CONTINUED)****(9) Financial service fee and interest paid to related parties**

	Note	For the six months ended June	
		2019 Unaudited	2018 Unaudited
The Holding	(v)	10,020,198	5,656,976
Maanshan Iron & Steel Group Mining Co., Ltd.	(v)	3,806,715	1,953,234
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	(v)	1,286,920	1,344,902
Masteel Engineering Technology (Group) Co., Ltd.	(v)	1,575,549	1,386,262
Ruitai Masteel New Material Technology Co., Ltd.	(v)	643,631	648,158
Ma Steel International Trade and Economic Co., Ltd.	(v)	373,919	560,630
Feimazhike Automation and Information Technology Co., Ltd.	(v)	228,084	—
Xinchuang Environmental Protection	(v)	1,026,175	210,301
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(v)	315,209	201,036
Magang Group Biding and Consulting Co., Ltd.	(v)	434,351	168,293
Magang (Group) Holding Company Limited Assets Management Company	(v)	128,136	135,808
Masteel Group Kang Tai Land Development Co., Ltd.	(v)	200,132	134,865
Anhui Masteel Luo He Mining Co., Ltd.	(v)	1,274,664	119,662
Others	(v)	2,561,713	4,171,004
		23,875,396	16,691,131

- (v) Masteel Finance absorbed deposits from the Holding and its subsidiaries, and paid interest to them with the interest rate ranging from 0.42% to 2.18% (for the six months ended 30 June 2018: 0.42% to 2.18%).

Notes to the Interim 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)

(10) Financial service income received from related parties

	Note	For the six months ended June	
		2019 Unaudited	2018 Unaudited
The Holding	(vi)	37,742,673	16,461,919
Maanshan Iron & Steel Group Mining Co., Ltd.	(vi)	10,972,553	8,770,178
Masteel Chengxing Metal Resources Co. Ltd	(vi)	2,474,065	—
Anhui Masteel Luo He Mining Co., Ltd.	(vi)	1,293,938	1,240,684
Anhui BRC & Masteel Weldmesh Co., Ltd.	(vi)	1,047,843	1,182,236
Magang (Group) Logistics Co., Ltd.	(vi)	74,579	37,736
Xinchuang Environmental Protection Masteel Engineering Technology (Group) Co., Ltd.	(vi)	—	36,501
Others	(vi)	5,068,162	11,669
		59,469,193	28,279,882

- (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.

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)**5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES (CONTINUED)****(11) Sales of land to related party**

	Note	For the six months ended June	
		2019 Unaudited	2018 Unaudited
Masteel Automobile Transportation Service Co., Ltd.	(vii)	<u>–</u>	<u>23,109,567</u>

(vii) The transactions with Masteel Automobile Transportation Service Co., Ltd. were conducted based on the valuation result of the fair value of the land.

(12) Sales of products and provision of services to joint ventures and associates

	Note	For the six months ended June	
		2019 Unaudited	2018 Unaudited
Masteel Chemical & Energy	(viii) (ix)	972,265,424	–
Ma-Steel OCI Chemical	(viii)	10,499,468	247,964,231
BOC-Ma Steel	(viii)	112,601,812	135,264,963
Masteel Scrap	(viii) (ix)	3,966,766	–
Masteel K. Wah	(viii) (ix)	338,541,858	–
		<u>1,437,875,328</u>	<u>383,229,194</u>

(viii) The above transactions between the Group and the joint venture include: sales of co-products, sales of gas, provision of wastewater treatment services, provision of energy supply services, provision of utilities and facilities, provision of equipment testing services, procurement of coke, and procurement of gases. The transactions with the Holding and its subsidiaries were conducted on terms of mutually agreed according to market prices between the Group and the related parties.

(ix) The Group lost of control of Masteel scrap, Masteel Chemical Energy and Anhui Masteel Jiahua at the end of 2018, and these companies became the Group's associates since then.

Notes to the Interim 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)

(13) Purchase of products from joint ventures and associates

	Note	For the six months ended June	
		2019 Unaudited	2018 Unaudited
Henan JinMa Energy	(viii)	459,587,194	701,455,910
Masteel Scrap	(viii)	2,253,505,651	—
Masteel Chemical & Energy	(viii)	805,158,613	—
BOC-Ma Steel	(viii)	281,043,256	276,145,030
Shenglong Chemical	(viii)	3,300,475	—
		3,802,595,189	977,600,940

(viii) 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, were determined in accordance with a service agreement between the Group and the Holding.

(14) Pay agency fee to joint ventures and associates

	Note	For the six months ended June	
		2019 Unaudited	2018 Unaudited
Masteel scrap	(x)	10,487,940	—

(x) The transactions with a joint venture were conducted on terms of mutually agreed according to market prices between the Group and the related parties.

