

2020 Interim Report

H Share Code: 323
A Share Code: 600808



MAANSHAN IRON & STEEL COMPANY LIMITED

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IMPORTANT NOTICE

1. 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 interim report; and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of the information contained in the interim report.
2. All members of the Board of the Company attended the board meeting.
3. The interim report of the Company is unaudited.
4. Mr. Ding Yi, representative of the Company, Mr. Wang Qiangmin, 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.
5. Profit distribution plan or plan for the capitalisation of capital reserve approved by the Board: None.
6. Risk relating to forward-looking statements
The report analyses 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.
7. 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.
8. During the reporting period, there is no violation of regulations, decisions or procedures in relation to provisions of external guarantees.
9. Significant risk warning
The Company has no significant risk that needs to draw special attention of investors.
10. 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:

DEFINITION OF COMMON WORDS

“Company” or “the Company or “Magang Stock”	means	Maanshan Iron and Steel Company Limited
The Group	means	the Company and its subsidiaries
China Baowu	means	China Baowu Steel Group Co., Ltd., the controlling shareholder of the Holding and the indirect controlling shareholder of the Company
Baosteel Investment	means	Baosteel Hong Kong Investment Company Limited, a wholly-owned subsidiary of China Baowu
The Holding	means	Magang (Group) Holding Company Limited
Shareholders’ General Meeting	means	the Shareholders’ General Meeting of the Company
The Board	means	the board of directors 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
PRC	means	the People’s Republic of China
Hong Kong	means	the Hong Kong Special Administrative Region

I Definitions (Continued)

DEFINITION OF COMMON WORDS (CONTINUED)

RMB	means	Renminbi Yuan
CSRC	means	China Securities Regulatory Commission
CISA	means	China Iron and Steel Association
The Articles of Association	means	The articles of association of Maanshan Iron and Steel Company Limited
MG-VALDUNES	means	MG-VALDUNES S.A.S., a wholly owned subsidiary of the Company
Ma Steel (HK)	means	Ma Steel (Hong Kong) Iron & Steel Co., Ltd., a wholly-owned subsidiary of the Company
Ma Steel (Hefei)	means	Ma Steel (Hefei) Iron & Steel Co., Ltd., a controlling subsidiary of the Company
Changjiang Steel	means	Anhui Changjiang Steel Co.,Ltd., a controlling subsidiary of the Company
Masteel Finance	means	Magang Group Finance Co. Ltd., a controlling subsidiary of the Company
Xinchuang Environmental Protection	means	Anhui Xinchuang Energy Saving and Environment Protection Science and Technology Company, Limited, a controlling subsidiary of the Holding, and an associate of the Company
Ouye Lianjin	means	Maanshan Masteel Scrap Steel Co., Ltd., renamed as Ouye Lianjin Renewable Resources Co., Ltd. on 19 February 2020, a controlling subsidiary of the Holding and an associate of the Company
MaSteel K. Wah	means	Anhui Masteel K. Wah New Building Materials Co. Ltd., a controlling subsidiary of the Holding and an associate of the Company
Magang Chemicals & Energy	means	Anhui Magang Chemical & Energy Technology Co., Ltd., a controlling subsidiary of the Holding and an associate of the Company
Jinma Energy	means	Henan Jinma Energy Co., Ltd., an associate 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 (Special General Partnership)
Reporting period	means	From 1 January 2020 to 30 June 2020

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 AND METHODS

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 1204-06, 12/F, The Chinese Bank Building, 61 Des Voeux Road, Central
Telephone	86-555-2888158/2875252	(852) 2155 2649
Fax	86-555-2887284	(852) 2155 9568
Email address	mggf@baowugroup.com mggfdms@magang.com.cn	rebeccachiu@chiuandco.com

3. BASIC INFORMATION

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

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

II Company Introduction and Major Financial Indicators (Continued)

5. BRIEF INFORMATION ON THE SHARES OF THE COMPANY

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

The address of the H share registrar of the Company is Room 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

6. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS

1. MAJOR ACCOUNTING DATA

Unit: RMB

Major accounting data	Reporting period (January to June)	Corresponding period of the previous year	Increase/ decrease at the reporting period compared to the same period of last year (%)
Revenue	37,429,035,554	37,026,693,821	1.09
Net profit attributable to owners of the parent	812,342,511	1,144,660,011	-29.03
Net profit excluding non-recurring gains or losses attributable to owners of the parent	565,970,393	840,593,124	-32.67
Net cash flows from operating activities	945,746,996	2,973,012,782	-68.19

	As at the end of the reporting period	As at the end of 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	27,156,308,710	26,933,162,065	0.83
Total assets	80,707,266,366	86,322,043,538	-6.50
Total share capital	7,700,681,186	7,700,681,186	–

II Company Introduction and Major Financial Indicators (Continued)

6. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS (CONTINUED)

2. MAJOR FINANCIAL INDICATORS

Major Financial Indicators	Reporting period (January to June)	Corresponding period of the previous year	Increase/decrease as compared to the corresponding period of the previous year (%)
Basic earnings per share (<i>RMB/share</i>)	0.1055	0.1486	-29.00
Diluted earnings per share (<i>RMB/share</i>)	0.1055	0.1486	-29.00
Basic earnings per share excluding non-recurring gains or losses (<i>RMB/share</i>)	0.0735	0.1092	-32.69
Return on net assets (weighted average) (%)	2.97	3.98	Decreased by 1.01 percentage points
Return on net assets excluding non-recurring gains or losses (weighted average) (%)	2.07	2.92	Decreased by 0.85 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

Unit: RMB

Non-recurring gains or losses Item	Amount
Loss from disposal of non-current assets	-62,159,618
Government grants recognised in current period profit or loss (excluding those closely related to the Company's ordinary business, conforming to the national policies and regulations and enjoying ongoing fixed amount or quantity according to a certain standard)	291,914,097
Employee termination compensation	-53,194,407
Except for the effective hedging business related to the ordinary business of the Company, changes in fair value of financial assets and financial liabilities held for trading, as well as the return on investment generated from the disposal of financial assets and financial liabilities held for trading and financial assets at fair value through other comprehensive income.	97,666,060
Net non-recurring income or expenses other than the above items	256,279
Non-controlling interests effect (net of tax)	-963,543
Income tax effect	-27,146,750
Total	246,372,118

III Overview of the Company's Business

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

(1) MAIN BUSINESS AND OPERATION MODEL

As one of the largest iron and steel producers and sellers in China, the Company's major businesses are 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, galvanised plates and coil-coating plates. Hot-rolled thin plates are mostly used in the construction, automobile, bridge building, machinery businesses and petroleum transportation, while cold-rolled thin plates are used in highgrade light industries, home electrical appliances, and medium and highgrade production of automobile parts. Galvanised 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. High speed 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 models, major driving factors of performance did not experience substantial changes.

III Overview of the Company's Business (Continued)

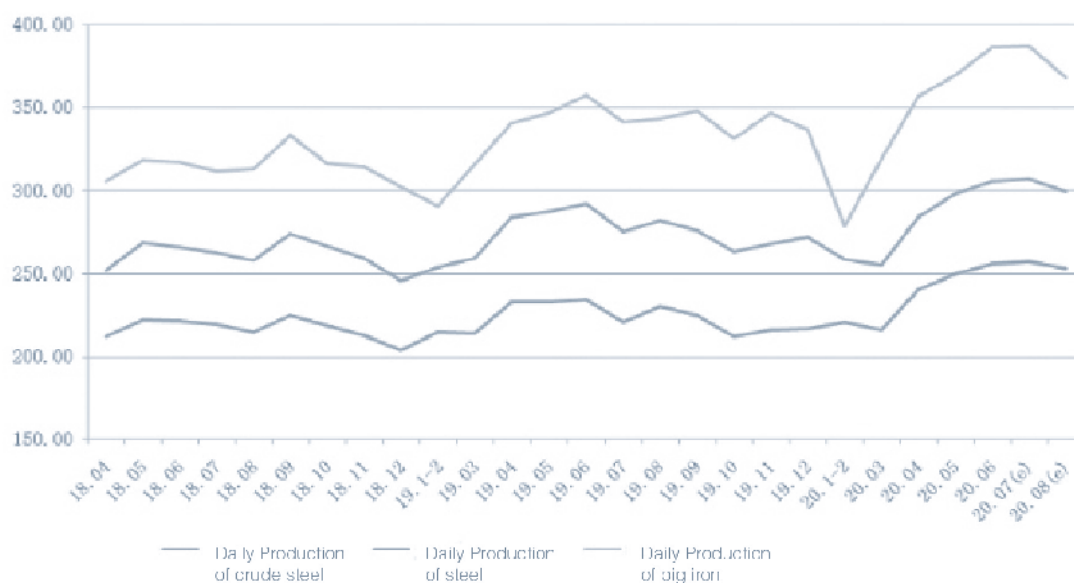
1. INTRODUCTION OF THE COMPANY'S MAJOR BUSINESSES AND OPERATION MODEL AND INDUSTRY PERFORMANCE DURING THE REPORTING PERIOD (CONTINUED)

(2) INDUSTRY PERFORMANCE

In the first half of 2020, The COVID-19 epidemic had a serious impact on the world economy. With the support of various key policies and measures of the state and local governments, the epidemic prevention and control has been effective, and the economy has changed from decline to rise, the overall economic and social situation has been maintained as stable, and China's economy has shown strong flexibility and potential. The iron and steel industry rolled with the punches and has basically maintained a stable operation through the three stages of "ensuring safety", "stable operation", and "seeking development".

Steel production has been remained high. In June, the national outputs of pig iron, crude steel and steel were 77.64 million tonnes, 91.58 million tonnes and 115.85 million tonnes, representing a year-on-year increase of 4.1%, 4.5% and 7.5%, respectively. From January to June, the national outputs of pig iron, crude steel and steel were 432.68 million tonnes, 499.01 million tonnes and 605.84 million tonnes, respectively, representing a year-on-year increase of 2.2%, 1.4% and 2.7%, respectively.

National Daily Production of crude steel, pig iron, steel



III Overview of the Company's Business (Continued)

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

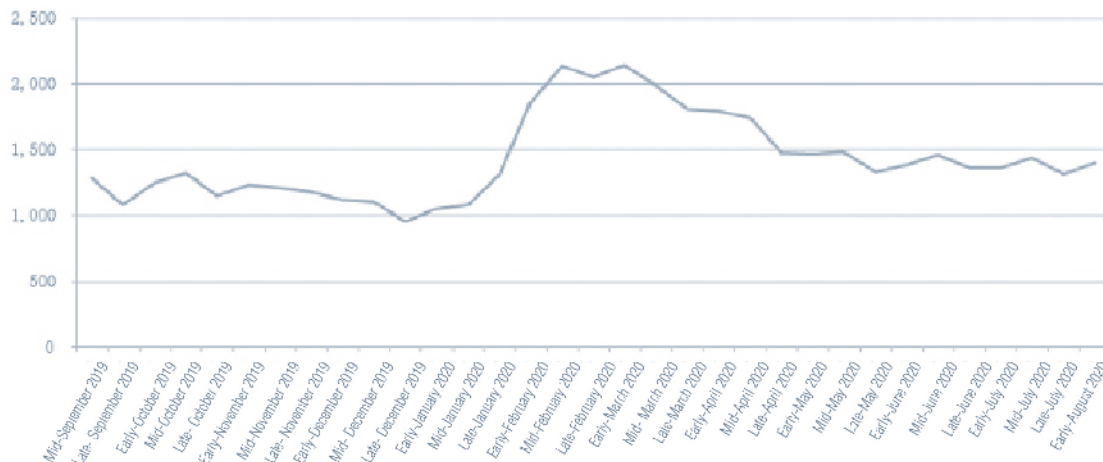
(2) INDUSTRY PERFORMANCE (Continued)

Consumption growth was low before and high after. From January to June, the apparent consumption of crude steel in China was 480.66 million tonnes, representing a year-on-year increase of 3.8%. From the perspective of the downstream steel industry, compared with the first quarter, the new construction area of real estate, the output of automobiles and ships in the second quarter increased by 145.8%, 87.1% and 55.9%, respectively, which supported the growth of steel output.

Steel prices were hovering at a low level. In June, China's steel price index averaged 103.1, representing a year-on-year decline of 5.4%. From January to June, China's steel price index averaged 101.0, representing a year-on-year decline of 7.7%, including an average decline of 8.2% for long materials and 7.5% for sheet materials.

Steel inventory remains high. In late June, the key statistics of enterprise's steel stocks were 13.62 million tonnes, representing an increase of 0.33 million tonnes, or 2.5%, and an increase of 2.39 million tonnes, or 21.3%, on a year-on-year basis.

Key Statistics of the Steel Inventories of Steel Industry in different periods



The import volume and price of ore were on the rise. Iron ore prices remained high due to the epidemic in Brazil and other factors, and the average price of ore fines (62% grade) imported in June was US\$100.77 per tonne, increased 10.0% from the previous month. From January to June, the national iron ore import volume was 546.91 million tonnes, representing a year-on-year increase of 9.6%, and the average import price was US\$90.2/tonne, representing an increase as compared with the same period of last year and the first quarter of this year.

Economic benefits have fallen sharply. As a result of the impact of both markets, the profit margins of iron and steel enterprises have been squeezed, and the benefits dropped sharply year on year. In the first half of year, according to the National Bureau of Statistics, the total profits of the ferrous metal metallurgy and Calendering industry decreased by 40.3% year on year. According to the China Iron and Steel Association, the sales profit margin of member enterprises was 3.29%, representing a year-on-year decrease of approximately 2 percentage points.

III Overview of the Company's Business (Continued)

2. SIGNIFICANT CHANGES IN THE COMPANY'S MAJOR ASSETS DURING THE REPORTING PERIOD

During the reporting period, the Company's construction in progress amounted to RMB4.384 billion, representing an increase of RMB1.125 billion 34.50% from the end of the previous year, mainly due to the increase in the investment construction of New Special Steel Bloom Project, the Eco-upgrades and Intelligent Transformation of The Raw Material Factory Project and CCPP comprehensive utilisation power generation project. There were no material changes in equity assets, fixed assets, intangible assets and other major assets.

Among these assets, overseas assets amounted to RMB2.983 billion, accounting for 3.70% of total assets.

3. ANALYSIS OF CORE COMPETITIVENESS DURING THE REPORTING PERIOD

- (I) Synergy advantage: the Company actively integrated into the high-quality steel ecosystem of China Baowu, and the synergy effect gradually appeared. Through the coordination in planning, manufacturing, marketing, procurement, management and other aspects, it is beneficial for the Company to enhance the purchasing and bargaining power, optimise the sales channels, innovate the marketing model, and break through the technical bottleneck. Through management benchmarking and implementation of technical support projects, the Company improved economic and technical indicators, and comprehensively improved the comprehensive competitiveness of the Company.
- (II) Location advantages: the Company is located in the bridgehead position of Anhui Province integrating into the national strategy of Yangtze River Delta integration development, close to the downstream market and the riverside and convenient transportation.

IV Report of the Board

1. DISCUSSION AND ANALYSIS ON OPERATION

1. Production and operation of the Company

2020 marks the end of building a well-off society in an all-round manner and the 13th Five-year Plan, being the first full year for the Company to fully integrate into China Baowu, and is also a key year for deepening integration. In the first half of the year, facing the impact of the COVID-19 epidemic, the Company conscientiously implemented the task arrangements from the national, provincial and municipal departments and China Baowu. While putting all the efforts to prevent and control the epidemic, we, at the same time, grasped the production and management, with finding the difference from all-round benchmarking, and regarded “Surpassing Oneself, Winning the market and Pursuing excellence” as the orientation of performance to effectively achieve prevention and control of the epidemic while safeguarding steady and smooth production and operation.

During the reporting period, the Group produced 9.26 million tons of pig iron, 10.2 million tons of crude steel and 9.68 million tons of steel, respectively, up by 5.95%, 7.59% and 8.64% over the same period of last year (including 7.27 million tons of pig iron, 7.97 million tons of crude steel and 7.3 million tons of steel produced by the Company, respectively, representing a year-on-year increase in 6.70%, 7.89% and 8.61%, respectively). The operating income was RMB37.429 billion, representing a slight year-on-year increase; the net profit attributable to the shareholders of the parent Company was RMB812 million, representing a year-on-year decrease of 29.03%, mainly due to the decrease of gross profit of steel products as compared with the same period of last year. The Company's production and operation show the following characteristics:

Firstly, the operation efficiency has been significantly improved. Facing the challenges of the COVID-19 epidemic, the Company maintained connection between production, equipment, logistics, procurement and marketing, overcame the adverse impact of the supply of raw materials and auxiliary materials and logistics-organisation difficulties of finished products delivery during the epidemic and flooding season. The blast furnaces operated stably for a long cycle, and the dominant production line produced in large quantities. Compared with the previous year, the planned completion rate of hot metal production increased by 3.01 percentage points, the comprehensive yield rate increased by 0.6 percentage points, the incidence rate of defective or degraded plates decreased by 1.21 percentage points, the completion rate of contract increased by 3.09 percentage points, the monthly comprehensive hot charging rate in the steel-making process of the No. 4 steel making and steel rolling plant increased by 12.8 percentage points, and the monthly average hot charging rate of long products increased by 14.6 percentage points. The cumulative cost reduction of procurement collaboration was RMB229 million.

Secondly, we aligned with higher standards in an all-round way to troubleshoot. The Company adhered to the ultimate “simple, efficient, low cost, high quality” as the goal, with external benchmarking, and internal optimization, reduced costs and narrowed the gap. Aiming at industry benchmark, from the scale capacity, profitability, turnover efficiency, cost competitiveness and other dimensions, the Company established and improved the benchmarking index system and work implementation plan, and systematically promoted the benchmarking work. The main economic and technical indicators have made significant progress, with the progress rate up to 70.67% and the refresh rate up to 23.09%. Compared with the previous year, the average cost of hot metal of the Company decreased by RMB157/ton, the consumption of iron and steel materials decreased by 1.6 kg/t; the comprehensive energy consumption per ton of steel decreased by 4.7 kgce/t compared with the same period last year.

IV Report of the Board (Continued)

1. DISCUSSION AND ANALYSIS ON OPERATION (CONTINUED)

1. Production and operation of the Company (Continued)

Thirdly, we promoted in-depth integration. According to the Company's future development orientation and high-quality development requirements of "becoming stronger, better and bigger", the Company helped China Baowu "create to become the top of the world", carried out overall plan and design with "high technology, high market share, high efficiency, ecologization and internationalization" as the implementation path. We vigorously promoted the technical support and procurement and sales collaborative support projects with China Baowu, and determined 10 management projects and 5 technical projects. The projects were progressing smoothly and the results gradually emerged. China Baowu guided diagnosis 1,526.5 people/day, and the implementation rate was 100% 105 reports were published, 79 special trainings were carried out, 62 documents were solidified, 12 project teams were organised, and 110 people were sent to Baowu internal benchmarking enterprises for training and learning. Maanshan Iron & steel technology centre of Baowu Central Research Institute was officially established.

Fourthly, we promoted in-depth reform and management. Management integration has been firmly promoted, and the integration of management model and process reengineering are forced by informatization, and the functions and personnel of the Company department are adjusted. The reform and system-change have been deeply carried out, and the staff-level management system is gradually established. Personnel efficiency has been steadily improved, and the Company has achieved 9.7% optimization of on-the-job staff and achieved 57% of the annual target. The Company has strengthened the concepts of "1000" safety production and "violation is a crime", comprehensively undertook the safety management model of China Baowu, established a normalised safety supervision mechanism, strengthened the construction of safety informatization, and constantly improved the security level of safety management system.

Fifthly, green development intelligent manufacturing was promoted in an orderly manner. We implemented the requirements of "higher than standards, better than urban districts and integrated into cities", "ultra-low emission of waste gas, zero emission of waste water, no shipping out of solid wastes, cleanness, greening, beautifying and culture" and "four principles for intelligent production", accelerated the implementation of key projects of green development intelligent manufacturing, and strived to reduce the impact of the epidemic. We tried to overcome the difficulties, such as tightened construction period, long front, construction in rainy season, site demolition, and construction while producing. Pre-ironmaking centralised control centre, centralised control project of the No.4 steel making and steel rolling plant, improvement of landscape quality and other projects are carried out smoothly on schedule. The Magang green city steel plant index system and the "four principles for intelligent production" index system of intelligent manufacturing were constructed, and the quantitative self evaluation of green development and intelligent manufacturing was carried out, and the indices are measurable, evaluable and traceable.

IV Report of the Board (Continued)

1. DISCUSSION AND ANALYSIS ON OPERATION (CONTINUED)

1. Production and operation of the Company (Continued)

Sixthly, scientific and technological innovation has achieved breakthroughs in many aspects. Scientific and technological innovation focuses on the theme of “practicing technology guidance, implementing innovation-driven development, and achieving new breakthroughs in scientific and technological innovation”, focusing on scientific research, new product development and scientific and technological achievements, and improving the overall performance of innovation indicators. The Company has implemented 167 key scientific research projects and participated in 6 national key R & D projects; 237 patents were accepted, 126 domestic patents and 2 international patents were granted; won 2 metallurgical science and technology awards and 4 Anhui science and technology awards; presided over or participated in the amendments to 3 national standards and 7 industry standards. A total of 305,600 tons of new products have been developed, and RMB145 million of newly-added straight benefits from scientific research have been realized.

Seventhly, the project management system continued to improve. Through strengthening the design depth management, establishing the cost system and engineering management information system based on the bill of quantities, the fixed assets investment management system was continuously improved. After a project was approved, a more stringent dynamic management of the project schedule was implemented to ensure that the construction progress met the target schedule.

2. Financial status and exchange rate risk

As of 30 June 2020, all loans of the Group were equivalent to RMB19.263 billion, including short-term loans of RMB15.154 billion and long-term loans of RMB4.109 billion (including RMB820 million of long-term loans due within one year). The loans included foreign currency loans of US\$233 million (of which US\$76 million are import bills), and the rest were RMB loans. Among the RMB borrowings of the Group, RMB13.675 billion was subject to fixed interest rate, RMB3.938 billion was subject to floating interest rate, US\$206 million was subject to fixed interest rate, and US\$27 million is subject to floating interest rate.

The amount of all loans of the Group changed with the scale of production and construction. Due to the increase in construction scale this year, the Company will increase the financing scale, which is mainly trade financing. There was no overdue loan during this period. At the end of the reporting period, the Group's asset liability ratio was 61.62%, representing a decrease in 2.65 percentage points as compared with the end of 2019; current ratio was 0.88, representing a decrease in 5.38% as compared with 0.93 at the end of 2019; quick ratio was 0.65, representing a decrease in 8.45% as compared with 0.71 at the end of 2019.

IV Report of the Board (Continued)

1. DISCUSSION AND ANALYSIS ON OPERATION (CONTINUED)

2. Financial status and exchange rate risk (Continued)

At present, the Company finances its construction projects mainly with its own funds. As at the end of the reporting period, banking facilities available to the Company totaled approximately RMB56.1 billion, of which approximately RMB30.9 billion unutilized.

As of 30 June 2020, the monetary capital of the Group was equivalent to RMB10.603 billion, the financing receivables was RMB7.248 billion, and most of the monetary funds and bank acceptance bills derived from receipt of sales payment. There was not failure of withdrawal of expired deposit of the Group.

The Group's imports of raw materials are mainly settled in US dollars, imported equipment and spare parts are settled in Euro or Japanese Yen, and export products are settled in US dollars. During the reporting period, for the US dollars to be paid for the imported raw materials, the forward settlement and sales of foreign exchange shall be handled in accordance with the needs, and the US dollar exchange rate shall be locked; the amount of equipment purchased from Europe and Japan is small, and the purchase payment is relatively insignificant as affected by exchange rate fluctuation.

3. Internal control and risk management

The Company has an internal auditing system. Our auditing inspection department audits and supervises the financial revenue, expenditure and every economic activity of the Company. The Company has established an internal control system for of the entire process 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 business, research and development, projects, guarantees, business outsourcing, financial reports, comprehensive budget, contract management and information systems. We have paid extra attention to high-risk areas, e.g. procurement risks, operational risks and financial risks, risks related to the control over subsidiaries. The system acts as a guideline for the Company's operation, helping the Company recognise and control its major risks.

The Audit Committee reviewed the 2019 internal audit work report of the Company on 20 January 2020, agreeing the internal audit work arrangements for 2020 and submitted it to the Board for consideration. The Audit Committee heard the 2019 internal audit work report on 30 March 2020.

IV Report of the Board (Continued)

1. DISCUSSION AND ANALYSIS ON OPERATION (CONTINUED)

3. Internal control and risk management (Continued)

The Board reviewed and approved the 2019 Internal Control Assessment Report on 30 March 2020. The report confirms that the Company implemented an effective internal control related to financial report over all important aspects pursuant to the Basic Internal Control Norms for Enterprises 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 2019 and 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 “2019 Risk Supervision and Evaluation Report” by the Board of Directors was made on 30 March 2020, confirming that the Company would take appropriate control measures for strategic risks, financial risks, market risks, operational risks, legal risks and environmental risks, etc. in 2019 and the risks were under control. During the reporting period, the Company evaluated the risks, formulated the measures for identified risks, and carried out key prevention and control to ensure that the risks were under control.

4. The environment for production and operation and coping strategies

In the second half of this year, the COVID-19 epidemic is still spreading and its impact on the global economy is still continuing. The international environment has become more complex, and uncertainties affecting the global economy have been increasing, causing a far-reaching impact on iron ore supply, steel export and the downstream industry chain of steel. On the whole, the epidemic in China has been effectively controlled. However, the epidemic situation is uncertain in some regions, steel demand has gradually recovered, steel production capacity has been released quickly, and competition in the industry remained severe. The Company will keep a close eye on the annual business plan, further strengthen the performance orientation of “Surpassing Oneself, Winning the market and Pursuing excellence”, deepen benchmarking, strive to improve the business performance, and try to complete the annual targets and tasks. The main tasks are as follows:

Firstly, the Company will improve the profitability in an all-round manner. We adhere to the concept of “simple, efficient, low cost and high quality”, through strengthening the guarantee of quality tracking of raw materials and fuels into the furnace, optimize coal blending, ore blending and burden distribution of blast furnace, promote the progress of indicators, further reduce the total cost of molten iron. We insist on the market-oriented, profit-oriented, optimise the allocation of resources, expand the proportion of high-benefit products. Taking extreme efficiency as the direction, we will coordinate the structural adjustment, system efficiency and scale release, further reduce the ratio of iron and steel, and improve the operation rate of steelmaking and rolling materials.

IV Report of the Board (Continued)

1. DISCUSSION AND ANALYSIS ON OPERATION (CONTINUED)

4. The environment for production and operation and coping strategies (Continued)

Secondly, the Company will continue to deepen the higher standards to find out gap and collaboration. Adhering to the integration of China Baowu, we will promote the informatization construction to improve efficiency, optimise the production and manufacturing process to reduce cost, perfect the operation and management system to strengthen foundation, improve the capacity utilisation rate and economic and technical indicators, optimise resource allocation, promote systematics cost reduction, strictly control expenses, and continuously promote Surpassing Oneself, Winning the market and Pursuing excellence. We should improve the regular evaluation mechanism of benchmarking and error finding, focus on backward indicators, strengthen analysis and rectification, and push forward the progress of indicators. Give full play to the synergy advantages, continuously promote the improvement of coal injection ratio, fuel ratio and other indicators, and enhance the cost competitiveness.

Thirdly, the Company will accelerate green development and smart manufacturing. Adhering to the year-end target, we will vigorously promote the construction of infrastructure network upgrading and transformation, operation control centre, iron-making centralised control, steel-making centralised control, hot rolling and cold rolling centralised control, landscape quality improvement and other projects, strengthen the project safety, quality, construction period and investment control of the project, and support the Company's green development and the significant improvement of the "four principles for intelligent production" index. We will formulate and implement the Company's smart manufacturing action plan (2021–2023), build a responsibility network system, and regularly release the "four principles for intelligent production" index to continuously improve the development level of green wisdom.

Fourthly, the Company will unswervingly deepen reform. The Company will promote management reform and process re-engineering in an orderly manner, explore ways to build lean and efficient flat grass-roots organisations, and form a centralised management system. Continue to carry out post level management, get through the channel of management post, technical business post and operation post, and realise the matching of personnel post. We will deepen reform of the salary distribution system and establish a salary distribution system that is "efficiency-oriented, position-based and performance centered." Adhering to the principle of "no lay-offs in post transfer and no unemployment in job transfer", we will improve personnel efficiency through management reform, process reengineering, smart manufacturing and post optimization, and strive to achieve the target of 1000 tonnes of steel per capita by 2020.

IV Report of the Board (Continued)

1. DISCUSSION AND ANALYSIS ON OPERATION (CONTINUED)

4. The environment for production and operation and coping strategies (Continued)

Fifthly, the Company will improve safety and environmental protection. Continue to strengthen the awareness of “violation of regulations is a crime”, to achieve “zero violation, hidden danger and accident” as the goal, speed up the launch of the safety information system, intensify safety rectification efforts, strengthen supervision over the rectification of hidden dangers and safety control in the engineering field, continue to promote the construction of safety standardisation, and improve the level of essential safety. We will accelerate the implementation of the “ultra-low emission of waste gas, zero emission of waste water, no shipping out of solid wastes, cleanliness, greening, beautifying and culture” projects, implement ultra-low emissions projects with high quality, rectify problems with high standards, strictly implement the management requirements for special emission limits for air pollutants, as well as strictly and effectively control environmental risks.

Sixthly, the Company will strengthen fund management. the Company will strengthen accounts receivable management, improve customer credit rating system, improve the turnover rate of accounts receivable, and achieve the goal of reducing inventories and accounts receivable; We will focus on reducing the asset-liability ratio, putting to good use the existing assets, optimising the financing structure, broadening financing channels, and ensuring that the debt ratio remains stable with a slight decline while the debt structure continues to improve. Actively strive for all kinds of government fiscal and tax policy funds to benefit from national policies.

Seventhly, the Company will strengthen project management. In view of this year’s large number of projects, tight construction period and cross construction, combined with management reform and process reengineering, the project management process and control mode are optimised, the responsibility of hierarchical management and control is implemented, and the whole process management of project duration, quality, investment, acceptance and post-evaluation is strengthened to ensure the orderly progress of project construction.

IV Report of the Board (Continued)

1. DISCUSSION AND ANALYSIS ON OPERATION (CONTINUED)

(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	37,429,035,554	37,026,693,821	1.09
Cost of sales	34,203,030,172	33,672,424,605	1.58
Selling expenses	530,439,865	431,513,432	22.93
General and administrative expenses	692,664,296	711,335,104	-2.62
Financial expenses	290,762,915	390,006,931	-25.45
R&D expenses	636,396,202	354,535,705	79.50
Investment income	231,959,570	410,893,019	-43.55
Credit impairment losses	-8,030,101	-43,977,242	—
Assets impairment losses	-73,128,980	-241,775,610	—
Loss on disposal of assets	-62,159,618	-936,915	—
Non-operating expenses	2,909,067	1,610,123	80.67
Net profit attributable to owners of the parent	812,342,511	1,144,660,011	-29.03
Net profit attributable to non-controlling interests	185,281,875	273,019,690	-32.14
Net cash flows from operating activities	945,746,996	2,973,012,782	-68.19
Net cash flows from investing activities	-518,825,820	-486,598,069	—
Net cash flows from financing activities	722,208,572	-2,578,769,516	—

IV Report of the Board (Continued)

1. DISCUSSION AND ANALYSIS ON OPERATION (CONTINUED)

(1) ANALYSIS OF PRINCIPAL OPERATION (Continued)

1. *Analysis of the change in accounts of the financial statements (Continued)*

The revenue and cost of sales increased by 1.09% and 1.58%, respectively, as compared with the same period of last year, mainly due to the increase in steel sales volume in the current period as compared with the same period of last year.

R&D expenses increased by 79.50% as compared with the same period of last year, mainly due to increased investment in scientific research by the Company and more new products developed in the current period, which resulted in the increase in relevant expenses as compared with the same period of last year.

Investment income decreased by 43.55% as compared with the same period of last year, mainly due to the decrease in profit of associates and joint ventures from the same period last of year as affected by the COVID-19 pandemic in the current period.

Credit impairment losses amounted to RMB8 million as compared with the same period of last year of RMB44 million, mainly due to the decrease in bad debt provision based on the expected credit loss model as compared with the same period of last year.

Asset impairment losses amounted to RMB73 million as compared with the same period of last year of RMB242 million, mainly due to the decrease in the Company's inventory impairment and provision for impairment of fixed assets made by MG-Valdunes, a subsidiary of the Company during the current period as compared with the same period of last year.

Loss on disposal of assets amounted to RMB62 million, as compared with the same period of last year of RMB1 million, mainly due to the increase in demolition of scrapped assets for construction of new projects during the period as compared with the same period of last year.

Non-operating expenses increased by 80.67% as compared with the same period of last year, mainly due to the increase in penalties expenses of the Company during the period as compared with the same period of last year.

Net profit attributable to owners of the parent company decreased by 29.03% as compared with the same period of last year, mainly due to the decrease in gross profit of steel products of the Company during the period as compared with the same period of last year.

Non-controlling interests decreased by 32.14% as compared with the same period of last year, mainly due to the decrease in the profitability of certain non-wholly owned subsidiaries from the same period of last year as impacted by the COVID-19 pandemic.

For the analysis of the changes of cash flow generated from operating activities, investment activities and financing activities, please refer to the section of "2.Cash Flow Analysis" below.

Other than the above items, the remaining accounts didn't change significantly as compared with the same period of last year.

IV Report of the Board (Continued)

1. DISCUSSION AND ANALYSIS ON OPERATION (CONTINUED)

(1) ANALYSIS OF PRINCIPAL OPERATION (Continued)

2. *Cash Flow Analysis*

During the reporting period, the net increase in cash and cash equivalents of the Group amounted to RMB1.178 billion, compared with a net decrease of RMB88 million year on year. Net cash inflow from operating activities was RMB946 million, as compared with net inflow of RMB2,973 million for the same period of last year, representing a decrease of RMB2,027 million as compared with the same period of last year, which was mainly due to the increase in cash outflow in financial businesses of the Masteel Finance, such as customer deposit and financial assets sold for repurchase as compared with the same period of last year. Cash flows from investing activities amounted to RMB519 million, compared with RMB487 million for the same period of last year, representing a slight year-on-year increase. The net flow from financing activities amounted to RMB722 million, as compared with a net outflow of RMB2,579 million in the same period of last year, which was mainly due to the cash obtained by the Company through borrowing in the current period and that was more than the cash paid by the company to repay the debt of about RMB1,300 million. In the same period of last year, the cash obtained by the Company through borrowing was less than the cash paid by the Company to repay the debt of approximately RMB1,500 million.

Excluding the effect of Masteel Finance, the net increase in cash and cash equivalents was RMB1,607 million, as follows:

- (1) Net cash inflow from operating activities was RMB3,492 million, representing a year-on-year increase of RMB2,548 million, which was mainly due to the higher amount of cash paid in the same period in 2019 as compared the current period.
- (2) Net cash outflow from investing activities was RMB2,637 million, representing a year-on-year increase of RMB1,702 million as compared to the same period of last year, mainly due to the increase in capital expenditures such as the acquisition of long-term assets as compared with the same period of last year.
- (3) Net cash inflows from financing activities amounted to RMB722 million, representing a year-on-year increase of RMB3,300 million, mainly due to the increase in the Group's demand for capital expenditures and the increase in financing borrowings as compared with the same period of last year.

IV Report of the Board (Continued)

1. DISCUSSION AND ANALYSIS ON OPERATION (CONTINUED)

(1) ANALYSIS OF PRINCIPAL OPERATION (Continued)

3. Industry and Product Analysis

Unit: RMB million

PRINCIPAL OPERATIONS BY INDUSTRY						
By industry	Revenue of sales	Cost of sales	Gross profit margin (%)	Year-on-year increase or decrease in revenue (%)	Year-on-year increase or decrease in cost of sales (%)	Year-on-year increase or decrease in gross profit margin (%)
Steel industry	35,351	32,329	8.55	1.46	2.22	Decrease by 0.68 percentage points

PRINCIPAL OPERATIONS BY PRODUCT						
By product	Revenue of sales	Cost of sales	Gross profit margin (%)	Year-on-year increase or decrease in revenue (%)	Year-on-year increase or decrease in cost of sales (%)	Year-on-year increase or decrease in gross profit margin (%)
Long products	15,552	14,075	9.50	4.31	7.46	Decrease by 2.65 percentage points
Plates	17,399	16,096	7.49	-1.00	-1.12	Increase by 0.11 percentage points
Wheels and axles	1,183	1,077	8.96	2.60	-0.09	Increase by 2.46 percentage points

During the reporting period, the principle operation income of the Group amounted to RMB36,780 million, of which the steel industry income amounted to RMB35,351 million, accounting for 96% of the principle operation income. There was no significant change in the proportion.

IV Report of the Board (Continued)

1. DISCUSSION AND ANALYSIS ON OPERATION (CONTINUED)

(1) ANALYSIS OF PRINCIPAL OPERATION (Continued)

4. Others

- (1) No significant change in the composition or sources of the Company's profit.
- (2) During the reporting period, the principal operation of the Company complied with the requirements of the annual business plan.

(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	10,602,786,055	13.14	9,517,313,695	11.03	11.41
Financial assets held for trading	2,058,977,448	2.55	2,126,112,194	2.46	-3.16
Trade receivables	1,138,682,644	1.41	1,092,930,122	1.27	4.19
Financing receivables	7,248,286,411	8.98	11,098,699,421	12.86	-34.69
Prepayments	708,639,046	0.88	981,443,575	1.14	-27.80
Other receivables	222,210,912	0.28	156,291,851	0.18	42.18
Inventories	10,436,360,289	12.93	10,947,850,219	12.68	-4.67
Financial assets purchased under agreements to resell	789,990,318	0.98	2,369,966,754	2.75	-66.67
Loans and advances to customers	4,149,279,777	5.14	4,256,415,190	4.93	-2.52
Other current assets	1,934,859,801	2.40	3,975,034,798	4.60	-51.32

IV Report of the Board (Continued)

1. DISCUSSION AND ANALYSIS ON OPERATION (CONTINUED)

(3) ANALYSIS OF ASSETS AND LIABILITIES (Continued)

1. Assets and liabilities (Continued)

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 (%)
Long-term equity investments	3,620,824,763	4.49	3,546,219,668	4.11	2.10
Property, plant and equipment	30,511,649,871	37.81	30,045,743,674	34.81	1.55
Construction in progress	4,384,265,423	5.43	3,259,704,984	3.78	34.50
Investment properties	63,523,089	0.08	64,697,688	0.07	-1.82
Intangible assets	1,965,273,526	2.44	1,973,126,962	2.29	-0.40
Deposits and balances from banks and other financial institutions	200,000,000	0.25	400,031,889	0.46	-50.00
Customer deposits	8,463,368,095	10.49	10,964,896,002	12.70	-22.81
Repurchase agreement	99,068,750	0.12	1,386,580,448	1.61	-92.86
Short-term loans	15,154,498,596	18.78	12,880,053,159	14.92	17.66
Financial liabilities held for trading	668,202	0.00	2,258,750	0.00	-70.42
Notes payable	3,529,740,685	4.37	7,313,729,148	8.47	-51.74
Trade payables	6,516,224,240	8.07	6,130,327,006	7.10	6.29
Contract liabilities	3,903,969,212	4.84	3,765,254,551	4.36	3.68
Payroll and employee benefits payable	493,568,240	0.61	691,976,938	0.80	-28.67
Taxes payable	538,394,013	0.67	547,209,418	0.63	-1.61
Other payables	4,653,824,896	5.77	4,294,496,279	4.97	8.37
Non-current liabilities due within one year	967,429,543	1.20	1,677,068,898	1.94	-42.31
Long-term loans	3,287,700,000	4.07	3,468,200,000	4.02	-5.20
Lease liabilities	403,037,327	0.50	411,432,835	0.48	-2.04
Special reserve	52,432,383	0.06	35,484,176	0.04	47.76

IV Report of the Board (Continued)

1. DISCUSSION AND ANALYSIS ON OPERATION (CONTINUED)

(3) ANALYSIS OF ASSETS AND LIABILITIES (Continued)

1. *Assets and liabilities (Continued)*

Compared with the end of last year, the main changes were as follows:

Financing receivables decreased by 34.69%, mainly due to the increase in the amount of bill endorsement transferred by the Company in the current period, which resulted in the decrease of notes held as compared with the end of last year.