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)**5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES (CONTINUED)****(15) Provide rental service to a joint venture**

	Note	For the six months ended June	
		2019 Unaudited	2018 Unaudited
BOC-Ma Steel	(x)	625,000	625,000

(16) Pay interest charges for financial services to the joint ventures

	Note	For the six months ended June	
		2019 Unaudited	2018 Unaudited
Masteel Chemical & Energy	(x)	4,837,408	—
Masteel Scrap	(x)	1,759,621	—
BOC-Ma Steel	(x)	1,931,156	1,874,006
Masteel Commercial Factoring	(x)	—	1,011
Masteel Finance Lease	(x)	—	1,409
		8,528,185	1,876,426

- (x) The transactions with a joint venture were conducted on terms of mutually agreed according to market prices between the Group and the related parties.

Notes to the Interim 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)

(17) Guarantee provided by a related party

30 June 2019 (Unaudited)

	Note	Guarantee's name	Guarantee amount	Start date	End date	Has guarantee expired or not
The Holding	(xi)	The Company	RMB 2.386 billion	2014.7	2025.10	Not yet as of the approval date of the report

31 December 2018 (Audited)

	Note	Guarantee's name	Guarantee amount	Start date	End date	Has guarantee expired or not
The Holding	(xi)	The Company	RMB 2.717 billion	2014.7	2025.10	Not yet as of the approval date of the report

(xi) For the six months ended 30 June 2019, the Holding had guaranteed the loan of the Group for free amounting to approximately RMB0.1 billion (2018: approximately RMB2.15 billion). The Holding had guaranteed part of bank loans for free amounting to approximately RMB2.386 billion as of 30 June 2019 (31 December 2018: approximately RMB2.717 billion).

(18) Borrowings from related parties

30 June 2019 (Unaudited)

No new related party funds were borrowed during the current period.

31 December 2018 (Audited)

	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

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)**5. SIGNIFICANT TRANSACTIONS CARRIED OUT BETWEEN THE GROUP AND ITS RELATED PARTIES (CONTINUED)**

- (19) 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, other financial service charge should be no more than RMB0.2 billion. As of 30 June 2019, the highest daily deposit balance was RMB8.39 billion (2018: RMB3.51 billion); the highest average daily deposit balance on a monthly basis was RMB7.40 billion (2018: RMB3.08 billion); the highest daily loan balance was RMB2.69 billion (2018: RMB0.498 billion); and the highest average daily loan balance on a monthly basis was RMB2.6 billion (2018: RMB0.498 billion).

6. RECEIVABLES DUE FROM/PAYABLES DUE TO RELATED PARTIES

	30 June 2019 (Unaudited)		31 December 2018 (Audited)	
	Book value	Provision	Book value	Provision
Trade receivables				
The Holding and its subsidiaries				
The Holding	1,237	12	21,837	218
Masteel Heavy Machinery Manufacturing Co., Ltd.	12,118,581	121,186	13,883,741	138,837
Ma Steel Powder Metallurgy Co., Ltd.	522,200	5,222	12,517,181	125,172
Anhui Masteel Equipment Maintenance Co., Ltd.	5,468,600	54,686	3,488,435	34,884
Masteel Engineering Technology (Group) Co., Ltd.	13,724,338	137,243	6,522,839	65,228
Masteel Automobile Transportation Service Co., Ltd.	–	–	644,120	6,441
Xinchuang Environmental Protection	71,905,777	719,058	586,806	5,868
Others entities controlled by the Holding	1,112,328	11,123	3,381,706	33,817
	104,853,061	1,048,530	41,046,665	410,465

Notes to the Interim 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)

	30 June 2019 (Unaudited)		31 December 2018 (Audited)	
	Book value	Provision	Book value	Provision
Trade receivables (Continued)				
Joint ventures and associates of the Group				
BOC-Ma Steel	–	–	24,348,505	243,485
Masteel Commercial Factoring	33,264,345	332,643	160,493,736	1,604,937
Masteel Scrap	1,445,407	14,454	693,880	6,939
	<u>34,709,752</u>	<u>347,097</u>	<u>185,536,121</u>	<u>1,855,361</u>
Other receivables				
The Holding and its subsidiaries				
The Holding	190,000	1,900	120,000	2,400
Masteel Automobile Transportation Service Co., Ltd.	–	–	2,646	53
	<u>190,000</u>	<u>1,900</u>	<u>122,646</u>	<u>2,453</u>

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)**6. RECEIVABLES DUE FROM/PAYABLES DUE TO RELATED PARTIES (CONTINUED)**