Other receivables increased by 42.18%, mainly due to the increase of deposit of steel futures in the current period.

Financial assets purchased under agreements to resell decreased by 66.67%, mainly due to the decrease of reverse repurchase business in the current period.

Other current assets decreased by 51.32%, mainly due to the decrease in interbank deposits held by the Masteel Finance at the end of this period as compared with the end of last year.

Construction in progress increased by 34.50%, mainly due to the increase in the investment construction of New Special Steel Bloom Project, the Eco-upgrades and Intelligent Transformation of The Raw Material Factory, and CCPP comprehensive utilisation power generation project.

Deposits and balances from banks and other financial institutions decreased by 50%, mainly due to the decrease of interbank borrowings by Masteel Finance in the current period.

Repurchase agreements decreased by 92.86%, mainly due to the decrease in the amount of funds pledged by Masteel Finance to other financial institutions in the current period.

The financial liabilities held for trading decreased by 70.42%, mainly due to changes in the fair value of the forward foreign exchange contracts held by the Company in the current period.

Notes payable decreased by 51.74%, mainly due to the increase in the transfer of external endorsements of bills receivable by the Company in the current period and the decrease in demand for new bills to be issued.

Non-current liabilities due within one year decreased by 42.31%, mainly due to the repayment of long-term loans due within one year.

Special reserve increased by 47.76%, mainly due to the increase in the safety fund and the special reserves for joint venture.

Other than the above items, other accounts didn't change significantly from the end of last year.

IV Report of the Board (Continued)

1. DISCUSSION AND ANALYSIS ON OPERATION (CONTINUED)

(3) ANALYSIS OF ASSETS AND LIABILITIES (Continued)

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

At the end of the reporting period, the restricted assets of the Company amounted to approximately RMB3.253 billion, among that: the mandatory reserves which deposited with the central bank by the Masteel Finance amounted to approximately RMB1.049 billion, bank deposits for bank acceptance notes amounted to approximately RMB1.122 billion, bank deposits for performance guarantees amounted to approximately RMB10 million, and the bank acceptance notes pledged by the Group to the bank for obtaining bank acceptance notes and short-term loans amounted to RMB1.072 billion.

(4) INVESTMENT ANALYSIS

1. General analysis of external equity investments

Unit: million RMB

Investment amount as at the end of the reporting period of the Company	12,197.95
Changes in investment amount	147.29
Investment amount as at the end of previous year of the Company	12,050.66
Increase/decrease in investment amount (%)	1.22

Major companies with changes in investment during the reporting period:

Unit: million RMB

Invested Company	Shareholding Ratio	Principal Business	New investment amount during the reporting period
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.	74.4

Note: During the reporting period, the Company completed the third phase of capital contribution of RMB74.375 million to Ma Steel (Wuhan) Material Technology Co., Ltd., and the fourth phase of capital contribution of RMB53.125 million is expected to be completed by the end of the year.

IV Report of the Board (Continued)

1. DISCUSSION AND ANALYSIS ON OPERATION (CONTINUED)

(4) INVESTMENT ANALYSIS (Continued)

1. General analysis of external equity investments (Continued)

- (1) During the reporting period, the Company did not carry out any significant equity investments.
- (2) Significant non-equity investment

Unit: million RMB

Project name	Budget of total investment	New investment during the reporting period	Project progress
Product quality projects	8,246	1,702	48%
Energy-saving and environment protection projects	5,464	924	25%
Equipment advancement and other modification projects	1,962	550	46%
Other projects	N/A	50	N/A
Total	N/A	3,226	N/A

Details of the main projects under construction as at the end of the reporting period are as follows:

Unit: million RMB

Project name	Budget of total investment	Project progress
Heavy duty H – beam project	1,650	Construction completed
The update of environmental protection and intelligent transformation project of Masteel's raw material factory	1,500	Installation of some equipment and intelligent decision-making system trial operation
Ma Steel Hefei environmental relocation project – coking furnace system project	1,260	Civil infrastructure construction
CCPP comprehensive utilisation power generation project for energy saving and emission reduction	1,025	Main Equipment installment

IV Report of the Board (Continued)

1. DISCUSSION AND ANALYSIS ON OPERATION (CONTINUED)

(4) INVESTMENT ANALYSIS (Continued)

1. General analysis of external equity investments (Continued)

(2) Significant non-equity investment (Continued)

Project name	Budget of total investment	Project progress
Auxiliary supporting project for Masteel's long product upgrading and renovation	520	Construction completed
New square billet continuous caster and supporting retrofit project in the Special Steel Company	435	Construction completed
Renovation or 1720 acid rolling lines	429	Preparations for commencement of works
New silo project in the coal coking company	420	The first phrase was completed and the second phrase is under construction of the warehouse body
Masteel 220KV electricity transmission and transformation – CCPP auxiliary electricity supporting project	374	Construction of civil and steel structures
Profiled billet continuous casting machine project for heavy-duty H beam production lines	332	Construction completed
Auxiliary gas and thermal supporting project for new CCPP in the southern area of Masteel	291	Construction of civil and steel structures
Capability upgrade and renovation project for No. 1 galvanizing line of cold rolling plant	280	Main Equipment installment
Wires and bars deep processing project for parts used in high-end automobiles and rail transit of Magang	268	Equipment installment and commissioning
Flue gas desulfurization and denitrification project for 7# and 8# coking furnaces in the Coking Plant	150	7# coking furnace was completed while 8# coking furnace was under construction of civil and steel structures
Total	8,934	/

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

IV Report of the Board (Continued)

1. DISCUSSION AND ANALYSIS ON OPERATION (CONTINUED)

(4) INVESTMENT ANALYSIS (Continued)

1. General analysis of external equity investments (Continued)

(3) Financial assets measured at fair value

Unit: RMB

Account name	Opening balance of the reporting period	Closing balance of the reporting period	Change in the reporting period	Effects on the profit of the current period
Financial assets held for trading	2,126,112,194	2,058,977,448	-67,134,746	54,046,875
Financial liabilities held for trading	2,258,750	668,202	-1,590,548	1,590,548
Financing receivables	11,098,699,421	7,248,286,411	-3,850,413,010	–
Other equity instruments investments	278,576,509	276,883,222	-1,693,287	–
Total	13,505,646,874	9,584,815,283	-3,920,831,591	55,637,423

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

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

1. Anhui Changjiang Steel Co., Ltd.

Anhui Changjiang Steel Co., Ltd. has a registered capital of RMB1,200 million, in which the Company holds a direct stake of 55%. It is mainly engaged in the production and distribution of ferrous metallurgy, screw threaded steel, round steel, section steel, angle steel, deformed steel, wire and rod; as well as the sales, import and export of iron ore, iron ore fines and scrap steel. The net profit for the reporting period amounted to RMB377 million. At the end of the reporting period, its total assets and net assets amounted to RMB10,386 million and RMB5,312 million, respectively.

During the reporting period, the revenue of Changjiang Steel from principal operation was RMB7,109 million, the profit therefrom was RMB843 million, and the net profit decreased by 29.40% year-on-year, mainly due to the decrease in the steel price during the reporting period.

IV Report of the Board (Continued)

1. DISCUSSION AND ANALYSIS ON OPERATION (CONTINUED)

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

2. *Masteel Group Finance Co. Ltd.*

Masteel Group Finance Co. Ltd. has a registered capital of RMB2,000 million, in which the Company holds a direct stake of 91%. Its business scope is as follows: financial and financing consultancy and relevant consultancy as well as agency business to members of the Group; guarantee provided; bill acceptance and discounting, loans and finance leasing to members of the Group; engagement in inter-bank borrowing; assisting members of the Group in the collection and payment of transaction amount; approved insurance agency business; handling entrusted loans, internal transfer and bill settlement, design of settlement and liquidation plans for members of the Group, and accepting deposits from member entities. The net profit for the reporting period amounted to RMB154 million. At the end of the reporting period, its total assets and net assets amounted to RMB17,870 million and RMB3,225 million, respectively.

During the reporting period, the revenue of Masteel Group Finance Co. Ltd. from principal operation was RMB251 million, the profit therefrom was RMB125 million, and the net profit increased by 14.93% year on year, mainly due to the year-on-year increase in the average daily operation capital scale during the reporting period.

Indicator	Standard Ratio	Actual ratio for the period
Capital adequacy ratio	≥10.5%	27.08%
Liquidity ratio	≥25%	97.81%
Non-performing asset ratio	≤4%	—
Non-performing loan ratio	≤5%	—
Loan loss reserves adequacy ratio	≥100%	290.51%
Loans from other banks ratio	≤100%	5.94%

3. *Other major controlling 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 sales of resulting products and by-products; production and sales of coke and coke chemical products and energy, extended processing of iron and steel products, production and distribution of metallic products. The net profit for the reporting period amounted to RMB17 million. At the end of the reporting period, the total assets and net assets amounted to RMB4,478 million and RMB2,344 million, respectively.

IV Report of the Board (Continued)

1. DISCUSSION AND ANALYSIS ON OPERATION (CONTINUED)

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

3. Other major controlling subsidiaries (Continued)

- MG-VALDUNES, a wholly-owned subsidiary of the Company, has a registered capital of EUR130.2 million, and is mainly specialised in design, manufacturing, processing, putting into production, repairing and maintaining of all kinds of products and facilities applied in railway transportation, urban transportation and mechanical industry; sales, import and export of various shapes of steel products. In the reporting period, the net losses amounted to RMB68 million; at the end of reporting period, the total assets and the net assets were RMB752 million and RMB338 million, respectively.
- The Company's wholly-owned subsidiary Ma Steel (Hong Kong) Co., Ltd. has a registered capital of HK\$350 million, and is mainly engaged in trading of steel products and pig iron. The net profit for the reporting period amounted to RMB44 million. At the end of the reporting period, it had total assets amounting to RMB1,874 million and net assets of RMB420 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. Its main businesses include coke, coal tar, crude benzene, ammonium sulfate, coke oven gas production and sales; coke oven gas power generation, heat production. The net profit for the reporting period was approximately RMB241 million. As at the end of the reporting period, the total assets and net assets were RMB6,181 million and RMB3,581 million, respectively.
- Shenglong Chemical Co., Ltd. has a registered capital of RMB568.8 million and the Company directly holds 31.99% of its equity. It's mainly engaged in the production and sales of coke, ammonium sulfate, and coal coke chemical products (excluding other dangerous chemicals); maintenance and processing of mechanical equipment (excluding special equipment). The net profit for the reporting period was approximately RMB87 million. At the end of the reporting period, the total assets and net assets were RMB3,721 million and RMB2,645 million, respectively.
- Maanshan BOC-Ma Steel Gases Company Limited has a registered capital of RMB468 million and the Company directly holds 50% of its equity. It's mainly engaged in the production and distribution of air or liquid form of air products as well as the preparation for other industrial gas products. During the reporting period, the net profit amounted to RMB101 million. At the end of reporting period, the total assets and net assets were RMB651 million and RMB591 million, respectively.

IV Report of the Board (Continued)

(VII) 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

Not applicable.

(2) POTENTIAL RISKS

Currently, the COVID-19 pandemic is still severe around the world, and the international political and economic situations are complex and changeable. The OECD expects that the world economy will shrink by at least 6% in 2020, while the International Monetary Fund (IMF) expects the global economy will shrink by 4.9% in 2020. For a later period and now, there will be new development changes in China's development opportunities and challenges, with greater instability and uncertainty. From the perspective of long term fight, the national economy will accelerate the formation of a new development pattern with the domestic big cycle as the main body and the domestic and international double circles promoting each other. As a steel enterprise, in addition to pandemic prevention and control, the Company also faces operation, environment, safety and other risks. In this regard, on the one hand, the Company clearly defines the risk management objectives and control requirements, promotes the pandemic prevention and control and production and operation work as a whole, and implements various measures without slackness, striving to win the fight of pandemic prevention and control and production and operation; On the other hand, the Company will promote the construction of risk management and internal control information system, and further consolidate the foundation of risk management and control of the company. For specific countermeasures, please refer to "4. The environment for production and operation and coping strategies" in "1. Discussion and analysis on operation" of the "Report of the Board" to Section IV of the report.

(3) OTHER DISCLOSURES

1. *Work of Audit Committee*

The Audit Committee of the Company comprises independent directors Ms. Zhu Shaofang, Ms. Zhang Chunxia and Mr. Wang Xianzhu. The Audit Committee has reviewed the 2020 interim results.

2. *Events after the Balance Sheet Date*

Since the end of the reporting period and up to the date of this announcement, there is no significant event affecting the Group needs to be disclosed.

IV Report of the Board (Continued)

2. OTHER DISCLOSURES (CONTINUED)

(3) OTHER DISCLOSURES (Continued)

3. *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.

4. *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.

5. *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 behaviour from the code was found.

6. *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 behaviour from the code was found.

7. *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
2020 First Extraordinary General Meeting	2020-3-5	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2020-03-06/600808_20200306_1.pdf	2020-3-6
2019 Annual General Meeting	2020-6-29	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2020-06-30/600808_20200630_2.pdf	2020-6-30

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 CAPITALISATION OF CAPITAL RESERVE DECLARED

Whether to distribute or capitalise	No
Bonus Shares Distributed Every Ten Shares (<i>share</i>)	–
Dividends Distributed Every Ten Shares (<i>RMB</i>) (tax included)	–
Transferred Shares Every Ten Shares (<i>share</i>)	–

3. PERFORMANCE OF UNDERTAKINGS

(i) 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

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

From 7 April 2020 to 30 June 2020, Magang Investment Company further held an aggregate of 150,772,359 A shares of the Company through the centralised bidding system of Shanghai Stock Exchange, accounting for 1.958% of the total share capital of the Company. After the reporting period, Magang Investment Company continued to held additional shares. As at 13 July 2020, Magang Investment Company further held 158,282,159 A shares of the Company in total, accounting for 2.055% of the total share capital of the Company with a total amount of RMB409,617,740.89. Masteel Group has performed its holding commitment in full.

V Significant Events (Continued)

3. PERFORMANCE OF UNDERTAKINGS (CONTINUED)

(i) 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 (CONTINUED)

- (2) During the period when applying to CSRC for redemption for cash offer acquisition of the A shares of the Company in 2019, to avoid horizontal competition, China Baowu issued the “Commitment Letter on Avoiding Horizontal Competition”, details of which were published in the 2019 annual report at the website of Shanghai Stock Exchange or the reply to the Receipt of CSRC Notice of the First Feedback on the Review of Administrative Item of China Baowu.

During the reporting period, China Baowu did not violate the commitments.

- (3) During the period when applying to CSRC for redemption for cash offer acquisition of the Shares of the Company in 2019, to regulate and reduce the related party transactions between China Baowu and the Company, China Baowu issued the “Commitment Letter on Regulating and Reducing Related Party Transactions”, details of which were published in the 2019 annual report at the website of Shanghai Stock Exchange or the reply to the Receipt of CSRC Notice of the First Feedback on the Review of Administrative Item of China Baowu.

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

- (4) During the period when applying to CSRC for redemption for cash offer acquisition of the A shares of the Company in 2019, to keep the independence of the Company, China Baowu issued the “Commitment Letter on Ensuring the Independence of Listed Companies”, details of which were published in the 2019 annual report at the website of Shanghai Stock Exchange or the reply to the Receipt of CSRC Notice of the First Feedback on the Review of Administrative Item of China Baowu.

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

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 2019 Annual General Meeting on 29 June 2020. 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

V Significant Events (Continued)

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

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 2019–2021 “Sale and Purchase of Ore Agreement” between the Company and the Holding*

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 2020 and 30 June 2020, the amount of related party transactions under the Agreement was as follows:

Unit: RMB'000

	Amount	Proportion of transaction of the same category (%)
Purchase of iron ore, limestone and dolomite	2,021,157	20.29

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 agreement.

V Significant Events (Continued)

9. SUBSTANTIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(1) RELATED PARTY TRANSACTIONS RELATED TO NORMAL OPERATIONS (Continued)

1. *The continuing related party transactions under the 2019–2021 “Sale and Purchase of Ore Agreement” between the Company and the Holding (Continued)*

All Directors of the Board (including Independent Non-executive Directors) who are not associated with the Holding considered that those transactions were set and carried out in the daily course of business under normal commercial terms and in accordance with the terms of “Sale and Purchase of Ore Agreement”. The terms were fair and reasonable to the Company, and in the whole interest of the Company and its shareholders. During the reporting period, the transaction amount was under the annual cap of 2020 specified in the “Sale and purchase of Ore Agreement”, amounting to RMB5,368 million.

2. *The continuing related party transactions under the 2019–2021 “Energy Saving and Environmental Protection Agreement” between the Company and Xinchuang Environmental Protection*

In 2018, the Company and Xinchuang Environmental Protection signed the 2019–2021 “Energy Saving and Environmental Protection Agreement”, as approved at the shareholders’ general meeting. During the period between 1 January 2020 and 30 June 2020, the transaction amount under the agreement was as follows:

Unit: RMB'000

	Amount	Proportion of transaction of the same category (%)
Energy saving and environmental protection engineering and services	339,639	10.86
Sales of power, energy medium and finished goods, etc.	42,797	30.38
Total	382,436	/

The price the Group receives annually from the Xinchuang Environmental Protection 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, 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 agreement.

V Significant Events (Continued)

9. SUBSTANTIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(1) RELATED PARTY TRANSACTIONS RELATED TO NORMAL OPERATIONS (Continued)

2. *The continuing related party transactions under the 2019–2021 “Energy Saving and Environmental Protection Agreement” between the Company and Xinchuang Environmental Protection*

All Directors of the Board (including Independent Non-executive Directors) who are not associated with the Holding or the Xinchuang Environmental Protection considered that those transactions were carried out in the daily course of business 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, the amount of such transaction was under the 2020 annual cap of RMB996 million specified in the “Energy Saving and Environmental Protection Agreement”.

3. *The continuing related party transactions under the 2019–2021 “Continuing Related Party Transaction Agreement” between the Company and the Holding*

In 2018, the Company signed 2019–2021 “Continuing Related Party Transaction Agreement” with the Holding, as approved by the Company’s shareholders’ general meeting. Both parties signed the “Supplementary Agreement for Continuing Related Party Transaction” on 7 May 2020 to update the transaction caps for 2020 and 2021 provided the latest business of the Company and the Holding. The agreement was approved by the shareholders’ general meeting on 29 June 2020. During the period between 1 January 2020 and 30 June 2020, the transaction amount under the agreement was as follows:

Unit: RMB’000

	Amount	Proportion of transaction of the same category (%)
Steel products, measuring services, and other products and services purchased by the Holding from the Company	181,995	0.51
Fixed assets, building services, and other products and services purchased by the Company from the Holding	2,744,441	13.72
Total	2,926,436	/

V Significant Events (Continued)

9. SUBSTANTIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(1) RELATED PARTY TRANSACTIONS RELATED TO NORMAL OPERATIONS (Continued)

3. *The continuing related party transactions under the 2019–2021 “Continuing Related Party Transaction Agreement” between the Company and the Holding (Continued)*

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

All Directors of the Board (including Independent Non-executive Directors) who are not associated with the Holding considered that, those transactions were conducted in the daily course of business 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. The transaction amount was under the annual cap of 2020 for that agreement, amounting to RMB8,853 million during the reporting period.