	30 June 2019 (Unaudited)		31 December 2018 (Audited)	
	Book value	Provision	Book value	Provision
Prepayments				
The Holding and its subsidiaries				
Masteel Engineering Technology (Group) Co., Ltd.	132,779,070	—	36,371,547	—
Ma Steel International Trade and Economic Co., Ltd.	150,722,667	—	26,362,695	—
Others entities controlled by the Holding	1,015,237	—	206,000	—
	<u>284,516,974</u>	<u>—</u>	<u>62,940,242</u>	<u>—</u>
Associate of the Group				
Xinchuang Environmental Protection	1,177,000	—	—	—
	<u>1,177,000</u>	<u>—</u>	<u>—</u>	<u>—</u>
Loans and advances to customers				
The Holding and its subsidiaries				
The Holding	1,450,000,000	30,450,000	100,000,000	2,529,316
Maanshan Iron & Steel Group Mining Co., Ltd.	3,077,098,250	64,619,063	1,748,000,000	47,443,230
Anhui Masteel Luo He Mining Co., Ltd.	60,000,000	1,260,000	60,000,000	1,575,194
Anhui BRC & Masteel Weldmesh Co., Ltd.	53,351,392	1,120,379	51,320,245	1,356,455
Anhui Zhonglian Shipping Co. Ltd.	20,000,000	420,000	96,347,991	2,426,565
Others entities controlled by the Holding	420,692,086	8,834,534	17,622,774	458,763
	<u>5,081,141,728</u>	<u>106,703,976</u>	<u>2,073,291,010</u>	<u>55,789,523</u>
Associate of the Group				
Masteel Scrap	816,502,970	17,146,562	750,000,000	19,300,651
	<u>816,502,970</u>	<u>17,146,562</u>	<u>750,000,000</u>	<u>19,300,651</u>

Notes to the Interim 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)

	30 June 2019 Unaudited	31 December 2018 Audited
Trade payables		
The Holding and its subsidiaries		
The Holding	534,346,635	447,268,951
Masteel Heavy Machinery Manufacturing Co., Ltd.	77,037,292	150,397,700
Xinchuang Environmental Protection	70,584,723	128,756,189
Ma Steel International Trade and Economic Co., Ltd.	3,966,739	2,448,375
Masteel Engineering Technology (Group) Co., Ltd.	11,904,396	129,671,900
Feimazhike Automation and Information Technology Co., Ltd.	73,718,692	62,385,534
Masteel Transportation Equipment Manufacturing Co., Ltd.	21,506,077	59,672,213
Anhui Masteel Equipment Maintenance Co., Ltd.	41,894,754	88,039,551
Ruitai Masteel New Material Technology Co. Ltd.	121,218,497	170,731,535
Others entities controlled by the Holding	307,673,965	252,998,147
	1,263,851,770	1,492,370,095
Joint ventures and associates of the Group		
BOC-Ma Steel	2,575,974	53,705,028
Shenglong Chemical	9,126,140	434,506
Henan Jinma	28,955,355	196,042
Masteel Chemical & Energy	–	125,821,787
Masteel Scrap	305,959,449	75,080,164
	346,616,918	255,237,527

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)**6. RECEIVABLES DUE FROM/PAYABLES DUE TO RELATED PARTIES (CONTINUED)**

	30 June	31 December
	2019	2018
	Unaudited	Audited
Other payables		
The Holding and its subsidiaries		
Masteel Automobile Transportation Service Co., Ltd.	6,967,694	7,115,212
Xinchuang Environmental Protection	5,815,932	9,406,774
Masteel Engineering Technology (Group) Co., Ltd.	8,775,236	17,174,664
Anhui Masteel Equipment Maintenance Co., Ltd.	2,375,629	7,764,547
Maanshan Masteel Electric Repair Co., Ltd.	191,400	191,400
Maanshan Port (Group) Co., Ltd.	1,250,271	9,449,910
Other entities controlled by the Holding	14,861,424	27,434,050
	40,237,586	78,536,557
Joint venture of the Group		
BOC-Ma Steel	70,000	70,000

Notes to the Interim 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)

	30 June 2019 Unaudited	31 December 2018 Audited
Advances from customers		
The Holding and its subsidiaries		
The Holding	150,785	150,785
Ma Steel International Trade and Economic Co., Ltd.	1,564,960	3,750,485
Masteel Engineering Technology (Group) Co., Ltd.	14,526,789	22,128,095
Anhui BRC & Masteel Weldmesh Co., Ltd.	585,745	585,745
Maanshan Iron Construction Group Co., Ltd.	532,650	682,723
Anhui Masteel Zhangzhuang Mining Co. Ltd	2,185,715	2,185,715
Other entities controlled by the Holding	1,724,433	1,665,681
	21,271,077	31,149,229
Joint ventures and associates of the Group		
Ma-Steel OCI Chemical	360	–
Shenglong Chemical	11	11
Masteel K.Wah	42,778,294	8,955,587
	42,778,665	8,955,598
Dividends receivable		
Joint ventures and associates of the Group		
Shenglong Chemical	63,975,000	–
Masteel Scrap	–	8,119,136
Masteel K.Wah	1,812,970	1,812,970
Masteel Chemical & Energy	7,968,608	8,654,102
	73,756,578	18,586,208

X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)**6. RECEIVABLES DUE FROM/PAYABLES DUE TO RELATED PARTIES (CONTINUED)**