4. *The continuing related party transactions under the 2019–2021 “Financial Services Agreement” between Masteel Finance and the Holding*

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

From 1 January 2020 to 30 June 2020, 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	11,296,134	Interest expenses	60,488
	Monthly average maximum daily deposit	10,892,078		
Loan	Maximum daily loan	2,368,000	Interest income	76,915
	Monthly average maximum daily loan	2,298,947		
Other income				
Net income from handling fee and commission				312
Income from discount interest				34,221

V Significant Events (Continued)

9. SUBSTANTIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(1) RELATED PARTY TRANSACTIONS RELATED TO NORMAL OPERATIONS (Continued)

4. *The continuing related party transactions under the 2019–2021 “Financial Services Agreement” between Masteel Finance and the Holding (Continued)*

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 (including Independent Non-executive Directors) who are not associated with the Holding considered that those transactions were set and conducted in daily course of business 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 2020 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.

5. *Continuing related party transactions under the “Continuing Related Party Transactions Agreement” for 2019–2021 between the Company and Ouye Lianjin*

In 2018, the Company signed the Continuing Related Party Transactions Agreement for 2019–2021 with Masteel Scrap (the precedent of Ouye Lianjin), as approved at the shareholders' general meeting. Both parties signed the “Supplementary Agreement for Continuing Related Party Transaction” on 7 May 2020 to update the transaction caps for 2020 and 2021 provided the latest business of the Company and Ouye Lianjin. The agreement was approved by the shareholders' general meeting dated 29 June 2020. From 1 January 2020 to 30 June 2020, the amount generated from the related party transactions under the agreement was as follows:

V Significant Events (Continued)

9. SUBSTANTIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(1) RELATED PARTY TRANSACTIONS RELATED TO NORMAL OPERATIONS (Continued)

5. Continuing related party transactions under the “Continuing Related Party Transactions Agreement” for 2019–2021 between the Company and Ouye Lianjin (Continued)

Unit: RMB'000

	Amount	Proportion of transaction of the same category (%)
Raw scrap steel materials and other products purchased by Ouye Lianjin from the Company	3,445	100.00
Scrap steel, agency services, and other products and services purchased by the Company from Ouye Lianjin	1,790,828	53.48
Total	1,794,273	/

The transactions between the Group and Ouye Lianjin took government-guided prices or market prices as the pricing benchmark and the terms of such transactions were no less favourable to the Company than general commercial terms.

All Directors of the Board (including Independent Non-executive Directors) who are not associated with the Holding and Ouye Lianjin believe that such transactions were concluded by the Group with Ouye Lianjin in the ordinary course of business and conducted on normal commercial terms and in accordance with 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 2020 as set out in the agreements for relevant transactions, amounting to RMB7,583 million.

6. Continuing related party transactions under the “Continuing Related Party Transactions Agreement” for 2019–2021 between the Company and Magang Chemicals & Energy

In 2018, the Company signed the Continuing Related Party Transactions Agreement for 2019–2021 with Magang Chemicals & Energy, as approved at the shareholders' general meeting.

V Significant Events (Continued)

9. SUBSTANTIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(1) RELATED PARTY TRANSACTIONS RELATED TO NORMAL OPERATIONS (Continued)

6. *Continuing related party transactions under the “Continuing Related Party Transactions Agreement” for 2019–2021 between the Company and Magang Chemicals & Energy (Continued)*

From 1 January 2020 to 30 June 2020, the amount generated from the related party transactions under the agreement was as follows:

Unit: RMB'000

	Amount	Proportion of transaction of the same category (%)
Water, electricity, and by products purchased by Magang Chemicals & Energy from the Company	763,593	86.45
Coke oven gas, wastewater treatment services and other products and services purchased by the Company from Magang Chemicals & Energy	639,900	100.00
Total	1,403,493	/

The transactions between the Group and Magang Chemicals & Energy 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 (including Independent Non-executive Directors) who are not associated with the Holding and Magang Chemicals & Energy believe that such transactions were concluded by the Group with Magang Chemicals & Energy in the ordinary course of business and conducted on normal commercial terms and in accordance with 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 2020 as set out in the agreements for relevant transactions, amounting to RMB3,818 million.

V Significant Events (Continued)

9. SUBSTANTIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(1) RELATED PARTY TRANSACTIONS RELATED TO NORMAL OPERATIONS (Continued)

7. *Continuing related party transactions under the “Continuing Related Party Transactions Agreement” for 2019–2021 between the Company and MaSteel K. Wah*

In 2018, the Company signed the Continuing Related Party Transactions Agreement for 2019–2021 with MaSteel K. Wah, as approved at the shareholders’ general meeting. From 1 January 2020 to 30 June 2020, the amount generated from the related party transactions under the agreement was as follows:

Unit: RMB’000

	Amount	Proportion of transaction of the same category (%)
Water granulated slag and other products purchased by Masteel K. Wah from the Company	374,904	84.27

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

All Directors of the Board (including Independent Non-executive 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 in accordance with 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 2020 as set out in the agreements for relevant transactions, amounting to RMB921 million.

V Significant Events (Continued)

9. SUBSTANTIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(1) RELATED PARTY TRANSACTIONS RELATED TO NORMAL OPERATIONS (Continued)

8. *The continuing related party transactions under the “Daily Related Party Transaction Agreement” in 2020 between the Company and China Baowu*

In December 2019, the Company and China Baowu signed the 2020 “Daily Related Party Transaction Agreement”, as approved by the Board of Directors of the Company. Both parties signed the “Supplementary Agreement for Continuing Related Party Transaction” on 7 May 2020 to update the transaction cap for 2020 and further set the cap for 2021 provided the latest business of the Company and China Baowu. The agreement was approved by the shareholders’ general meeting on 29 June 2020.

From 1 January 2020 to 30 June 2020, the amount of transactions under the Agreement was as follows:

(RMB'000)

	Amount	Proportion of transaction of the same category (%)
Steel, technical services and other products and services purchased by China Baowu from the Company	48,912	0.14
Ore, infrastructure technology moderation and other products and services purchased by the Company from China Baowu	267,178	2.03
Total	316,090	/

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

All Directors of the Board (including Independent Non-executive Directors) who are not associated with China Baowu considered that those transactions were carried out in the daily course of business under general commercial terms or favourable terms and according to relevant agreement. The transactions and terms were fair and reasonable to the Company, and in the whole interest of the Company and its shareholders. During the reporting period, the total amount of such transactions was under the cap for 2020 specified in the related transaction agreement, amounting to RMB11,122 million.

V Significant Events (Continued)

9. SUBSTANTIAL RELATED PARTY TRANSACTIONS (CONTINUED)

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

1. *Transfer of certain land use right and related ground assets by the Company to Masteel Automobile Transportation Service Co., Ltd.*

On 10 June 2020, the Board of Directors approved the Company to sign the Transfer Agreement for State-owned Land Use Right and the Transfer Agreement for Ownership of Houses, Building Materials and Greening Seedlings in West Caitu District of Maanshan Iron and Steel Co., Ltd with Masteel Automobile Transportation Service Co., Ltd. (abbreviation as “Automobile Transportation Company”, indirectly controlled by the Holding) to transfer the land use right for 38.87 mu land at West Caitu District and related ground assets to the Automobile Transportation Company. As evaluated by Anhui Zhongan Real Estate Appraisal Co., Ltd., the evaluation benchmark date is on 30 September 2019 and the valuation of the land amounted to RMB8.0849 million (tax exclusive). As evaluated by Anhui Tianruihua Real Estate Appraisal Co., Ltd., the evaluation benchmark date is on 30 September 2019 and the valuation of related ground assets amounted to RMB1.4288 million (tax exclusive). The Company will transfer the above-mentioned land and related ground assets at the valuation of RMB9.5137 million (tax exclusive) with settlement in cash. The transaction has no material impact on the operation results and financial positions of the Company.

All Directors of the Board (including Independent Non-executive Directors) who are not associated with the Holding and the Automobile Transportation Company considered that those transactions were carried out in the daily course of business under general commercial terms or favourable terms and according to relevant agreement. The transactions and terms are fair and reasonable to the Company, and in the whole interest of the Company and its shareholders.

2. *Transfer of the land use right of the No.2 plant area railway transportation engineering power section by the Company to the Holding*

On 10 June 2020, the Board of Directors approved the Company to sign the Transfer Agreement for State-owned Land Use Right to transfer the land use right for 37.41 mu land at No.2 plant area railway transportation engineering power section to the Holding. As evaluated by Anhui Tianruihua Real Estate Appraisal Co., Ltd., the evaluation benchmark date is on 31 March 2020 and the valuation of the land amounted to RMB7.8071 million (tax exclusive). The Company will transfer the above-mentioned land at the valuation of RMB7.8071 million (tax exclusive) with settlement in cash. The transaction has no material impact on the operation results and financial positions of the Company.

V Significant Events (Continued)

9. SUBSTANTIAL RELATED PARTY TRANSACTIONS (CONTINUED)

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

2. *Transfer of the land use right of the No.2 plant area railway transportation engineering power section by the Company to the Holding (Continued)*

All Directors of the Board (including Independent Non-executive Directors) who are not associated with the Holding considered that those transactions were carried out in the daily course of business under general commercial terms or favourable terms and according to relevant agreement. The transactions and terms were fair and reasonable to the Company, and in the whole interest of the Company and its shareholders.

(3) DURING THE REPORTING PERIOD, THE COMPANY DID NOT HAVE ANY RELATED TRANSACTION WITH RELATED PARTIES UNDER COMMON INVESTMENT

(4) DURING THE REPORTING PERIOD, THE COMPANY DID NOT HAVE OTHER DEBT TRANSACTIONS OR PLEDGE WITH EACH RELATED PARTY EXCEPT FOR REGULAR BUSINESS TRANSACTION

10. MATERIAL CONTRACTS AND EXECUTION THEREOF

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

2 MAJOR GUARANTEES

Unit: RMB100 million

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

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

Guarantees Offered to Subsidiaries

Total amount of guarantees newly offered to subsidiaries during the reporting period	–
Total ending balance of guarantees offered to subsidiaries (B)	34.84

V Significant Events (Continued)

10. MATERIAL CONTRACTS AND EXECUTION THEREOF (CONTINUED)

2 MAJOR GUARANTEES (Continued)

Total Amount of Guarantees Offered by the Company (including guarantees offered to subsidiaries)	
Total amount of guarantees (A+B)	34.84
Total amount of guarantees as a percentage of net assets of the Company (%)	12.83
of which:	
Amount of guarantees offered to shareholders, actual holder and their related parties (C)	–
Amount of debt guarantees offered to those with asset-liability ratio exceeding 70%, directly or indirectly (D)	30
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 on guarantees	The Company provided its wholly-owned subsidiary MG-Valdunes with a guarantee of EUR42 million (equivalent to approximately RMB334 million), and the actual amount thereof at the end of the reporting period was nil; and provided its wholly-owned subsidiary Ma Steel (Hong Kong) with a guarantee for banking facilities of RMB3 billion for its trade financing, and the actual amount thereof at the end of the reporting period was approximately RMB141 million. The asset-liability ratio of MaSteel (Hong Kong) exceeded 70%, and such guarantee was approved by the shareholders' general meeting. Changjiang Steel, a controlling subsidiary of the Company, provided its wholly-owned subsidiaries with a guarantee of RMB150 million, and the actual amount thereof at the end of the reporting period was nil.

11. POVERTY ALLEVIATION WORK BY THE LISTED COMPANY

1. TARGETED POVERTY RELIEF PLANNING

Firstly, the Company materialised the poverty alleviation work planning of China Baowu and actively conducted the poverty alleviation work through consumption.

Secondly, the Company organised its leaders to conduct regular in-depth investigation and research in poverty-stricken villages, offered guidance and coordination in addressing relevant problems, especially such impacts as caused by the COVID-19 pandemic on the village collectives and poor households, and strove to solve some problems within its power on basis of the actual positions of the Company.

Thirdly, the Company supported industries at village level and developed pillar economy to foster pioneer in creating wealth and industry demonstration projects, and implemented 3 poverty alleviation projects through industry.

V Significant Events (Continued)

11. POVERTY ALLEVIATION WORK BY THE LISTED COMPANY (CONTINUED)

1. TARGETED POVERTY RELIEF PLANNING (Continued)

Fourthly, 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.

2. OVERVIEW OF TARGETED POVERTY RELIEF DURING THE REPORTING PERIOD

As the selected cadres of the seventh batch, the two management personnels 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. Mr. Wang Sen served as the captain and the first secretary for the resident poverty-relief team in Malou Village, while Mr. 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 organised 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, Mr. Wang Sen, with the support of Masteel Group, organised the party branch of Malou Village and the Company’s poverty-relief functional department and Zhang Zhuang Mining to carry out the three-party joint activities of the party branch, and promoted the standardisation of the party branch of Malou Village through resource sharing, interconnection and mutual assistance. Secondly, they partnered with the village affairs supervisory committee and the villager business committee to carry out pandemic prevention and control work including publicity of pandemic prevention and control knowledge and investigation of key groups of people. Thirdly, 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 publicising 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)

11. POVERTY ALLEVIATION WORK BY THE LISTED COMPANY (CONTINUED)

3. IMPLEMENTATION OF TARGETED POVERTY RELIEF EFFORTS MADE BY THE LISTED COMPANY DURING THE REPORTING PERIOD

Currency: RMB'000

Indicator	Figures and Progress
I. Summary	
Of which : 1. Funds	645
2. Number of persons getting rid of poverty (<i>person</i>)	168
II. Breakdown	
1. Poverty relief by industries	
Of which: 1.1 Number of persons participate in Vocational Skills Training (<i>person/time</i>)	175
1.2 Number of persons achieving employment (<i>person</i>)	168
2. Other projects	
Of which: 2.1. Description of other projects	Assistance in purchase and sales of agricultural products in poverty-stricken regions including Guangnan County, Zhenyuan County, Ning'er County in Yunnan Province and Luotian County in Hubei, amounting to RMB6.45 million

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

During the reporting period, the Company organised and conducted the reporting work of project of poverty relief by industries for 2020, established investigation and research team to carry out research on the feasibility of reporting project of poverty relief by industries for 2020 to determine the implementation of relevant projects including the investment of Malou Village in Anhui Qiaozhu Garden Co., Ltd., the investment of Malou Village in Anhui Tianze Intelligent Textile Technology Co., Ltd. and the investment of Liji Village in seedling industry.

V Significant Events (Continued)

11. POVERTY ALLEVIATION WORK BY THE LISTED COMPANY (CONTINUED)

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

In regard to the adverse impacts on poverty-stricken villages brought about by the pandemic, the Company is contacting relevant authorities to purchase the seedlings planted by Malou Village and Liji Village for the greening engineering construction project of Masteel. The Company also carried out the arrangement for poverty relief work by consumption of China Baowu and organised each unit to purchase agricultural products in poverty-stricken regions including Guangnan County, Zhenyuan County, Ning'er County in Yunnan Province and Luotian County in Hubei, amounting to RMB6.45 million.

5. FOLLOW-UP TARGETED POVERTY RELIEF PLANS

The Company will implement and complete the poverty relief project by industries supported by the Company. The resident poverty-relief cadres in the villages will coordinate with the two committees of the villages to enhance party building work and develop village collective economy to assist poverty-stricken households in the implementation of ten poverty relief projects. In addition, the Company will learn more about the types, specifications and prices of seedlings of Malou Village and Liji Village, dedicate to help with some sales of the two villages and continue to purchase and assist in sales of agricultural products in poverty-stricken regions including Guangnan County, Zhenyuan County, Ning'er County in Yunnan Province and Luotian County in Hubei.

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, NOX, SO ₂	Emitted into the air via chimney stack after dust elimination, desulfidation and denitration	246 sets	285 distributed along the production lines
	Waste water	SS, COD, oil, ammonia nitrogen	Discharged after up to standard processing	66 sets	23
	Solid wastes	Iron dust, iron oxide scale, metallurgical slag	Recycled and compliance treatment	15 sets	–
Changjiang Steel	Waste gases	Dust, NOX, SO ₂	Discharged after up to standard processing	44 sets	57 distributed along the production lines
	Waste water	SS, COD, oil, ammonia nitrogen	Discharged after up to standard processing	9 sets	1
	Solid wastes	Iron dust, iron oxide scale, metallurgical slag	partially recycled internally while partially transferred to external units for treatment and utilisation	–	–
Hefei Company	Waste gases	Dust, acid fog, alkali fog, oil fog	Discharged after up to standard processing	11 sets	16 distributed along the production lines
	Waste water	acid and alkali, oil	Discharged after up to standard processing	3 sets	1
	Hazardous wastes	emulsified liquid slag, oil sludge, used oil	Treatment by qualified service provider	–	–

V Significant Events (Continued)

12. ENVIRONMENTAL INFORMATION (CONTINUED)

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

1. Pollutant emission information (Continued)

During the reporting period, Magang generated a volume of approximately 4.794 million tonnes of solid waste, of which, approximately 4.775 million tonnes were comprehensively recycled, approximately 5,000 tonnes were under compliance treatment, inventory amounted to approximately 13,000 tonnes and discharge realised nil. Among the general industrial solid waste generated by Changjiang Steel, save as that dust, iron oil sludge and iron oxide scale were directly recycled as raw materials in the sintering system, others were comprehensively utilised or under treatment by qualified service provider. All Hazardous wastes of Hefei Company were under Treatment by qualified service provider.

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 density	Emission Permit Limit (Ton/Year)	Total Emissions During the Reporting Period (Ton)
Magang	Waste gases	Dust	≤15.77mg/m ³	34,498.33	9,803 (note)
		SO ₂	≤38.04mg/m ³	21,069.82	3,726
		NO _x	≤87mg/m ³	39,568.21	7,697
	Waste water	COD	≤13.4mg/l	1,565.28	327
		ammonia nitrogen	≤0.63mg/l	124.56	14.20
Changjiang Steel	Waste gases	Dust	20.61mg/m ³	10,692.31	3517.94 (note)
		SO ₂	11.92mg/m ³	4,560.12	595.52
		NO _x	42.1mg/m ³	7,560.48	2,102.9
	Waste water	COD	8.28mg/l	270	1.59
		ammonia nitrogen	0.03mg/l	27	0.006
Hefei Company	Waste gases	Dust	≤20mg/m ³	51.90	4.12
		SO ₂	≤150mg/m ³	6.04	1.37
		NO _x	≤300mg/m ³	38.06	14.74
	Waste water	COD	≤200mg/L	106.82	9.25
		ammonia nitrogen	≤15mg/L	16.10	0.16
	Hazardous wastes	emulsified liquid slag	N/A	Unspecified emission permit limits	218.98
		oil sludge	N/A	Unspecified emission permit limits	231.32
		used oil	N/A	Unspecified emission permit limits	38.7

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

V Significant Events (Continued)

12. ENVIRONMENTAL INFORMATION (CONTINUED)

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

1. *Pollutant emission information (Continued)*

Note: the total discharge amount during the reporting period is based on the standard statistics of the original Ministry of Environmental Protection (renamed as Ministry of Ecology and Environment of the PRC in 2018) in accordance with the Technical Specification for Application and Issuance of Discharge Permit for Iron and Steel Industry (HJ846-2017). In 2019 and the period before, the relevant data is based on the statistics of statement of China Steel Association. According to the statement of China Steel Association, the total smoke and dust emission of Magang in the reporting period is 2,035 tonnes, and that of Changjiang Steel is 1,030 tonnes.

2. *Construction and operation of pollution prevention and control facilities*

In 2020, the Company arranged a total of 87 (including 24 reversed projects) transformation projects under the construction scheme for pollution prevention and treatment facilities, with a planned investment of RMB7.664 billion. At the end of the reporting period, 7 projects were completed and 64 projects were under construction and establishment. 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 online, 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.

V Significant Events (Continued)

12. ENVIRONMENTAL INFORMATION (CONTINUED)

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

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 eight construction projects, including the flue gas desulfurization and denitrification and ultra-low emission transformation of No.1 sintering machine in south area of the main coking plant has been approved. The Company fills and reports the pollutant discharge implementation report in a timely manner and has reported the change in pollutant discharge permit for power plant and coking plant with the municipal ecological environment bureau for approval. The change in pollutant discharge permit for steel segment has completed online application.

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 140-tonne electric furnace steelmaking and 220kV power transmission and transformation project was obtained, and an integration of the pollutant discharge permit for steel industry and the pollutant discharge permit for thermal power industry was completed in June 2020.

All production facilities of Hefei Company have obtained files and approvals of the environmental impact assessment.

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. Prepared Emergency Response Plans comprises comprehensive emergency response plans, special emergency response plans and on-site response plans. The Company plans to make amendments and re-file the emergency response plans in 2020.

V Significant Events (Continued)

12. ENVIRONMENTAL INFORMATION (CONTINUED)

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

5. *Environmental Self-monitoring Programme*

The Company, Changjiang Steel and Masteel Hefei Company have compiled the “Environmental Self-monitoring Programme” 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 269 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 programme, 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, due to accidental discharges in an unorganised manner and excessive emission, Maanshan City Ecological Environment Bureau imposed 6 penalty decisions on the Company with a total fine of RMB2.29 million. Except for one item which has not been rectified due to the impact of COVID-19 epidemic on the construction progress, the others have been rectified.

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

13. OTHER MAJOR EVENTS

- (1) COMPARE WITH THE PREVIOUS ACCOUNTING PERIOD, THERE WERE NO CHANGES IN ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND ACCOUNTING METHOD
- (2) DURING THE REPORTING PERIOD, THERE WERE NO CASES WHERE CORRECTIONS TO MAJOR ACCOUNTING ERRORS NEEDED TO BE RESTATED RETROSPECTIVELY.

V Significant Events (Continued)

13. OTHER MAJOR EVENTS (CONTINUED)

(3) INDEX FOR INFORMATION DISCLOSURE DURING THE REPORTING PERIOD

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

Items	Date by published
Announcement on Estimated Decrease in Profit in Annual Results of 2019	2020.1.23
Announcement on Re-appointment of Accounting Firm	2020.3.31
Announcement on the Profit Distribution Plan for the Year 2019	2020.3.31
Announcement on Increase in Shareholding of the Company and Subsequent Plan of Increase in Shareholding by Controlling Shareholder and its Party Acting in Concert	2020.4.8
Announcement on Receipt of Government Grants	2020.4.30
Announcement of Related Party Transactions in Relation to the Conclusion of “Supplemental Agreement for Daily Related Party Transaction Agreement” with the Holding	2020.5.8
Announcement of Related Party Transactions in Relation to the Conclusion of “Supplemental Agreement for Daily Related Party Transaction Agreement” with Ouye Lianjin	2020.5.8
Announcement of Related Party Transactions in Relation to the Conclusion of “Supplemental Agreement for Daily Related Party Transaction Agreement” with China Baowu	2020.5.8
Announcement on the Progress of the Increase in Shareholding of the Company by Controlling Shareholder and its Party Acting in Concert	2020.5.19
Announcement on the Progress of the Increase in Shareholding of the Company by Controlling Shareholder and its Party Acting in Concert	2020.5.20
Announcement on Change of Employee Supervisor	2020.6.30

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

VI Movements in Share Capital and Shareholders

(1) SHARE MOVEMENTS

(1) TABLE ON SHARE MOVEMENTS

1. Table on share movements

Unit: Share

	Before the change		Increase/(decrease) during the period					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 movements in total shares and shareholding structure of the Company.

VI Movements in Share Capital and Shareholders (Continued)

(2) SHAREHOLDER

1. TOTAL SHAREHOLDER

Numbers of Shareholder as at the end of the reporting period (*unit*) 200,530

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

Shareholding of the top ten shareholders							
Name of Shareholder (Full Name)	Increase/ decrease within the reporting period	No. of shares at the end of period	Percentage (%)	No. of shares under restricted condition for Sales	Pledged or Frozen Situations		Shareholder nature
					Share status	Number	
Magang (Group) Holding Co., Limited	–	3,506,467,456	45.535	–	None	–	State-owned shareholder
Hong Kong Securities Clearing Company (Nominees) Limited (<i>Note</i>)	894,786,458	1,717,139,050	22.299	–	Unknown	Unknown	Unknown
Masteel Group Investment Ltd.	150,772,359	150,772,359	1.958	–	None	–	State-owned shareholders
Central Huijin Investment Ltd.	–	142,155,000	1.846	–	Unknown	Unknown	State-owned shareholder
Hong Kong Securities Clearing Company Ltd.	-35,073,420	80,152,517	1.041	–	Unknown	Unknown	Unknown
China Merchants Bank Ltd. – SSE Dividend Index ETF	Unknown	50,799,404	0.660	–	Unknown	Unknown	Unknown
China Merchants Bank Co., Ltd.- Bosera CSI Central SOE Innovation- driven ETF Securities Investment Fund	Unknown	32,502,600	0.422	–	Unknown	Unknown	Unknown
Bank of China Limited- Harvest CSI Central SOE Innovation driven ETF Securities Investment Fund	Unknown	22,732,100	0.295	–	Unknown	Unknown	Unknown
Agricultural Bank of China LTD-CSI 500 Trading Open-ended Index Securities Investment Fund	-11,509,100	17,839,449	0.232	–	Unknown	Unknown	Unknown
Fujian Gunxueqiu Investment Management Co., Ltd. – Jiayao Gunxueqiu Securities Investment Fund No. 1	Unknown	17,063,401	0.222	–	Unknown	Unknown	Unknown

VI Movements in Share Capital and Shareholders (Continued)

(2) SHAREHOLDER (CONTINUED)

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) (Continued)

Shareholdings of top 10 shareholders not subject to trading moratorium			
Name of Shareholder (Full Name)	Number of circulating shares not subject to trading moratorium	Type and number of shares	
		Type	Number
Magang (Group) Holding Co., Limited	3,506,467,456	Ordinary shares denominated in RMB	3,506,467,456
Hong Kong Securities Clearing Company (Nominees) Limited <i>(Note)</i>	1,717,139,050	Overseas listed foreign shares	1,717,139,050
Masteel Group Investment Ltd.	150,772,359	Ordinary shares denominated in RMB	150,772,359
Central Huijin Investment Ltd.	142,155,000	Ordinary shares denominated in RMB	142,155,000
Hong Kong Securities Clearing Company Ltd.	80,152,517	Ordinary shares denominated in RMB	80,152,517
China Merchants Bank Ltd. – SSE Dividend Index ETF	50,799,404	Ordinary shares denominated in RMB	50,799,404
China Merchants Bank Co., Ltd.- Boser CSI Central SOE Innovation-driven ETF Securities Investment Fund	32,502,600	Ordinary shares denominated in RMB	32,502,600
Bank of China Limited- Harvest CSI Central SOE Innovation driven ETF Securities Investment Fund	22,732,100	Ordinary shares denominated in RMB	22,732,100
Agricultural Bank of China LTD-CSI 500 Trading Open-ended Index Securities Investment Fund	17,839,449	Ordinary shares denominated in RMB	17,839,449
Fujian Gunxueqiu Investment Management Co., Ltd. – Jiayao	17,063,401	Ordinary shares denominated in RMB	17,063,401

Notes on the above shareholders' affiliated relation or concerned action

Masteel Group Investment Ltd. is the wholly owned subsidiary of Magang (Group) Holding Co., Limited. Except this, Magang (Group) Holding Co., Limited does not have any associated relation with other aforementioned shareholders and is not a person acting in concerned action. China Merchants Bank Ltd. – SSE Dividend Index ETF and China Merchants Bank Co., Ltd.- Boser CSI Central SOE Innovation-driven ETF Securities Investment Fund are under common management of a fund manager, except which, the Company is not aware of whether there is any affiliated relation among other foregoing shareholders and whether they are persons acting in concerned action.

VI Movements in Share Capital and Shareholders (Continued)

(2) SHAREHOLDER (CONTINUED)

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) (Continued)

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

Hong Kong Securities Clearing Company Nominees Limited held 1,717,139,050 H Shares of the Company on behalf of multiple clients, of which, 896,387,958 shares on behalf of Baosteel Hong Kong Investment Company Limited, a wholly owned subsidiary of China Baowu Steel Group Co., Ltd. Which is the controlling shareholder of Magang (Group) Holding Co., Limited.

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 2020, 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).

VI Movements in Share Capital and Shareholders (Continued)

(2) SHAREHOLDER (CONTINUED)

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) (Continued)

As at 30 June 2020, 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.

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

Save as disclosed above, as at 30 June 2020, the Company was not aware of any interests or short positions recorded 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 and Senior Management

1. CHANGES IN SHAREHOLDING

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

Unit: share

Name	Position	Shares held at the beginning of the Reporting Period	Shares held at the end of the Reporting Period	Changes of increase or decrease in shares during the Reporting Period	Reason for change
Geng Jingyan	Employee supervisor	12,000	0	-12,000	Capital demand

Ms. Geng Jingyan held 12,000 A shares of the Company as at 1 January 2020, and she was not the employee supervisor of the Company then. On 29 June 2020, Ms. Geng was elected as the employee supervisor of the Company at the joint meeting of the employee representatives' conference of the Company, on which she held 7,000 A shares of the Company. On 30 June 2020, Ms. Geng disposed all of the 7,000 A shares she held in the Company. Besides, during the reporting period, none of the directors, supervisors and senior managers of the Company held any shares of the Company.

(ii) NO DIRECTORS, SUPERVISORS AND SENIOR MANAGERS' EQUITY INCENTIVES GRANTED DURING THE REPORTING PERIOD

2. CHANGES IN THE DIRECTORS, SUPERVISORS AND SENIOR MANAGERS OF THE COMPANY DURING THE REPORTING PERIOD

Name	Positions	Change	Reason for change
Wang Qiangmin	Director	Appointed	Work arrangement
Geng Jingyan	Employee supervisor	Appointed	Work arrangement
Yan Kailong	Employee supervisor	Resigned	Work arrangement

On 5 March 2020, Mr. Wang Qiangmin was newly elected as the director of the ninth session of the Board of the Company at the 2020 first extraordinary general meeting.

Mr. Yan Kailong resigned as the employee supervisor of the ninth session of the supervisory committee of the Company due to work arrangement, with effect from 29 June 2020. Ms. Geng Jingyan was elected as the employee supervisor of the ninth session of the supervisory committee of the Company at the joint meeting of the employee representatives' conference dated 29 June 2020.

VIII Financial Statements

1. AUDIT REPORT

☐ Applicable ☒ Not Applicable

2. FINANCIAL STATEMENTS

VIII Financial Statements (Continued)

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Consolidated Statement of Financial Position

30 June 2020

Renminbi Yuan

ASSETS	Note V	30 June 2020 Unaudited	31 December 2019 Audited
CURRENT ASSETS			
Cash and bank balances	1	10,602,786,055	9,517,313,695
Financial assets held for trading	2	2,058,977,448	2,126,112,194
Trade receivables	3	1,138,682,644	1,092,930,122
Financing receivables	4	7,248,286,411	11,098,699,421
Prepayments	5	708,639,046	981,443,575
Other receivables	6	222,210,912	156,291,851
Inventories	7	10,436,360,289	10,947,850,219
Financial assets purchased under agreements to resell	8	789,990,318	2,369,966,754
Loans and advances to customers	9	4,149,279,777	4,256,415,190
Other current assets	10	1,934,859,801	3,975,034,798
Total current assets		39,290,072,701	46,522,057,819
NON-CURRENT ASSETS			
Long-term equity investments	11	3,620,824,763	3,546,219,668
Other equity instrument investments	12	276,883,222	278,576,509
Investment properties	13	63,523,089	64,697,688
Property, plant and equipment	14	30,511,649,871	30,045,743,674
Construction in progress	15	4,384,265,423	3,259,704,984
Right-of-use assets	16	406,837,030	418,879,903
Intangible assets	17	1,965,273,526	1,973,126,962
Deferred tax assets	18	187,936,741	213,036,331
Total non-current assets		41,417,193,665	39,799,985,719
TOTAL ASSETS		80,707,266,366	86,322,043,538

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

Consolidated Statement of Financial Position (Continued)

30 June 2020

Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	Note V	30 June	31 December
		2020	2019
		Unaudited	Audited
CURRENT LIABILITIES			
Deposits and balances from banks and other financial institutions	19	200,000,000	400,031,889
Customer deposits	20	8,463,368,095	10,964,896,002
Repurchase agreements	21	99,068,750	1,386,580,448
Short-term loans	22	15,154,498,596	12,880,053,159
Financial liabilities held for trading	23	668,202	2,258,750
Notes payable	24	3,529,740,685	7,313,729,148
Trade payables	25	6,516,224,240	6,130,327,006
Contract liabilities	26	3,903,969,212	3,765,254,551
Payroll and employee benefits payable	27	493,568,240	691,976,938
Taxes payable	28	538,394,013	547,209,418
Other payables	29	4,653,824,896	4,294,496,279
Non-current liabilities due within one year	30	967,429,543	1,677,068,898
Accrued liabilities	31	25,766,294	22,664,675
Total current liabilities		44,546,520,766	50,076,547,161
NON-CURRENT LIABILITIES			
Long-term loans	32	3,287,700,000	3,468,200,000
Lease liabilities	33	403,037,327	411,432,835
Long-term employee benefits payable	34	93,204,237	101,327,703
Deferred revenue	35	1,381,741,590	1,402,283,687
Deferred tax liabilities	18	20,217,333	21,500,325
Total non-current liabilities		5,185,900,487	5,404,744,550
Total liabilities		49,732,421,253	55,481,291,711

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

Consolidated Statement of Financial Position (Continued)

30 June 2020

Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY (Continued)	Note V	30 June	31 December
		2020	2019
		Unaudited	Audited
SHAREHOLDERS' EQUITY			
Share capital	36	7,700,681,186	7,700,681,186
Capital reserve	37	8,353,499,761	8,353,499,761
Other comprehensive income	38	(89,850,382)	(99,760,804)
Special reserve	39	52,432,383	35,484,176
Surplus reserve	40	4,651,252,494	4,651,252,494
General reserve	41	325,786,322	325,786,322
Retained earnings	42	6,162,506,946	5,966,218,930
Equity attributable to owners of the parent		27,156,308,710	26,933,162,065
Non-controlling interests		3,818,536,403	3,907,589,762
Total shareholders' equity		30,974,845,113	30,840,751,827
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		80,707,266,366	86,322,043,538

The financial statements were signed by the following persons:

Legal Representative:
Ding Yi

Chief Accountant:
Wang Qiangmin

Head of Accounting:
Xing Qunli

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

Consolidated Income Statement

For the six months ended 30 June 2020

Renminbi Yuan

	Note V	For the six months ended 30 June	
		2020 Unaudited	2019 Unaudited
Revenue	43	37,429,035,554	37,026,693,821
Less: Cost of sales	43	34,203,030,172	33,672,424,605
Taxes and surcharges	44	266,001,123	281,198,990
Selling expenses	45	530,439,865	431,513,432
General and administrative expenses	46	692,664,296	711,335,104
R&D expenses	47	636,396,202	354,535,705
Financial expenses	48	290,762,915	390,006,931
Including: interest expense		335,172,239	415,505,618
interest income		26,639,917	51,850,462
Add: Other income	49	41,630,457	48,434,334
Investment income	50	231,959,570	410,893,019
Including: share of profits of associates and joint ventures		163,604,830	311,705,507
gain from derecognition of financial assets measured at amortised cost		33,748,637	38,277,492
Gains on the changes in fair value	51	29,311,320	26,280,702
Credit impairment losses	52	(8,030,101)	(43,977,242)
Asset impairment losses	53	(73,128,980)	(241,775,610)
Losses from disposal of assets	54	(62,159,618)	(936,915)
Operating profit		969,323,629	1,384,597,342
Add: Non-operating income	55	254,176,550	274,306,453
Less: Non-operating expenses	56	2,909,067	1,610,123
Profit before tax		1,220,591,112	1,657,293,672
Less: Income tax expenses	57	222,966,726	239,613,971
Net profit		997,624,386	1,417,679,701
Categorised by operation continuity			
Net profit from continuing operations		997,624,386	1,417,679,701
Categorised by ownership			
Net profit attributable to owners of the parent		812,342,511	1,144,660,011
Net profit attributable to non-controlling interests		185,281,875	273,019,690

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

Consolidated Income Statement (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

	Note V	For the six months ended 30 June	
		2020 Unaudited	2019 Unaudited
Other comprehensive income, net of tax		9,910,422	(2,179,461)
Other comprehensive income attributable to owners of the parent, net of tax	38	9,910,422	(2,179,461)
Other comprehensive income that will not be reclassified to profit or loss:			
Changes in fair value of other equity instrument investments		(1,269,965)	1,158,600
Other comprehensive income that may be reclassified to profit or loss:			
Other comprehensive income using the equity method that may be reclassified to profit or loss		11,180,387	(3,338,061)
Exchange differences on translation of foreign operations		—	665,713
		11,180,387	(4,003,774)
Other comprehensive income attributable to non-controlling interests, net of tax		—	—
Total comprehensive income		1,007,534,808	1,415,500,240
Attributable to:			
Owners of the parent		822,252,933	1,142,480,550
Non-controlling interests		185,281,875	273,019,690
EARNINGS PER SHARE:			
Basic earnings per share (<i>cents/share</i>)	58	10.55	14.86
Diluted earnings per share (<i>cents/share</i>)	58	10.55	14.86

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

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020

Renminbi Yuan

For the six months ended 30 June 2020 (Unaudited)

	Attributable to owners of the parent								Non-controlling interests	Total shareholders' equity
	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	General reserve	Retained earnings	Sub-total		
	(Note V 36)	(Note V 37)	(Note V 38)	(Note V 39)	(Note V 40)	(Note V 41)	(Note V 42)			
1. Balance at the end of the previous year	7,700,681,186	8,353,499,761	(99,760,804)	35,484,176	4,651,252,494	325,786,322	5,966,218,930	26,933,162,065	3,907,589,762	30,840,751,827
2. Increase/(decrease) during the period										
1) Total comprehensive income	-	-	9,910,422	-	-	-	812,342,511	822,252,933	185,281,875	1,007,534,808
2) Shareholders' contributions and reduction in capital										
(i) Capital contributions by shareholders	-	-	-	-	-	-	-	-	13,125,000	13,125,000
3) Profit appropriation										
(i) Distribution to shareholders	-	-	-	-	-	-	(616,054,495)	(616,054,495)	(285,955,218)	(902,009,713)
4) Special reserve										
(i) Additions	-	-	-	36,257,044	-	-	-	36,257,044	7,066,994	43,324,038
(ii) Utilisation	-	-	-	(26,155,858)	-	-	-	(26,155,858)	(8,572,010)	(34,727,868)
(iii) Changes in the share of associates and joint ventures' special reserve, net	-	-	-	6,847,021	-	-	-	6,847,021	-	6,847,021
3. Balance at the end of the period	7,700,681,186	8,353,499,761	(89,850,382)	52,432,383	4,651,252,494	325,786,322	6,162,506,946	27,156,308,710	3,818,536,403	30,974,845,113

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

Consolidated Statement of Changes in Equity (Continued)

For the six months ended 30 June 2020

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	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	General reserve	Retained earnings	Sub-total		
	(Note V 36)	(Note V 37)	(Note V 38)	(Note V 39)	(Note V 40)	(Note V 41)	(Note V 42)			
1. Balance at the end of the previous year	7,700,681,186	8,352,287,192	(112,702,163)	31,037,123	4,571,901,256	224,841,404	7,405,577,274	28,173,623,272	3,818,728,048	31,992,351,320
2. Increase/(decrease) during the period										
1) Total comprehensive income	-	-	(2,179,461)	-	-	-	1,144,660,011	1,142,480,550	273,019,690	1,415,500,240
2) Shareholders' contributions and reduction in capital										
(i) Capital contributions by shareholders	-	-	-	-	-	-	-	-	9,375,000	9,375,000
3) Profit appropriation										
(i) Distribution to shareholders	-	-	-	-	-	-	(2,387,211,168)	(2,387,211,168)	(539,403,388)	(2,926,614,556)
4) Special reserve										
(i) Additions	-	-	-	36,827,317	-	-	-	36,827,317	7,121,553	43,948,870
(ii) Utilisation	-	-	-	(24,228,524)	-	-	-	(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	-	3,594,514
3. 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	26,945,085,961	3,559,686,001	30,504,771,962