	30 June	31 December
	2019	2018
	Unaudited	Audited
Customer deposits		
The Holding and its subsidiaries		
The Holding	789,106,485	1,124,732,783
Masteel Engineering Technology (Group) Co., Ltd.	193,495,376	304,908,015
Masteel Heavy Machinery Manufacturing Co., Ltd.	125,348,239	55,357,489
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	46,230,179	236,275,555
Maanshan Iron & Steel Group Mining Co., Ltd.	116,760,782	436,350,337
Xinchuang Environmental Protection	127,699,884	81,293,992
Ma Steel International Trade and Economic Co., Ltd.	19,886,004	35,453,705
Masteel Group Kang Tai Land Development Co., Ltd.	53,632,054	72,713,370
Other entities controlled by the Holding	4,624,407,806	587,520,264
	<u>6,096,566,809</u>	<u>2,934,605,510</u>
Joint ventures and associates of the Group		
BOC-Ma Steel	162,779,358	151,648,202
Masteel Scrap	69,051,313	220,531,998
Masteel K.Wah	186,716,861	259,464,886
Masteel Chemical & Energy	234,622,605	757,556,054
Ma Steel Commercial Factoring	5,864,883	3,433,606
Masteel Finance Leasing	2,542,187	23,367
	<u>661,577,207</u>	<u>1,392,658,113</u>

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 30 June 2019, in current assets and current liabilities, except for the interests charge for the deposit and loans provided by Masteel Finance, all these receivables and payables had no interest, no pledge and would be paid in the future.

Notes to the Interim Financial Statements (Continued)

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X. RELATED PARTIES RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)

7. COMMITMENT TO RELATED PARTIES

On 12 June 2019, approved by the 21st meeting of the 9th Board of Directors of the Company, the Company intended to inject capital amounting to RMB135,000,000 to Masteel Scrap, and after the injection, the holding equity interest is still 45%. As of 30 June 2019, the injection has not been completed.

XI. COMMITMENTS AND CONTINGENCIES

1. SIGNIFICANT COMMITMENTS

Capital commitments

	30 June 2019 Unaudited	31 December 2018 Audited
Contracted, but not provided for		
Capital commitments	2,977,514,782	2,887,401,034
Investment commitments	148,969,500	13,969,500
	<u>3,126,484,282</u>	<u>2,901,370,534</u>

Loan commitments

	30 June 2019 Unaudited	31 December 2018 Audited
Acceptance bill	677,880,728	529,327,274

Credit commitments of the Group are the payment commitments made by Masteel Finance for its customers' acceptance bill.

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, 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 30 June 2019, the Group and the Company did not have significant pending litigation.

XII. EVENTS AFTER THE BALANCE SHEET DATE

Until the approval date of 2019 interim report, there is no significant event after the reporting period need to be disclosed by the Group or the Company.

Notes to the Interim 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 three to eighteen years. The periodic rental was fixed during the operating lease periods. According to lease contracts signed with lessees, the irreversible minimum lease payment is as follows:

	30 June	31 December
	2019	2018
	Unaudited	Audited
Remaining lease period		
Within 1 year, inclusive	2,242,273	1,558,490
1 to 2 years, inclusive	2,088,028	1,250,000
2 to 3 years, inclusive	2,088,028	1,250,000
Over 3 years	5,671,031	1,407,534
	12,089,360	5,466,024

XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)**1. LEASES (CONTINUED)****As lessee**

The Group had adopted a simplified approach for short-term leases and leases of low value assets and did not recognized right-of-use assets and lease liabilities. The expense of short-term leases and leases of low value assets recognised for the period is as follows:

	For the six months ended 30 June 2019 Unaudited
Short-term leases expense	3,146,334
Leases of low value assets (except short-term leases)	172,890
Total	3,319,224

Significant operating lease (applicable for the year of 2018): according to lease contracts signed with lessors, the irreversible minimum lease payment is as follows:

	31 December 2018 Audited
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

Notes to the Interim Financial Statements (Continued)

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XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

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

	For the six months ended 30 June	
	2019 Unaudited	2018 Unaudited
Sales of steel products	33,635,909,225	36,551,400,095
Sales of steel billets and pig iron	1,205,907,865	1,028,012,810
Sales of coke by-products	–	210,461,744
Others	1,544,361,518	1,706,987,771
	<u>36,386,178,608</u>	<u>39,496,862,420</u>

XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)**2. OPERATING SEGMENT INFORMATION (CONTINUED)****Other information (Continued)***Geographical information***External principal operating income**

	For the six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
Mainland China	33,941,755,844	36,868,881,304
Overseas and Hongkong	<u>2,444,422,764</u>	<u>2,627,981,116</u>
	<u><u>36,386,178,608</u></u>	<u><u>39,496,862,420</u></u>