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

Consolidated Statement of Cash Flows

For the six months ended 30 June 2020

Renminbi Yuan

	Note V	For the six months ended 30 June	
		2020 Unaudited	2019 Unaudited
1. Cash flows from operating activities			
Cash received from sale of goods and rendering of services		42,521,239,846	38,463,652,824
Tax refunds received		507,600	116,620
Net decrease in deposits in the central bank		–	8,703,151
Net increase in repurchase agreements		–	151,259,660
Net increase in customer deposits and balances from banks and other financial institutions		–	2,431,408,134
Net decrease in loans and advances to customers		110,135,314	–
Net decrease in financial assets purchased under agreements to resell		1,579,976,436	2,233,558,356
Cash received for interest charges, fees and commissions		167,331,978	103,886,118
Cash received relating to other operating activities	59(1)	633,974,979	277,674,501
Sub-total of cash inflows		45,013,166,153	43,670,259,364
Cash paid for purchases of goods and services		(36,140,092,608)	(32,731,554,800)
Net increase in deposits in the central bank		(335,930,540)	–
Net decrease in repurchase agreements		(1,287,511,698)	–
Net decrease in customer deposits and balances from banks and other financial institutions		(2,701,559,796)	–
Net increase in loans and advances to customers		–	(2,900,254,785)
Cash paid to or on behalf of employees		(2,266,071,870)	(2,427,413,311)
Taxes and surcharges paid		(994,813,398)	(2,234,715,773)
Cash paid for interest charges, fees and commissions		(78,834,835)	(53,936,919)
Cash paid relating to other operating activities	59(2)	(262,604,412)	(349,370,994)
Sub-total of cash outflows		(44,067,419,157)	(40,697,246,582)
Net cash flows from operating activities	60(1)	945,746,996	2,973,012,782
2. Cash flows from investing activities			
Cash received from disposal of investments		12,326,891,853	24,461,251,512
Cash received from investment income		100,295,318	150,773,649
Proceeds from disposal of items of property, plant and equipment, intangible assets, and other non-current assets		84,791,996	23,140,945
Sub-total of cash inflows		12,511,979,167	24,635,166,106

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

Consolidated Statement of Cash Flows (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

	Note V	For the six months ended 30 June	
		2020 Unaudited	2019 Unaudited
2. Cash flows from investing activities (Continued)			
Purchases of property, plant and equipment, intangible assets and other non-current assets		(2,864,306,125)	(1,642,283,538)
Cash paid for investments		(10,111,867,800)	(23,438,965,013)
Cash paid relating to other investing activities	59(3)	(54,631,062)	(40,515,624)
Sub-total of cash outflows		(13,030,804,987)	(25,121,764,175)
Net cash flows used in investing activities		(518,825,820)	(486,598,069)
3. Cash flows from financing activities			
Cash received from borrowings		6,604,241,946	5,043,044,347
Cash received from investors		13,125,000	9,375,000
Including: capital injection from a subsidiary's non-controlling interests		13,125,000	9,375,000
Cash received relating to other financing activities	59(4)	102,230,000	3,471,463
Sub-total of cash inflows		6,719,596,946	5,055,890,810
Repayment of borrowings		(5,342,610,627)	(6,457,398,006)
Cash paid for distribution of dividends or profits and for interest expenses		(635,840,386)	(974,255,130)
Including: dividends or profits paid to non-controlling interests by subsidiaries		(277,635,590)	(533,932,888)
Cash paid relating to other financing activities	59(5)	(18,937,361)	(203,007,190)
Sub-total of cash outflows		(5,997,388,374)	(7,634,660,326)
Net cash flows generated from/(used in) financing activities		722,208,572	(2,578,769,516)
4. Effect of foreign exchange rate changes on cash and cash equivalents		29,334,217	4,753,512
5. Net increase/(decrease) in cash and cash equivalents		1,178,463,965	(87,601,291)
Add: Cash and cash equivalents at the beginning of the period		7,239,650,634	6,934,175,776
6. Cash and cash equivalents at the end of the period	60(2)	8,418,114,599	6,846,574,485

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

Statement of Financial Position

30 June 2020

Renminbi Yuan

ASSETS	Note XIV	30 June 2020 Unaudited	31 December 2019 Audited
CURRENT ASSETS			
Cash and bank balances		4,247,041,321	3,187,001,428
Financial assets held for trading		—	3,573,580
Trade receivables	1	2,714,977,976	3,154,416,565
Financing receivables		5,472,804,070	9,796,502,361
Prepayments		334,933,076	693,109,995
Other receivables	2	216,212,939	94,415,995
Inventories		6,603,825,301	6,633,161,943
Other current assets		375,170,443	354,016,165
Total current assets		19,964,965,126	23,916,198,032
NON-CURRENT ASSETS			
Long-term equity investments	3	11,630,320,371	11,477,691,872
Other equity instrument investments		273,808,311	275,508,859
Investment properties		63,333,893	64,570,817
Property, plant and equipment		23,064,520,840	22,357,559,485
Construction in progress		3,679,278,083	2,770,963,397
Right-of-use assets		358,888,374	368,857,495
Intangible assets		1,092,087,525	1,088,324,048
Deferred tax assets		102,359,138	125,314,560
Total non-current assets		40,264,596,535	38,528,790,533
TOTAL ASSETS		60,229,561,661	62,444,988,565

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

Statement of Financial Position (Continued)

30 June 2020

Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	30 June 2020	31 December 2019
	Unaudited	Audited
CURRENT LIABILITIES		
Short-term loans	14,783,359,207	10,776,844,475
Financial liabilities held for trading	668,202	2,258,750
Notes payable	1,126,239,166	5,085,093,096
Trade payables	6,991,318,118	7,478,411,251
Contract liabilities	2,776,777,128	2,455,027,803
Payroll and employee benefits payable	359,437,326	540,612,797
Taxes payable	266,490,324	232,319,349
Other payables	4,003,787,148	3,793,893,919
Non-current liabilities due within one year	1,763,437,440	3,612,706,920
Total current liabilities	32,071,514,059	33,977,168,360
NON-CURRENT LIABILITIES		
Long-term loans	3,487,700,000	4,098,200,000
Lease liabilities	357,253,921	363,877,690
Long-term employee benefits payable	64,223,807	71,919,779
Deferred revenue	726,330,121	736,754,692
Total non-current liabilities	4,635,507,849	5,270,752,161
Total liabilities	36,707,021,908	39,247,920,521
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	20,920,928	22,196,339
Special reserve	30,450,170	13,711,365
Surplus reserve	3,814,465,907	3,814,465,907
Retained earnings	3,598,004,085	3,287,995,770
Total shareholders' equity	23,522,539,753	23,197,068,044
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	60,229,561,661	62,444,988,565

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

Income Statement

For the six months ended 30 June 2020

Renminbi Yuan

For the six months ended 30 June			
	Note XIV	2020 Unaudited	2019 Audited
Revenue	4	31,014,552,959	30,129,367,348
Less: Cost of sales	4	29,249,524,299	28,182,436,294
Taxes and surcharges		201,787,501	207,179,728
Selling expenses		201,264,104	181,424,163
General and administrative expenses		449,822,150	508,793,639
R&D expenses		500,142,055	305,314,452
Financial expenses		325,013,474	329,234,762
including: interest expense		346,073,726	358,986,995
interest income		27,818,360	54,012,992
Add: Other income		24,732,855	38,452,855
Investment income	5	688,950,161	1,147,520,945
Including: share of profits of associates and joint ventures		161,374,556	301,512,152
Gains on the changes in fair value		398,849	12,493,247
Credit impairment losses		(3,643,894)	16,643,156
Asset impairment losses		(56,423,169)	(726,383,165)
Losses from disposal of assets		(39,955,791)	(191,167)
Operating profit		701,058,387	903,520,181
Add: Non-operating income		250,176,058	176,255,495
Less: Non-operating expenses		1,791,075	71,550
Profit before tax		949,443,370	1,079,704,126
Less: Income tax expenses		23,380,560	25,331,463
Net profit		926,062,810	1,054,372,663
Categorised by operation continuity			
Net profit from continuing operations		926,062,810	1,054,372,663
Other comprehensive income, net of tax		(1,275,411)	1,824,313
Other comprehensive income that will not be reclassified to profit or loss:		(1,275,411)	1,158,600
Changes in fair value of other equity instrument investments		(1,275,411)	1,158,600
Other comprehensive income that may be reclassified to profit or loss:		–	665,713
Other comprehensive income using the equity method that may be reclassified to profit or loss		–	665,713
Total comprehensive income		924,787,399	1,056,196,976

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

Statement of Changes in Equity

For the six months ended 30 June 2020

Renminbi Yuan

For the six months ended 30 June 2020 (Unaudited)

	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	Total shareholders' equity
1. Balance at the end of the previous year	7,700,681,186	8,358,017,477	22,196,339	13,711,365	3,814,465,907	3,287,995,770	23,197,068,044
2. Increase/(decrease) during the period							
1) Total comprehensive income	-	-	(1,275,411)	-	-	926,062,810	924,787,399
2) Profit appropriation							
(i) Distribution to shareholders	-	-	-	-	-	(616,054,495)	(616,054,495)
3) Special reserve							
(i) Additions	-	-	-	23,162,759	-	-	23,162,759
(ii) Utilisation	-	-	-	(13,270,975)	-	-	(13,270,975)
(iii) Changes in the share of associates and joint ventures' special reserve, net	-	-	-	6,847,021	-	-	6,847,021
3. Balance at the end of the period	7,700,681,186	8,358,017,477	20,920,928	30,450,170	3,814,465,907	3,598,004,085	23,522,539,753

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

Statement of Changes in Equity (Continued)

For the six months ended 30 June 2020

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 the 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
2. Increase/(decrease) during the period							
1) Total comprehensive income	-	-	1,824,313	-	-	1,054,372,663	1,056,196,976
2) Profit appropriation							
(i) Distribution to shareholders	-	-	-	-	-	(2,387,211,168)	(2,387,211,168)
3) Special reserve							
(i) Additions	-	-	-	23,883,216	-	-	23,883,216
(ii) Utilisation	-	-	-	(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
3. Balance at the end of the period	7,700,681,186	8,358,017,477	14,730,780	27,207,591	3,735,114,669	3,628,207,287	23,463,958,990

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

Statement of Cash Flows

For the six months ended 30 June 2020

Renminbi Yuan

For the six months ended 30 June		
	2020	2019
	Unaudited	Unaudited
1. Cash flows from operating activities		
Cash received from sale of goods and rendering of services	39,908,929,072	30,606,684,570
Cash received relating to other operating activities	761,253,190	232,792,064
Sub-total of cash inflows	40,670,182,262	30,839,476,634
Cash paid for purchase of goods and services	(35,953,793,662)	(26,754,317,507)
Cash paid to or on behalf of employees	(1,771,252,373)	(2,046,696,308)
Taxes and surcharges paid	(425,464,839)	(639,506,340)
Cash paid relating to other operating activities	(155,878,230)	(473,669,997)
Sub-total of cash outflows	(38,306,389,104)	(29,914,190,152)
Net cash flows from operating activities	2,363,793,158	925,286,482
2. Cash flows from investing activities		
Cash received from disposal of investments	5,878,340	–
Cash received from investment income	550,262,283	967,328,392
Proceeds from disposal of property, plant and equipment, intangible assets and other non-current assets	66,659,427	15,056,580
Cash received relating to other investing activities	–	10,324,000
Sub-total of cash inflows	622,800,050	992,708,972
Purchase of property, plant and equipment, intangible assets and other non-current assets	(2,548,851,311)	(1,423,848,503)
Cash paid for investments	(1,592,800)	(84,570,498)
Cash paid for acquisition of a subsidiary and other operating units	(74,375,000)	(93,125,000)
Cash paid relating to other investing activities	(54,631,062)	(40,515,624)
Sub-total of cash outflows	(2,679,450,173)	(1,642,059,625)
Net cash flows used in investing activities	(2,056,650,123)	(649,350,653)

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

Statement of Cash Flows (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

	For the six months ended 30 June	
	2020	2019
	Unaudited	Unaudited
3. Cash flows from financing activities		
Cash received from borrowings	7,370,489,814	3,420,729,602
Cash received relating to other financing activities	94,420,000	49,404,372
Sub-total of cash inflows	7,464,909,814	3,470,133,974
Repayment of borrowings	(5,926,935,548)	(3,888,111,023)
Cash paid for the distribution of dividends or profits and for interest expenses	(334,250,800)	(352,869,464)
Cash paid relating to other financing activities	(15,561,763)	(15,561,763)
Sub-total of cash outflows	(6,276,748,111)	(4,256,542,250)
Net cash flows generated from/(used in) financing activities	1,188,161,703	(786,408,276)
4. Effect of foreign exchange rate changes on cash and cash equivalents	22,158,349	4,667,325
5. Increase/(decrease) in cash and cash equivalents	1,517,463,087	(505,805,122)
Add: Cash and cash equivalents at the beginning of the period	2,652,770,395	5,825,154,899
6. Cash and cash equivalents at the end of the period	4,170,233,482	5,319,349,777

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

Notes to the Financial Statements

For the six months ended 30 June 2020

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I. GENERAL INFORMATION OF THE GROUP

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

As of 30 June 2020, the Company had issued 7,700,681,186 shares in total, including ordinary A shares of 5,967,751,186 shares and ordinary H shares of 1,732,930,000 shares. The nominal value of each share is RMB1.

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

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

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

The financial statements were approved by the Board of Directors on 26 August 2020.

The scope of the consolidated financial statements is determined on the control basis. The change in the scope of consolidation during the 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 a going concern basis.

As of 30 June 2020, the net current liabilities of the Group amounted to RMB5,256,448,065. The directors of the Company have considered the availability of funding sources, including, but not limited to, unutilised banking facilities of RMB30.9 billion as at 30 June 2020 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 the 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 2020 on a going concern basis.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

II. BASIS OF PREPARATION (CONTINUED)

The financial statements have been prepared under the historical cost convention, except for certain financial instruments which have been measured at fair value. Assets classified as held for sale are disclosed at the lower of the carrying amount and fair value less costs to disposal on the date of classification. Provision for asset impairment is made 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 amortised cost, valuation method of inventories, depreciation of fixed assets, amortisation 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 2020, and the results of their operations and cash flows for the six months ended 30 June 2020.

2. Accounting period

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

3. Reporting currencies

Renminbi, in which the financial statements are presented, is used as the Group's reporting 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 combinations

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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

4. Business combinations (Continued)

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, an entity (the acquirer) obtains control of another entity (the acquiree) on the combination date. The acquisition date is the date on which the combining entity effectively obtains control of the entity being combined.

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

Business combination involving entities not under common control

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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

4. Business combinations (Continued)

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

5. Consolidated financial statements

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

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

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 the 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.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

5. Consolidated financial statements (Continued)

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

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

6. Joint arrangements 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.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

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 the reporting period; shareholders' equity, with the exception of retained earnings, is translated at the exchange rates ruling at the transaction date; all income and expense items in the income statement are translated at the average exchange rates during the period. Exchange differences arising from the translations mentioned above are recognised as other comprehensive income. When an overseas business is disposed of, the cumulative translation differences arising from the overseas business will be transferred to profit or loss in the period. In case of a partial disposal, only the proportionate share of the related exchange translation difference is transferred to profit or loss.

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

9. Financial instruments

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

Recognition and derecognition of financial instruments

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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (Continued)

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

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

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

Classification and measurement of financial assets

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

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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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 recognised as initial investment costs.

The subsequent measurement of financial assets depends on their classification as follows:

Debt instrument investments measured at amortised cost

A financial asset shall be measured at amortised cost if both of the following conditions are met: (a) the financial asset is held under a business model 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 the effective interest rate method to recognise interest income, and the gain or loss generated by its amortisation and impairment shall be accounted in profit or loss for the period.

Debt instrument investments 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 the effective interest rate method to recognise interest income. Except for the interest income, impairment losses and exchange differences shall be recognised in profit or loss for the period, and other changes in fair value shall be recognised in other comprehensive income. When the financial assets are derecognised, the cumulative gain or loss previously recognised in other comprehensive income shall be transferred to profit or loss for the period.

Equity instrument investments measured at fair value through other comprehensive income

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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (Continued)

Classification and measurement of financial assets (Continued)

The subsequent measurement of financial assets depends on their classification as follows (Continued):

Financial assets measured at fair value through profit or loss

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

Classification and measurement of financial liabilities

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

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities measured at fair value through profit or loss

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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (Continued)

Classification and measurement of financial liabilities (Continued)

Other financial liabilities

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

Impairment of financial assets

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

For receivables that do not contain a 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 that adopt a simplified approach, the Group assesses whether their credit risk at each reporting date has increased significantly. Financial assets whose credit risk has 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, and calculates interest income based on the book value and actual interest rate; Financial assets whose credit risk has increased significantly but without objective evidence for impairment after initial recognition 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 the book value and actual interest rate; Financial assets that are evidently credit-impaired after initial recognition 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 the amortised cost and actual interest rate. For financial instruments with only low credit risk on the balance sheet date, the Group assumes that their credit risk has not increased significantly since the initial recognition.

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

For the disclosure of the Group's judgement 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 to fail to collect or partially collect the contractual cash flows of financial assets, the Group will directly write off the book value of the financial assets.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (Continued)

Offsetting of financial instruments

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

Financial guarantee contracts

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

Derivative financial instruments

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

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

Transfer of financial assets

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

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

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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

10. Inventories

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

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

Inventories are accounted for using the perpetual inventory system.

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

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

11. Long-term equity investments

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

Long-term equity investments are recognised at initial investment cost upon acquisition. For a long-term equity investment acquired through a business combination under common control, the initial investment cost of the long-term equity investment shall be the absorbing party's share of the carrying amount of the owners' equity of the party being absorbed in the consolidated financial statements of the ultimate controlling party at the combination date. The difference between the initial investment cost and the carrying amount of cash paid, non-cash assets transferred and liabilities assumed shall be adjusted to capital reserve. If the balance of capital reserve is not sufficient, any excess shall be adjusted to retained earnings. Any other comprehensive income previously recognised shall be accounted for on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities. The portion recognised based on changes in the investee's equity (other than net profit or loss, other comprehensive income and profit distribution) is charged to profit or loss upon disposal of such long-term equity investment. For those partially

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Long-term equity investments (Continued)

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

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

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

The equity method is applied for long-term equity investments when the investees are jointly controlled or significantly influenced by the Group. Joint control is the agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the 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.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Long-term equity investments (Continued)

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

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

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 the original equity method is the same as that on disposal of related assets or liabilities by the investee, the amount recognised in the equity on the changes in other equity movements except for the net profit or loss, other comprehensive income and profit distribution, should be all charged to profit or loss for the year; if the equity method would continue to be adopted after the disposal, the basis of the accounting treatment on the related other comprehensive income under the original equity method is the same as that on disposal of related assets or liabilities by the investee, the amount recognised in the equity on the changes in other equity movements except for the net profit or loss, other comprehensive income and profit distribution, should be charged to profit or loss on a pro-rata basis.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Long-term equity investments (Continued)

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 a 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 for as financial assets. The difference between the fair value on the day of losing control and the book value is recognised in profit or loss.

12. Investment properties

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

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

The Group uses the cost model for subsequent measurement of investment properties and the estimated useful lives is determined by the period that they 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.

13. Property, plant and equipment

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

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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

13. Property, plant and equipment (Continued)

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

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

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

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

14. Construction in progress

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

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

15. Borrowing costs

Borrowing costs are interests and other expenses arising from borrowings of the Group, including borrowing interest, amortisation 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 capitalised 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.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

15. Borrowing costs (Continued)

The capitalisation 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 capitalisation 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 capitalisation period, the amounts of capitalised borrowing costs for each accounting period are determined by the following methods:

- (1) For specific borrowings, the borrowing costs eligible for capitalisation 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 capitalisation are determined by applying a capitalisation rate to the weighted average of capital expenditure that exceeds the specific borrowings.

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

16. Right-of-use assets

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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

16. Right-of-use assets (Continued)

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

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

17. Intangible assets

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

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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

17. Intangible assets (Continued)

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

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

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

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

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

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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

18. Impairment of assets

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

The Group assesses whether any indicator of impairment exists as of the end of each reporting period, and, if yes, it performs an 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 recognised based on whether the cash inflows generated by the asset group are largely independent to those of other assets or asset groups.

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

Impairment losses cannot be reversed in subsequent accounting periods.

19. Payroll and employee benefits payable

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

Short-term employee benefits payable

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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

19. Payroll and employee benefits payable (Continued)

Post-employment benefit (defined contribution plans)

Expenditures for employees' endowment insurance managed by the local government and annuity plan established by the Group are capitalised 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 recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

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

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

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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

19. Payroll and employee benefits payable (Continued)

Termination benefits

An entity is required to recognise termination benefits with a corresponding charge to profit or loss at the earlier of when the entity can no longer withdraw an offer of those benefits and when it recognises 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 recognised in profit or loss.

20. Lease liabilities

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

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

21. Provisions

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

- (1) the obligation is a present obligation assumed by the Group; and

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

21. Provisions (Continued)

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

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

22. Repurchase and reverse repurchase transactions

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

23. Revenue

Revenue from contracts with customers

Revenue is recognised 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 goods and services is to have the ability to direct the use of, and obtain substantially all of the remaining benefits from of the relevant goods and services.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

23. Revenue (Continued)

Revenue from contracts with customers (Continued)

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 transferring the goods. The Group generally recognises revenue based on the following considerations, taking into account the timing of control transfer. This includes obtaining the current collection rights of the goods, the transfer of the main risks and rewards of the ownership of the goods, the transfer of the legal ownership of the goods, the transfer of the physical assets of the goods, and the acceptance of the goods by the customer.

Contracts for rendering of services

The service contract between the Group and its customers usually includes performance obligations for packaging, processing, technical consulting or technical services. As a result of the satisfaction of the performance obligation of 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 the progress of the performance cannot be reasonably determined. The Group determines the progress of the performance of the service provided in accordance with the input method. When the progress of the performance cannot be reasonably determined, and the costs incurred by the Group are expected to be compensated, the revenue will be recognised based on the amount of costs incurred, until the progress of the performance can be reasonably determined.

Variable considerations

The contracts between the Group and its certain customers contain 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 recognised which is not likely to be significantly reversed when the uncertainty disappears.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

23. Revenue (Continued)

Revenue from contracts with customers (Continued)

Sales involving rights of return

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

Significant financing component

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

Principal vs. agent

The Group has the right to determine the price of the goods transferred, that is, the Group has control over the products before transferring the steel and other products to the customers, and thus the Group is considered as the principal and recognises 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 recognised 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 a specific commission amount or proportion.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

23. Revenue (Continued)

Other revenue

Interest income

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

Lease income

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

24. Contract assets and contract liabilities

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

Contract assets

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

Contract liabilities

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

25. Government grants

Government grants are recognised in profit or loss, when they are highly probable to be received and all conditions are fulfilled. If a government grant is in the form of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a 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.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

25. Government grants (Continued)

Asset-related government grants are recognised 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 recognises them as asset-related government grants if the conditions are to form long-term assets through construction or other methods. Otherwise, the government grants should be income-related.

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

A government grant related to asset can be accounted by being recognised as deferred income, and amortised systematically and reasonably to profit or loss over the useful life of the related asset (government grants measured at the nominal amount should be recognised 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 recognised 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 the principal and the preferential discounts of the loans.

26. Income tax

Income tax comprises current tax and deferred tax, and is normally recognised as income or expense in profit or loss, except for goodwill generated in a business combination or items that have been recognised 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 recognised as assets and liabilities and their tax base, the Group adopts the liability method for the provision of deferred tax.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

26. Income tax (Continued)

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

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

A deferred tax asset is recognised 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 utilised 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 recognised 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 utilised.

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 realised or the liability is settled, taking into account the income tax effect of expected asset realisation 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 utilised. 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 relate to income taxes levied by the same authority on the same taxable entity, or different 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 Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

27. Leases

Identification of leases

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

Identification of separate lease components

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

- (a) the lessee can benefit from use of the underlying asset either on its own or together with other resources that are readily available to the lessee; and
- (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 components, the Group shall account for the lease and non-lease components separately as a lessor or a lessee.

Assessment of the lease term

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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

27. Leases (Continued)

As a lessee

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

Lease modifications

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

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

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

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

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

- (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, and recognising the gain or loss relating to the partial or full termination of the lease in profit or loss; or
- (b) making a corresponding adjustment to the right-of-use asset for all other lease modifications.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

27. Leases (Continued)

As a lessee (Continued)

Short-term leases and leases of low value

The Group considers a lease that, at the commencement date of the lease, has a lease term of 12 months or less, and does not contains any purchase option as a short-term lease; and a lease for which the value of the individual underlying asset is not more than RMB40,000 when it is new as a lease of low-value assets. The sublet or expecting sublet of assets would not recognise leases of low-value assets 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 assets and recognises the lease payments associated with those leases as cost or in profit or loss on a straight-line basis.

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 lessor of an operating lease

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

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

28. Profit distribution

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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

29. Safety production reserve

Safety production reserve sets aside in compliance with the relevant regulations, is included in the cost of the relevant products or recognised in profit or loss for the period, and credited to the special reserve at the same time. When the safety production reserve is utilised, it is accounted for based on whether a fixed asset is generated or not: if the costs incurred can be categorised as expenditures, 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 of being ready for intended use. Meanwhile, expenditures in building up fixed assets are directly charged against the special reserve with the accumulated depreciation recognised 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. Since 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 instrument investments, financing receivables and financial assets/liabilities held for trading at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place in the principal market for the asset or liability or in the most advantageous market for the asset or liability when a principal market is absent. The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

31. Fair value measurement (Continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised 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 recognised 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 judgements and estimates

The preparation of the Group's financial statements requires management to make judgements, 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.

Judgements

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

Going concern

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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. Significant accounting judgements and estimates (Continued)

Judgements (Continued)

Operating leases – as lessor

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

Classification between investment properties and owner-occupied properties

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

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

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

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

As of 30 June 2020, the Group held 16.34% equity interests in Anhui Xinchuang Energy Saving and Environmental Protection Science and Technology Co., Ltd. ("Xinchuang Environmental Protection"). The Company designates one director and one supervisor to Xinchuang Environmental Protection according to the Articles of Association and the directors of the Company believe the Company can exercise significant influence over Xinchuang Environmental Protection, despite the equity share is under 20%. Thus, the Group accounts for the investment in Xinchuang Environmental Protection as an associate.

As of 30 June 2020, the Group held 18.19% equity interests in Phima Intelligence Technology Co., Ltd. ("Phima Intelligence"). The Company designates one director to Phima Intelligence according to the Articles of Association, and the director is nominated to be a member of the Audit Committee. The directors of the Company believe the Company can exercise significant influence over Phima Intelligence, despite the equity share is under 20%. Thus, the Group accounts for the investment in Phima Intelligence as an associate.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. Significant accounting judgements and estimates (Continued)

Judgements (Continued)

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

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

Business model

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

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.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. Significant accounting judgements and estimates (Continued)

Estimation uncertainty

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

Impairment of financial assets

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

Impairment of non-financial assets (other than goodwill)

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

Deferred tax assets

Deferred tax assets are recognised 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 utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with tax planning strategies.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. Significant accounting judgements and estimates (Continued)

Estimation uncertainty (Continued)

Sales involving a right of return

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

Constraint in the variable consideration estimate

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

Lessee's incremental borrowing rate

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

Estimation of useful lives of fixed assets

The Group's management determines the estimated useful lives 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.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. Significant accounting judgements and estimates (Continued)

Estimation uncertainty (Continued)

Estimation of inventories at net realisable value

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

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

IV. TAX

1. The principal kinds of taxes and related tax rates

Value-added tax	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.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

IV. TAX (CONTINUED)

1. The principal kinds of taxes and related tax rates (Continued)

Income tax	The Group and certain of its subsidiaries are 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), and the applicable income tax rate is 16.5%. Maanshan Iron and Steel (Australia) Proprietary Limited ("Ma Steel (Australia)") was established and registered in Australia, and the applicable income tax rate is 30%. MG Trading and Development GmbH ("MG Trading") was established and registered in Germany, and the applicable income tax rate is 30%. MG-VALDUNES S.A.S was established and registered in France, and the applicable income tax rate is 28%. MASTEEL AMERICA INC ("Masteel America") was established and registered in the United States, and the applicable income tax rate is 30%. Masteel Middle East General Industrial ("Masteel Middle East") was established and registered in Dubai, and the applicable income tax rate is 0%.
Land appreciation tax	Payable based on appreciation of land use rights and buildings at a progressive tax rate of 30% to 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; payable based on the actual water pollution generated with RMB1.4 per water equivalent.
Other taxes	In accordance with tax laws and other relevant regulations.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash and bank balances

	30 June 2020 Unaudited	31 December 2019 Audited
Cash on hand	39,816	46,737
Bank balances	8,421,628,317	7,343,105,580
Other monetary assets	1,132,274,599	1,461,248,595
Mandatory reserves of Masteel Finance deposited in the central bank	1,048,843,323	712,912,783
	10,602,786,055	9,517,313,695
Including: Restricted amount due to mortgages, pledges or freezes	1,132,274,599	1,461,248,595

As of 30 June 2020, the Group had cash and bank balances amounting to RMB656,521,199 that had been deposited outside the PRC (31 December 2019: equivalent of RMB870,697,419).

Cash deposited in current accounts earns interest at floating interest rates. The terms of time deposits are three months, six months, nine months and one year to three years, respectively, depending on the cash flow demand of the Group. Such deposits earn interest at the respective bank deposit rates. As of 30 June 2020, the Group had time deposits amounting to RMB3,553,534 (31 December 2019: RMB103,501,683) with terms of over three months.

2. Financial assets held for trading

	30 June 2020 Unaudited	31 December 2019 Audited
Financial assets at fair value through profit or loss		
Derivative financial assets		
Futures contracts	–	3,573,580
Debt instrument investments	2,058,977,448	2,122,538,614
	2,058,977,448	2,126,112,194

As of 30 June 2020, the Group's debt instrument investments were mainly in funds, financial products and trust products. There was no material restriction on the realisation of these investments.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

3. Trade receivables

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

The ageing of trade receivables, based on the invoice date, is analysed below:

	30 June 2020 Unaudited	31 December 2019 Audited
Within one year	1,113,566,889	1,076,796,471
One to two years	23,734,317	14,798,803
Two to three years	29,772,694	26,523,395
Over three years	34,592,168	27,217,799
	1,201,666,068	1,145,336,468
Less: Provisions for bad debts	62,983,424	52,406,346
	1,138,682,644	1,092,930,122

The balances of trade receivables are analysed as follows:

	30 June 2020 (Unaudited)				31 December 2019 (Audited)			
	Carrying amount		Provision for bad debts		Carrying amount		Provision for bad debts	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Bad debt provision assessed individually	-	-	-	-	-	-	-	-
Bad debt provision assessed in portfolios based on credit risk characteristics	1,201,666,068	100	(62,983,424)	5	1,138,682,644	100	(52,406,346)	5
	1,201,666,068	100	(62,983,424)	5	1,138,682,644	100	(52,406,346)	5

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

V. MAJOR NOTES TO THE 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 2020 (Unaudited)			31 December 2019 (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	1,113,566,889	1	(11,135,669)	1,076,796,471	1	(10,767,965)
One to two years	23,734,317	15	(3,560,148)	14,798,803	15	(2,219,820)
Two to three years	29,772,694	46	(13,695,439)	26,523,395	46	(12,200,762)
Over three years	34,592,168	100	(34,592,168)	27,217,799	100	(27,217,799)
	1,201,666,068		(62,983,424)	1,145,336,468		(52,406,346)

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

	Opening balance	Increase during the period/year	Reversal during the period/year	Write-back due to disposal of a subsidiary	Other changes	Closing balance
30 June 2020	52,406,346	10,176,100	-	-	400,978	62,983,424
31 December 2019	72,710,696	-	(20,274,936)	-	(29,414)	52,406,346

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

30 June 2020	Relationship with the Group	Ending balance	Ageing	Percentage of trade receivables	Ending balance of bad debt provision
Company 1	Third party	113,895,866	Within 1 year	9%	(1,138,959)
Company 2	Third party	104,604,076	Within 1 year	9%	(1,046,041)
Company 3	Third party	53,318,229	Within 1 year	4%	(533,182)
Company 4	Third party	48,295,262	Within 3 years	4%	(18,843,997)
Company 5	Third party	43,884,400	Within 1 year	4%	(438,844)
		363,997,833		30%	(22,001,023)

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

3. Trade receivables (Continued)

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

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

As of 30 June 2020 and 31 December 2019, there were no trade receivables that were derecognised due to the transfer of financial assets.

As of 30 June 2020 and 31 December 2019, the Group had no assets or liabilities derived from transferring trade receivables in which the Group was continuingly involved.

4. Financing receivables

	30 June 2020 Unaudited	31 December 2019 Audited
Bank acceptance notes	7,248,286,411	11,097,821,345
Commercial acceptance notes	—	878,076
	7,248,286,411	11,098,699,421

As of 30 June 2020, the Group pledged the bank acceptance notes of RMB969,602,720 (31 December 2019: RMB4,470,011,632) to issue notes payable and the bank acceptance notes of RMB102,230,000 (31 December 2019: RMB127,316,634) to obtain short-term loans.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

4. Financing receivables (Continued)

The undue notes endorsed or discounted were as follows:

	30 June 2020 (Unaudited)		31 December 2019 (Audited)	
	Derecognised	Not derecognised	Derecognised	Not derecognised
Bank acceptance notes	5,336,830,302	402,321,976	2,076,771,934	127,789,539

As of 30 June 2020 and 31 December 2019, there were no trade receivables transferred from notes receivable because of the drawers' inability to pay.

The Group derecognised notes receivable discounted to financial institutions amounting to RMB452,575,699 (2019: RMB4,189,003,767), and recognised a discount expense amounting to RMB4,439,321 (2019: RMB49,959,470).

5. Prepayments

The ageing analysis of the prepayments is as follows:

	30 June 2020 (Unaudited)		31 December 2019 (Audited)	
	Book value	Ratio (%)	Book value	Ratio (%)
Within one year	703,299,903	99	946,842,275	96
One to two years	2,160,000	1	27,222,230	3
Two to three years	1,885,150	—	88,508	—
Over three years	1,293,993	—	7,290,562	1
	708,639,046	100	981,443,575	100

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

Renminbi Yuan

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

The top five prepayments classified by debtors are as follows:

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

	30 June 2020 Unaudited	31 December 2019 Audited
Interest receivable	121,978	257,956
Dividends receivable	6,921,333	–
Other receivables	215,167,601	156,033,895
	222,210,912	156,291,851

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

6. Other receivables (Continued)

Interest receivable

	30 June 2020 Unaudited	31 December 2019 Audited
Interest from time deposits	121,978	257,956

Dividends receivable

	30 June 2020 Unaudited	31 December 2019 Audited
Associate – Masteel Financial Leasing		
Other equity instruments investments	4,041,333	–
– China MCC17 Group Co., Ltd.	2,880,000	–
	6,921,333	–

Other receivables

Ageing analysis of other receivables is as follows:

	30 June 2020 Unaudited	31 December 2019 Audited
Within one year	170,815,446	111,650,679
One to two years	2,130,786	44,736,427
Two to three years	43,600,934	146,600
Over three years	418,415,731	418,435,047
	634,962,897	574,968,753
Less: Provision for bad debts	419,795,296	418,934,858
	215,167,601	156,033,895

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

6. Other receivables (Continued)

Other receivables (Continued)

Other receivables analysed by nature are as follows:

	30 June 2020 Unaudited	31 December 2019 Audited
Due from trading companies	418,800,493	417,751,118
Deposit for steel futures	101,772,591	47,141,529
Transfer of assets	43,454,334	43,454,334
Prepaid import tariff and VAT deposit	41,653,820	32,041,791
Tax refunds	237,911	237,911
Others	29,043,748	34,342,070
	634,962,897	574,968,753
Less: Provision for bad debts	419,795,296	418,934,858
	215,167,601	156,033,895

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

30 June 2020 (Unaudited)

	Stage I 12-month expected credit losses	Stage II Lifetime expected credit losses	Stage III Credit-impaired financial assets (lifetime expected credit losses)	Total
Opening balance	228,189	15,389,042	403,317,627	418,934,858
Changes due to the opening balance	-	-	-	-
- Shift to Stage II	-	-	-	-
- Shift to Stage III	-	-	-	-
- Back to Stage II	-	-	-	-
- Back to Stage I	-	-	-	-
Accrual	988,463	-	-	988,463
Reversal	-	(134,561)	-	(134,561)
Other changes	6,536	-	-	6,536
Closing balance	1,223,188	15,254,481	403,317,627	419,795,296

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

6. Other receivables (Continued)

Other receivables (Continued)

31 December 2019 (Audited)

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

As of 30 June 2020, 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	21	Due from trading companies	More than three years	(132,058,434)
Company 2	127,685,367	20	Due from trading companies	More than three years	(127,685,367)
Company 3	60,939,960	10	Due from trading companies	More than three years	(60,939,960)
Company 4	45,390,133	7	Due from trading companies	More than three years	(45,390,133)
Company 5	43,454,334	7	Due from trading companies	Two to three years	–
	409,528,228	65			(366,073,894)

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

6. Other receivables (Continued)

Other receivables (Continued)

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

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

As of 30 June 2020, 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 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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

6. Other receivables (Continued)

Other receivables (Continued)

Note: The balance is the government grant received by a subsidiary named Anhui Changjiang Iron and Steel Co., Ltd. ("Anhui Changjiang 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 be collected in 2020.

The balances of other receivables as of 30 June 2020 and 31 December 2019 did not contain any amount derecognised due to the transfer of financial assets.

7. Inventories

	30 June 2020 (Unaudited)			31 December 2019 (Audited)		
	Carrying amount	Provision for impairment	Book value	Carrying amount	Provision for impairment	Book value
Raw materials	4,850,717,046	(43,826,378)	4,806,890,668	5,436,379,019	(85,611,330)	5,350,767,689
Work in progress	1,095,047,240	(28,523,156)	1,066,524,084	1,369,764,747	(42,078,481)	1,327,686,266
Finished goods	3,296,253,555	(73,750,275)	3,222,503,280	3,029,789,651	(92,523,279)	2,937,266,372
Spare parts	1,170,276,946	(63,309,338)	1,106,967,608	1,160,103,515	(61,776,506)	1,098,327,009
Others	233,474,649	–	233,474,649	233,802,883	–	233,802,883
	10,645,769,436	(209,409,147)	10,436,360,289	11,229,839,815	(281,989,596)	10,947,850,219

At the balance sheet date, inventories were measured at the lower of costs and net realisable values, and provision for impairment was made for items whose costs were higher than their net realisable values. Net realisable value is the estimated selling price under normal business terms deducted by the estimated costs to completion, the estimated selling expenses and related taxes.

As of 30 June 2020, the Group had no constrained inventories (31 December 2019: Nil).