Non-current assets

	30 June	31 December
	2019	2018
	Unaudited	Audited
Mainland China	37,683,333,747	37,608,891,886
Overseas and Hongkong	<u>206,920,766</u>	<u>319,090,492</u>
	<u><u>37,890,254,513</u></u>	<u><u>37,927,982,378</u></u>

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 Interim Financial Statements (Continued)

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XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

3. OTHER FINANCIAL INFORMATION

	Group		Company	
	30 June	31 December	30 June	31 December
	2019	2018	2019	2018
	Unaudited	Audited	Unaudited	Audited
Current assets	43,551,831,531	38,405,267,817	25,774,905,295	21,589,293,692
Less: Current liabilities	46,613,517,450	39,737,027,081	32,815,635,847	26,518,782,308
Net current liabilities	<u>(3,061,685,919)</u>	<u>(1,331,759,264)</u>	<u>(7,040,730,552)</u>	<u>(4,929,488,616)</u>
	Group		Company	
	30 June	31 December	30 June	31 December
	2019	2018	2019	2018
	Unaudited	Audited	Unaudited	Audited
Total assets	81,963,554,234	76,871,999,293	62,364,758,740	58,445,169,405
Less: Current liabilities	46,613,517,450	39,737,027,081	32,815,635,847	26,518,782,308
Total assets less current liabilities	<u>35,350,036,784</u>	<u>37,134,972,212</u>	<u>29,549,122,893</u>	<u>31,926,387,097</u>

4. COMPARATIVE AMOUNT

As stated in Note III. 33, 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 measured at fair value through other comprehensive income on the balance sheet date. Cash received from government grants on assets was changed from cash flows from investing activities to cash flows from operating activities. Accounting treatment and presentation of the above items in the financial statements had been changed to meet the new requirements. Correspondingly, the Company retrospectively represented the comparative amount to meet this 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:

	30 June 2019 Unaudited	31 December 2018 Audited
Within one year	2,173,604,802	2,340,825,024
One to two years	55,357,561	23,995,607
Two to three years	30,700,778	54,169,295
Over three years	22,930,161	105,690,621
	2,282,593,302	2,524,680,547
Less: Provisions for bad debts	46,826,030	63,813,647
	<u>2,235,767,272</u>	<u>2,460,866,900</u>

The movements of the provision for bad debts were as follows:

	Opening balance	Increase	Reversal	Write-back	Write-off	Other changes	Ending balance
30 June 2019 (unaudited)	63,813,647	-	(16,987,617)	-	-	-	46,826,030
31 December 2018 (audited)	47,921,020	15,892,627	-	-	-	-	63,813,647

Notes to the Interim 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:

	30 June 2019 (unaudited)			
	Carrying amount		Provision for bad debts	
	Amount	Ratio (%)	Amount	Ratio (%)
Assessed for bad debt provision individually	1,637,553,414	72	-	-
Assessed bad debt provision in portfolios based credit risk characteristics	645,039,888	28	(46,826,030)	7
	<u>2,282,593,302</u>	<u>100</u>	<u>(46,826,030)</u>	<u>/</u>
	31 December 2018 (audited)			
	Carrying amount		Provision for bad debts	
	Amount	Ratio (%)	Amount	Ratio (%)
Assessed for bad debt provision individually	1,760,653,533	70	-	-
Assessed bad debt provision in portfolios based credit risk characteristics	764,027,014	30	(63,813,647)	8
	<u>2,524,680,547</u>	<u>100</u>	<u>(63,813,647)</u>	<u>/</u>

The provision for bad debts applying other method by the Company was as follows:

	30 June 2019 (unaudited)			31 December 2018 (audited)		
	Carrying amount	Expected credit loss	Expected credit loss	Carrying amount	Expected credit loss	Expected credit loss
	expected to default	percentage (%)	during lifetime	expected to default	percentage (%)	during lifetime
Trade receivables to subsidiaries	<u>1,637,553,414</u>	<u>-</u>	<u>-</u>	<u>1,760,653,533</u>	<u>-</u>	<u>-</u>

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 follows:

	30 June 2019 (unaudited)			31 December 2018 (audited)		
	Carrying amount expected to default	Expected credit loss percentage (%)	Expected credit loss during lifetime	Carrying amount expected to default	Expected credit loss percentage (%)	Expected credit loss during lifetime
Within one year	565,341,286	1	(5,653,413)	672,838,883	1	(6,728,389)
One to two years	26,247,183	14	(3,674,605)	23,995,607	14	(3,359,385)
Two to three years	30,700,778	51	(15,657,397)	23,953,223	51	(12,216,144)
Over three years	22,750,641	96	(21,840,615)	43,239,301	96	(41,509,729)
Total	<u>645,039,888</u>		<u>(46,826,030)</u>	<u>764,027,014</u>		<u>(63,813,647)</u>

During the current period, the Company's provision for bad debts was zero (31 December 2018: RMB15,892,627), and the reversal of provision for bad debts was RMB16,987,617 (31 December 2018: Nil).

During the current period, there were no trade receivables that had been written off (31 December 2018: Nil).

The top five trade receivables classified by debtor were as follows:

30 June 2019 (unaudited)

	Relationship with the Company	Ending balance	Ageing	Percentage of trade receivables	Ending balance of provision
Company 1	Subsidiary	751,155,409	Within one year	33%	-
Company 2	Subsidiary	220,085,869	Within one year	10%	-
Company 3	Subsidiary	172,322,910	Within one year	8%	-
Company 4	Subsidiary	151,871,750	Within one year/ one-two years	7%	-
Company 5	Third party	<u>118,629,640</u>	Within one year	<u>5%</u>	<u>1,186,296</u>
		<u>1,414,065,578</u>		<u>63%</u>	<u>1,186,296</u>

Notes to the Interim Financial Statements (Continued)

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XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

1. TRADE RECEIVABLES (CONTINUED)

31 December 2018 (audited)

	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%	–
		<u>1,614,918,004</u>		<u>66%</u>	<u>3,058,717</u>

2. OTHER RECEIVABLES

	30 June 2019 Unaudited	31 December 2018 Audited
Dividends receivable	97,587,578	20,346,208
Other receivables	<u>108,808,558</u>	<u>43,497,924</u>
	<u>206,396,136</u>	<u>63,844,132</u>

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)**2. OTHER RECEIVABLES (CONTINUED)****Dividends receivable**

	30 June 2019 Unaudited	31 December 2018 Audited
Other equity instruments investments – MCC17	1,760,000	1,760,000
Associate – Masteel Scrap	–	8,119,136
Associate – Masteel K. Wah	1,812,970	1,812,970
Associate – Magang Chemicals & Energy	7,968,608	8,654,102
Associate – Shenglong Chemical	63,975,000	–
Subsidy – Ma Steel (Cihu)	11,960,000	–
Subsidy – Ma Steel (Guangzhou)	1,361,000	–
Subsidy – Ma Steel (Hefei)	8,750,000	–
	97,587,578	20,346,208

Other receivables

An ageing analysis of the other receivables is as follows:

	30 June 2019 Unaudited	31 December 2018 Audited
Within one year	110,022,039	44,172,475
One to two years	10,000	37,130
Two to three years	229,125	243,945
Over three years	410,718,381	410,870,901
	520,979,545	455,324,451
Less: Provision for bad debts	412,170,987	411,826,527
	108,808,558	43,497,924

Notes to the Interim Financial Statements (Continued)

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XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

2. OTHER RECEIVABLES (CONTINUED)

Other receivables (Continued)

The movements of bad debt provision based on the lifetime credit losses was as follows:

	Opening balance	Increase	Reversal	Write-back/ write-off	Other changes	Closing balance
30 June 2019 (unaudited)	411,826,527	344,460	-	-	-	412,170,987
31 December 2018 (audited)	423,714,537	-	(11,888,010)	-	-	411,826,527

30 June 2019 (unaudited)

	Carrying amount		Provision for bad debts	
	Amount	Ratio (%)	Amount	Ratio (%)
Assessed expected credit losses individually	40,589,922	8	-	-
Assessed expected credit loss in portfolios based on credit risk characteristics	480,389,623	92	412,170,987	86
	520,979,545	100	412,170,987	/

31 December 2018 (audited)

	Carrying amount		Provision for bad debts	
	Amount	Ratio (%)	Amount	Ratio (%)
Assessed expected credit losses individually	74,298	-	-	-
Assessed expected credit loss in portfolios based on credit risk characteristics	455,250,153	100	411,826,527	90
	455,324,451	100	411,826,527	/

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

2. OTHER RECEIVABLES (CONTINUED)

Other receivables (Continued)

The Company's provision for bad debts of other receivables analyzed by ageing was follows:

	30 June 2019 (unaudited)			31 December 2018 (audited)		
	Book value	Expected credit loss		Book value	Expected credit loss	
	expected to default	percentage (%)	Expected credit loss	expected to default	percentage (%)	Expected credit loss
Within one year	69,432,117	2	1,388,642	44,098,177	2	881,964
One to two years	10,000	21	2,100	37,130	21	7,797
Two to three years	229,125	27	61,864	243,945	27	65,865
Over three years	410,718,381	100	410,718,381	410,870,901	100	410,870,901
	480,389,623		412,170,987	455,250,153		411,826,527

During the current period, the Company's provision for bad debts of other receivables was RMB344,460 (31 December 2018: Nil), and there was no reversal of provision for bad debts (31 December 2018: RMB11,888,010).

During the current period, there was no other receivables that had been written off (31 December 2018: Nil).

Other receivables classified by nature:

	30 June 2019 Unaudited	31 December 2018 Audited
Due from trading companies	403,317,627	403,317,627
Guarantee for steel futures	40,589,922	74,298
Prepayments of custom duties and VAT	7,136,814	8,425,735
Others	69,935,182	43,506,791
	520,979,545	455,324,451
Less: Provision for bad debts	412,170,987	411,826,527
	108,808,558	43,497,924

Notes to the Interim Financial Statements (Continued)

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XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

2. OTHER RECEIVABLES (CONTINUED)

Other receivables (Continued)

As of 30 June 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	25	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)
	<u>403,317,627</u>	<u>78</u>			<u>(403,317,627)</u>

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)
	<u>403,317,627</u>	<u>88</u>			<u>(403,317,627)</u>

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)**3. LONG-TERM EQUITY INVESTMENTS**

	30 June 2019 Unaudited	31 December 2018 Audited
Long-term investments under the equity method		
Joint ventures (i)	268,832,519	268,590,692
Associates (i)	2,651,211,064	2,455,625,221
Long-term investments under the cost method		
Subsidiaries (ii)	<u>7,515,181,043</u>	<u>7,422,056,043</u>
Subtotal	10,435,224,626	10,146,271,956
Less: Provision for impairment	<u>599,167,212</u>	<u>—</u>
Total	<u><u>9,836,057,414</u></u>	<u><u>10,146,271,956</u></u>

In the opinion of the directors, there was no material restriction on the realisation of investments as of 30 June 2019.

Notes to the Interim Financial Statements (Continued)

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XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

3. LONG-TERM EQUITY INVESTMENTS (CONTINUED)

(i) Investment in joint ventures and associates

30 June 2019 (Unaudited)

	Changes during the period								Ending balance	Impairment at the end of the period
	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	268,088,957	-	-	45,241,177	-	-	(45,000,000)	-	268,330,134	-
MASTEEL-CMI	501,735	-	-	650	-	-	-	-	502,385	-
Associates										
Henan JinMa Energy	613,018,859	-	-	87,069,229	665,713	984,923	(50,400,000)	-	651,338,724	-
Shenglong Chemical	732,685,925	-	-	89,559,941	-	1,819,927	(79,975,000)	-	744,090,793	-
Shanghai Iron and Steel Electronic	7,790,111	-	-	(305,940)	-	-	-	-	7,484,171	-
Xinchuang Environmental Protection	57,681,293	-	-	1,800,536	-	300,145	(2,692,788)	-	57,089,186	-
Ma-Steel OCI Chemical	146,519,873	-	-	3,359,261	-	489,519	(4,800,000)	-	145,568,653	-
Ma-Steel Commercial Factoring	77,647,587	75,000,000	-	3,088,878	-	-	(2,076,921)	-	153,659,544	-
Magang Chemicals & Energy	600,632,763	-	-	42,005,486	-	-	-	-	642,638,249	-
Masteel K. Wah.	79,975,786	-	-	13,574,064	-	-	-	-	93,549,850	-
Masteel Scrap	139,673,024	-	-	16,118,870	-	-	-	-	155,791,894	-
	2,724,215,913	75,000,000	-	301,512,152	665,713	3,594,514	(184,944,709)	-	2,920,043,583	-

Note: Please refer to Note V.12 for details.

31 December 2018 (audited)

	Changes during the year								Ending 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	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	-
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	-

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

3. LONG-TERM EQUITY INVESTMENTS (CONTINUED)

(ii) Investments in subsidiaries

30 June 2019 (Unaudited)

	Opening balance	Changes during the period				Ending balance	Impairment at the end of the period	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)	80,000,000	-	-	-	-	80,000,000	-	1,361,000
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 1)	883,022,985	-	-	-	(599,167,212)	283,855,773	(599,167,212)	-
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	-	-
Ma Steel Shanghai Sales	10,000,000	-	-	-	-	10,000,000	-	20,835,400
Ma Steel Rail Transportation (Note 2)	396,021,369	40,000,000	-	-	-	436,021,369	-	-
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	-	-
Mascomental	127,368,631	-	-	-	-	127,368,631	-	-
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 (Note 3)	31,875,000	53,125,000	-	-	-	85,000,000	-	6,141,800
Total	7,422,056,043	93,125,000	-	-	(599,167,212)	6,916,013,831	(599,167,212)	845,593,357

Notes to the Interim Financial Statements (Continued)

30 June 2019
Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

3. LONG-TERM EQUITY INVESTMENTS (CONTINUED)

(ii) Investments in subsidiaries (Continued)

30 June 2019 (Unaudited) (Continued)

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 of 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 loss, 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 assessment result, the Company recognized the impairment of long-term equity investment amounting to RMB599,167,212.

Note 2: In the current period, the Company injected capital amounting to RMB40,000,000 to Ma Steel Rail Transportation.

Note 3: In 2018, the Company established 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, holding 85%, 10% and 5% of equity interest, respectively. The Company completed the first phase of capital contribution of RMB31,875,000 on 12 November 2018, and completed the second phase of capital contribution of RMB53,125,000 in the current period.

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

3. LONG-TERM EQUITY INVESTMENTS (CONTINUED)

(ii) Investments in subsidiaries (Continued)

31 December 2018 (Audited)

	Opening balance	Changes during the year				Ending balance	Impairment at the end of the year	Cash dividends declared
		Increase	Decrease	Other equity movement	Provision for impairment			
Masteel K. Wa	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
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	-	-
Mascomental	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	-	-
	<u>7,305,064,910</u>	<u>929,193,794</u>	<u>(812,202,661)</u>	<u>-</u>	<u>-</u>	<u>7,422,056,043</u>	<u>-</u>	<u>919,865,665</u>

Notes to the Interim Financial Statements (Continued)

30 June 2019
Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

4. REVENUE AND COST OF SALES

	For the six months ended 30 June 2019		For the six months ended 30 June 2018	
	Unaudited		Unaudited	
	Revenue	Cost of sales	Revenue	Cost of sales
Principal operating income	29,597,334,681	27,641,667,697	33,228,832,286	28,970,953,608
Other operating income	532,032,667	540,768,597	463,426,324	595,711,764
	30,129,367,348	28,182,436,294	33,692,258,610	29,566,665,372

Disaggregated revenue information:

	For the six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
Sales of products	30,112,738,646	33,670,209,866
Rendering service	13,364,678	17,998,625
Rental income	3,264,024	4,050,119
	30,129,367,348	33,692,258,610

Rental income is presented as follows:

	For the six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
Operating lease	3,264,024	4,050,119

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)**4. REVENUE AND COST OF SALES (CONTINUED)****Timing of revenue recognition**

	For the six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
Recognize at a point in time		
Sales of steel products	28,234,275,133	31,771,750,516
Sales of other products	1,878,463,513	1,898,459,350
Recognize over time		
Consulting services	12,039,899	15,868,513
Lease income	3,264,024	4,050,119
Others	1,324,779	2,130,112
	<u>30,129,367,348</u>	<u>33,692,258,610</u>

5. INVESTMENT INCOME

	For the six months ended 30 June	
	2019	2018
	Unaudited	Unaudited
Investment income from long-term investment under the equity method	301,512,152	298,163,206
Investment income from long-term investment under the cost method	845,593,357	640,535,788
Gain from disposal of financial assets held for trading	415,436	(6,718,623)
	<u>1,147,520,945</u>	<u>931,980,371</u>

As at 30 June 2019, there was no significant restriction imposed upon the remittance of the Company's investment income.

Supplementary Information

30 June 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.

**For the six
months ended
30 June 2019
Unaudited**

Items of non-recurring gains or losses

Gain from disposal of non-current assets	(936,915)
Government grants through profit and loss (excluding government grants closely related to the ordinary business of the Company and meet the national policies according to a certain standard amount or quantity)	319,249,267
Employee termination compensation	(53,332,750)
Except for the hedging business related to the ordinary business of the Company, the gains or losses arising from fair value changes of financial assets held for trading, financial liabilities held for trading and investment income on disposal of financial assets held for trading, financial liabilities held for trading, and other debt instruments investment	125,468,214
Net non-operating income or expenses other than the above items	796,065
	391,243,881
Income tax effect	58,000,866
Non-controlling interests effect (net of tax)	29,176,128
Net effect of non-recurring gains or losses	304,066,887

Net profit attributable to owners of the parent deducted non-recurring gains or losses

Net profit attributable to owners of the parent	1,144,660,011
Less: net effect of non-recurring gains or losses	304,066,887
Net profit attributable to owners of the parent excluding non-recurring gains or losses	840,593,124

2. RETURN ON NET ASSETS AND EARNINGS PER SHARE

For the six months ended 30 June 2019 (Unaudited)

	Return on weighted average net assets (%)	Earnings per share (cent/share)	
		Basic	Diluted
Net profit attributable to owners of the parent	3.98	14.86	14.86
Net profit attributable to owners of the parent deducted non-recurring gains or losses	2.92	10.92	10.92

For the six months ended 30 June 2018 (Unaudited)

	Return on weighted average net assets (%)	Earnings per share (cent/share)	
		Basic	Diluted
Net profit attributable to owners of the parent	13.39	44.52	44.52
Net profit attributable to owners of the parent deducted non-recurring gains or losses	11.94	39.69	39.69

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.

IX. Document Available for Inspection

Documents Available for Inspection	The interim report statements signed and sealed by the Chairman
	Financial statements signed and sealed by the Company's legal representative, chief accountant and head of accounting department.
	The original copies of all of the documents and announcements of the Company disclosed in the designated newspaper as approved by China Securities Regulatory Commission during the reporting period
	Interim report announced on the website of the Hong Kong Stock Exchange.
	The Articles of Association of the Company
	Other Related Information

Chairman: Ding Yi

Submission date approved by the Board of Directors: 29 August 2019