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

8. Financial assets purchased under agreements to resell

	30 June 2020	31 December 2019
	Unaudited	Audited
Bonds	790,013,595	2,369,990,031
Less: Provision for impairment	23,277	23,277
	789,990,318	2,369,966,754

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

9. Loans and advances to customers

	30 June 2020	31 December 2019
	Unaudited	Audited
Loans	2,415,192,548	2,581,278,897
Discounted notes	1,845,252,368	1,786,640,104
Factoring	—	2,661,229
	4,260,444,916	4,370,580,230
Less: Bad debts provision for loans and advances to customers	111,165,139	114,165,040
	4,149,279,777	4,256,415,190

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

V. MAJOR NOTES TO THE 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 2020 Unaudited	31 December 2019 Audited
Unsecured loans	4,150,312,763	4,156,918,916
Guaranteed loans	—	60,075,236
Mortgaged loans	20,028,754	20,028,754
Pledged loans	90,103,399	133,557,324
	4,260,444,916	4,370,580,230

All customers related to loans and advances are the Holding and its subsidiaries. The Group applies the “expected credit loss (“ECL”) model” to evaluate the credit loss of loans and advances to customers. As of 30 June 2020, 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 2020 are as follows:

	Stage I 12-month expected credit losses	Stage II Lifetime expected credit losses	Stage III Credit-impaired financial assets (lifetime expected credit losses)	Total
Opening balance	114,165,040	—	—	114,165,040
Changes due to the opening balance	—	—	—	—
– Shift to Stage II	—	—	—	—
– Shift to Stage III	—	—	—	—
– Back to Stage II	—	—	—	—
– Back to Stage I	—	—	—	—
Reversal	(2,999,901)	—	—	(2,999,901)
Closing balance	111,165,139	—	—	111,165,139

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

9. Loans and advances to customers (Continued)

The movements of provisions for bad debts against loans and advances in 2019 are as follows:

	Stage I 12-month expected credit losses	Stage II Lifetime expected credit losses	Stage III Credit-impaired financial assets (lifetime expected credit losses)	Total
Opening balance	80,099,567	—	—	80,099,567
Changes due to the opening balance	—	—	—	—
– Shift to Stage II	—	—	—	—
– Shift to Stage III	—	—	—	—
– Back to Stage II	—	—	—	—
– Back to Stage I	—	—	—	—
Accrual	34,065,473	—	—	34,065,473
Closing balance	114,165,040	—	—	114,165,040

Loans and advances to customers due from related parties as of 30 June 2020 and 31 December 2019 are disclosed in Note X.6 to the financial statements.

10. Other current assets

	30 June 2020 Unaudited	31 December 2019 Audited
Prepaid income tax	272,152,842	282,233,649
Deductible value added tax	440,630,967	510,579,510
Debt instrument investments (Note)	1,222,075,992	3,182,221,639
	1,934,859,801	3,975,034,798

Note: Debt instrument investments held by the Group were mainly interbank deposits purchased by Masteel Finance.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

10. Other current assets (Continued)

	30 June 2020 (Unaudited)			31 December 2019 (Audited)		
	Carrying amount	Provision for impairment	Book value	Carrying amount	Provision for impairment	Book value
Interbank deposits	1,222,428,992	(353,000)	1,222,075,992	3,182,574,639	(353,000)	3,182,221,639

The movements of provisions for bad debts against debt instrument investments between January and June 2020 are as follows (Unaudited):

	Stage I 12-month expected credit losses	Stage II Lifetime expected credit losses	Stage III Credit-impaired financial assets (lifetime expected credit losses)	Total
Opening balance	353,000	—	—	353,000
Changes due to the opening balance	—	—	—	—
– Shift to Stage II	—	—	—	—
– Shift to Stage III	—	—	—	—
– Back to Stage II	—	—	—	—
– Back to Stage I	—	—	—	—
Accrual	—	—	—	—
Reversal	—	—	—	—
Closing balance	353,000	—	—	353,000

The movements of provisions for bad debts against debt instrument investments between January and December 2019 are as follows (Audited):

	Stage I 12-month expected credit losses	Stage II Lifetime expected credit losses	Stage III Credit-impaired financial assets (lifetime expected credit losses)	Total
Opening balance	441,104	—	—	441,104
Changes due to the opening balance	—	—	—	—
– Shift to Stage II	—	—	—	—
– Shift to Stage III	—	—	—	—
– Back to Stage II	—	—	—	—
– Back to Stage I	—	—	—	—
Accrual	—	—	—	—
Reversal	(88,104)	—	—	(88,104)
Closing balance	353,000	—	—	353,000

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

11. Long-term equity investments

30 June 2020 (Unaudited)

	Opening balance	Movements during the period							Closing balance	Impairment at the end of the period
		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")	271,695,413	-	-	50,708,394	-	56,309	(27,000,000)	-	295,460,116	-
Masteel-CMI International Training Centre Co., Ltd. ("MASTEEL-CMI")	501,306	-	-	-	-	-	-	-	501,306	-
Associates										
Henan JinMa Energy Co., Ltd. ("Henan JinMa Energy")	707,573,964	-	-	61,298,432	-	777,626	(43,200,000)	-	726,450,022	-
Shenglong Chemical Co., Ltd. ("Shenglong Chemical")	816,220,485	-	-	27,777,325	-	1,999,077	-	-	845,996,887	-
Xinchuang Environmental Protection	66,964,108	-	-	5,588,945	-	(485,376)	(5,130,578)	-	66,937,099	-
Ma-Steel OCI Chemical Co., Ltd. ("Ma-Steel OCI Chemical")	147,887,236	-	-	(1,918,408)	-	899,385	(4,000,000)	-	142,868,213	-
Ma Steel (Shanghai) Commercial Factoring Co., Ltd. ("Ma-Steel Commercial Factoring")	157,570,298	-	-	2,839,545	-	-	-	-	160,409,843	-
Ma Steel (Shanghai) Financial Leasing Co., Ltd. ("Ma-Steel Financial Leasing")	85,759,551	-	-	1,404,826	-	-	(4,041,333)	-	83,123,044	-
Anhui Magang Chemicals & Energy Technology Co., Ltd. ("Magang Chemicals & Energy")	659,192,523	-	-	7,562,729	-	3,600,000	-	-	670,355,252	-
Anhui Masteel K.Wah New Building Materials Co., Ltd. ("Masteel K. Wah")	103,703,230	-	-	4,882,783	-	-	-	-	108,586,013	-
Ouye Lianjin Renewable Resources Co., Ltd. ("Ouye Lianjin")	327,305,595	-	-	2,634,811	-	-	(10,637,500)	-	319,302,906	-
Phima Intelligence	201,845,959	-	-	3,915,341	-	-	(4,927,238)	-	200,834,062	-
	3,546,219,668	-	-	166,694,723	-	6,847,021	(98,936,649)	-	3,620,824,763	-

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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

11. Long-term equity investments (Continued)

31 December 2019 (Audited)

	Opening balance	Increase	Decrease	Movements during the year					Closing balance	Impairment at the end of the year
				Investment income under the equity method	Other comprehensive income	Other equity movement	Cash dividend declared	Provision for impairment		
Joint ventures										
BOC-Ma Steel	268,088,957	-	-	88,606,456	-	-	(85,000,000)	-	271,695,413	-
MASTEEL-CMI	501,735	-	-	(429)	-	-	-	-	501,306	-
Associates										
Henan JinMa Energy	613,018,859	-	-	157,352,305	-	2,002,800	(64,800,000)	-	707,573,964	-
Shenglong Chemical	732,685,925	-	-	162,822,030	-	694,949	(79,982,419)	-	816,220,485	-
Shanghai Iron and Steel Electronic Deal Center Co., Ltd.	7,790,111	-	(7,484,171)	(305,940)	-	-	-	-	-	-
Xinchuang Environmental Protection	57,681,293	-	-	11,393,478	-	582,123	(2,692,786)	-	66,964,108	-
Ma-Steel OCI Chemical	146,519,873	-	-	5,231,952	-	935,411	(4,800,000)	-	147,887,236	-
Ma-Steel Commercial Factoring	77,647,587	75,000,000	-	6,999,632	-	-	(2,076,921)	-	157,570,298	-
Ma-Steel Financial Leasing	78,061,708	-	-	8,575,978	-	-	(878,135)	-	85,759,551	-
Magang Chemicals & Energy	600,000,000	-	-	59,192,523	-	-	-	-	659,192,523	-
Masteel K. Wah	81,118,544	-	-	22,584,686	-	-	-	-	103,703,230	-
Ouye Lianjin (Note 1)	145,948,789	135,000,000	-	46,356,806	-	-	-	-	327,305,595	-
Phima Intelligence	-	200,188,534	-	1,657,425	-	-	-	-	201,845,959	-
	2,809,063,381	410,188,534	(7,484,171)	570,466,902	-	4,215,283	(240,230,261)	-	3,546,219,668	-

Note 1: On 29 February 2020, Maanshan Iron & Steel Scrap Co., Ltd. was renamed Ouye Lianjin Renewable Resources Co., Ltd.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

12. Other equity instrument investments

30 June 2020 (Unaudited)

	Cost	Changes in fair value accumulated in other comprehensive income	Fair value	Dividend	
				Equity instruments derecognised in the period	Equity instruments held
Henan Longyu Energy Co., Ltd. ("Henan Longyu")	10,000,000	27,775,117	37,775,117	–	–
China MCC17 Group Co., Ltd. ("MCC17")	8,554,800	53,131,094	61,685,894	–	2,880,000
Shanghai Luojing Ore Quay Co., Ltd. ("Shanghai Luojing")	88,767,360	(63,193,974)	25,573,386	–	–
Beijing Zhonglian Steel Ecommerce Co., Ltd. ("Zhonglian Steel")	1,000,000	830,845	1,830,845	–	–
Anshan Huatai CDQ Engineering Technology Co., Ltd. ("Anshan Huatai")	400,000	690,119	1,090,119	–	–
CFHI (Group) Ma'anshan Heavy Industry Co., Ltd. ("CFHI Maanshan")	16,030,500	(10,803,969)	5,226,531	–	–
Guoqi (Beijing) Lightweight of Automotive Technology Institute Co., Ltd. ("Guoqi Institute")	3,000,000	(8,207)	2,991,793	–	–
Linhuo Coking Co., Ltd. ("Linhuo Coking")	114,500,456	23,134,171	137,634,627	–	5,400,000
Masteel Lihua Metal Resources co. Ltd. ("Masteel Lihua")	3,000,000	74,910	3,074,910	–	–
	245,253,116	31,630,106	276,883,222	–	8,280,000

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

12. Other equity instrument investments (Continued)

31 December 2019 (Audited)

		Changes in fair value accumulated in other comprehensive income	Fair value	Dividend Equity instruments derecognised in the year	Equity instruments held
	Cost				
Henan Longyu	10,000,000	28,351,737	38,351,737	—	—
MCC17	8,554,800	48,414,025	56,968,825	—	—
Shanghai Luojing	88,767,360	(58,009,120)	30,758,240	—	—
Zhonglian Steel	1,000,000	(326,096)	673,904	—	—
Anshan Huatai	400,000	138,510	538,510	—	—
CFHI Maanshan	16,030,500	(10,731,844)	5,298,656	—	—
Guoqi Institute	3,000,000	(7,742)	2,992,258	—	—
Linhuan Coking	114,500,456	25,426,273	139,926,729	—	—
Masteel Lihua	3,000,000	67,650	3,067,650	—	—
	245,253,116	33,323,393	278,576,509	—	—

As the Group does not participate in the daily operating activities of the above investees, has no intention of receiving contractual cash flows, or does not hold them for trading, the investments mentioned above were designated as financial assets measured at fair value through other comprehensive income.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

13. Investment properties

Investment properties measured using the cost method:

30 June 2020 (Unaudited)

	Plant and buildings
Cost:	
Opening balance	77,630,089
Addition	—
Closing balance	77,630,089
Accumulated depreciation:	
Opening balance	12,932,401
Provided	1,174,599
Closing balance	14,107,000
Provision for impairment:	
Opening and closing balance	—
Net carrying amount:	
At the end of the period	63,523,089
At the beginning of the period	64,697,688

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

13. Investment properties (Continued)

31 December 2019 (Audited)

	Plant and buildings
Cost:	
Opening balance	65,075,379
Addition	—
Transferred from property, plant and equipment	12,554,710
Closing balance	77,630,089
Accumulated depreciation:	
Opening balance	9,270,624
Provided	1,777,172
Transferred from property, plant and equipment	1,884,605
Closing balance	12,932,401
Provision for impairment:	
Opening and closing balance	—
Net carrying amount:	
At the end of the year	64,697,688
At the beginning of the year	55,804,755

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

14. Property, plant and equipment

	30 June 2020 Uuaudited	31 December 2019 Audited
Property, plant and equipment	30,374,508,839	29,884,178,547
Property, plant and equipment to be disposed of	137,141,032	161,565,127
	30,511,649,871	30,045,743,674

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

14. Property, plant and equipment (Continued)

*Property, plant and equipment***30 June 2020 (Unaudited)**

	Plant and buildings	Machinery and equipment	Motor vehicles	Office equipment	Land (Note 1)	Total
Cost:						
At the beginning of the period	27,778,584,942	54,360,555,164	289,052,719	343,207,235	10,980,501	82,782,380,561
Addition	8,315,187	12,402,780	2,500,044	997,622	–	24,215,633
Transferred from construction in progress (Note V. 15)	417,271,308	1,673,678,069	10,398,731	–	–	2,101,348,108
Reclassification	(29,396,589)	26,890,606	2,505,983	–	–	–
Disposal	(165,907,939)	(347,015,902)	(2,704,397)	(1,251,446)	–	(516,879,684)
Exchange realignment	190,954	3,798,255	181,124	92,724	204,430	4,467,487
At the end of the period	28,009,057,863	55,730,308,972	301,934,204	343,046,135	11,184,931	84,395,532,105
Accumulated depreciation:						
At the beginning of the period	13,726,165,335	38,553,487,839	213,840,621	261,651,415	–	52,755,145,210
Provided	345,914,853	1,149,943,873	8,429,245	11,200,544	–	1,515,488,515
Reclassification	1,015,288	(1,621,549)	606,261	–	–	–
Disposal	(137,044,247)	(255,413,677)	(2,537,403)	(1,165,035)	–	(396,160,362)
Exchange realignment	86,355	1,201,003	110,398	79,159	–	1,476,915
At the end of the period	13,936,137,584	39,447,597,489	220,449,122	271,766,083	–	53,875,950,278
Impairment:						
At the beginning of the period	14,834,602	125,396,018	2,466,591	359,593	–	143,056,804
Provided	–	–	–	–	–	–
Disposal	–	–	–	–	–	–
Exchange realignment	68,175	1,895,598	45,716	6,695	–	2,016,184
At the end of the period	14,902,777	127,291,616	2,512,307	366,288	–	145,072,988
Net carrying amount:						
At the end of the period	14,058,017,502	16,155,419,867	78,972,775	70,913,764	11,184,931	30,374,508,839
At the beginning of the period	14,037,585,005	15,681,671,307	72,745,507	81,196,227	10,980,501	29,884,178,547

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

14. Property, plant and equipment (Continued)

Property, plant and equipment (Continued)

31 December 2019 (Audited)

	Plant and buildings	Machinery and equipment	Motor vehicles	Office equipment	Land (Note 1)	Total
Cost:						
At the beginning of the year	27,572,998,735	53,301,727,894	283,373,647	272,214,833	11,025,179	81,441,340,288
Addition	2,871,878	39,115,629	5,635,738	1,862,470	–	49,485,715
Transferred from construction in progress (Note V.15)	421,734,753	1,501,890,576	5,830,901	72,207,000	–	2,001,663,230
Reclassification	(26,959,691)	27,106,528	365,836	(512,673)	–	–
Disposal	(179,505,269)	(508,477,624)	(6,125,274)	(2,541,795)	–	(696,649,962)
Transferred to investment properties	(12,554,710)	–	–	–	–	(12,554,710)
Exchange realignment	(754)	(807,839)	(28,129)	(22,600)	(44,678)	(904,000)
At the end of the year	27,778,584,942	54,360,555,164	289,052,719	343,207,235	10,980,501	82,782,380,561
Accumulated depreciation:						
At the beginning of the year	13,162,912,193	36,475,481,214	200,142,333	256,190,636	–	50,094,726,376
Provided	691,613,303	2,520,510,994	18,412,983	6,843,762	–	3,237,381,042
Reclassification	(862,086)	886,224	15,772	(39,910)	–	–
Disposal	(125,616,974)	(443,165,388)	(4,711,713)	(1,329,053)	–	(574,823,128)
Transferred to investment properties	(1,884,605)	–	–	–	–	(1,884,605)
Exchange realignment	3,504	(225,205)	(18,754)	(14,020)	–	(254,475)
At the end of the year	13,726,165,335	38,553,487,839	213,840,621	261,651,415	–	52,755,145,210
Impairment:						
At the beginning of the year	1,928,201	–	–	–	–	1,928,201
Provided	12,833,915	123,380,560	2,417,985	352,475	–	138,984,935
Disposal	–	–	–	–	–	–
Exchange realignment	72,486	2,015,458	48,606	7,118	–	2,143,668
At the end of the year	14,834,602	125,396,018	2,466,591	359,593	–	143,056,804
Net carrying amount:						
At the end of the year	14,037,585,005	15,681,671,307	72,745,507	81,196,227	10,980,501	29,884,178,547
At the beginning of the year	14,408,158,341	16,826,246,680	83,231,314	16,024,197	11,025,179	31,344,685,711

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

14. 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.

As of 30 June 2020, certificates of ownership in respect of 31 buildings of the Group in Mainland China, mainly used for production and operation, with an aggregate cost of RMB1,085,291,593 (31 December 2019: RMB1,085,291,593), have not been obtained from the relevant government authorities. The directors represented that the Group was in the process of obtaining the relevant certificates, and this will not have any significant adverse impact on the Group's operations.

Property, plant and equipment to be disposed of

	30 June 2020 Unaudited	31 December 2019 Audited
Plant and buildings	118,394,397	121,927,480
Machinery and equipment	18,742,849	39,630,874
Motor vehicles	—	6,773
Office equipment	3,786	—
	137,141,032	161,565,127

15. Construction in progress

	30 June 2020 Unaudited	31 December 2019 Audited
Construction in progress	4,384,265,423	3,259,704,984
Construction materials	—	—
	4,384,265,423	3,259,704,984

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

15. Construction in progress (Continued)

Construction in progress

	30 June 2020 (Unaudited)			31 December 2019 (Audited)		
	Carrying amount	Provision for impairment	Book value	Carrying amount	Provision for impairment	Book value
Product quality projects	1,415,613,347	–	1,415,613,347	1,620,800,177	–	1,620,800,177
Energy-saving and environmental protection projects	1,680,645,455	–	1,680,645,455	829,167,194	–	829,167,194
Equipment advancement and other modification projects	1,090,410,035	–	1,090,410,035	615,667,734	–	615,667,734
Other projects	197,596,586	–	197,596,586	194,069,879	–	194,069,879
Total	4,384,265,423	–	4,384,265,423	3,259,704,984	–	3,259,704,984

For the six months ended 30 June 2020, the movements of significant projects were as follows (Unaudited):

Name of projects	Budget RMB'000	Opening balance RMB	Addition RMB	Transferred to fixed assets (Note V. 14) RMB	Transferred to intangible assets (Note V. 17) RMB	Closing balance RMB	Source of fund	The proportion of project investment to 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	8,245,521	1,620,800,177	1,701,579,679	(1,906,766,509)	–	1,415,613,347	Internally financed/loan	48	48	11,446,953	–	–
Energy-saving and environmental protection projects	5,464,274	829,167,194	924,230,813	(72,752,552)	–	1,680,645,455	Internally financed/loan	25	25	4,816,770	–	–
Equipment advancement and other modification projects	1,961,958	615,667,734	550,290,412	(75,548,111)	–	1,090,410,035	Internally financed/loan	46	46	7,597,740	–	–
Other projects	N/A	194,069,879	49,807,643	(46,280,936)	–	197,596,586	Internally financed/loan	N/A	N/A	3,005,256	–	–
		3,259,704,984	3,225,908,547	(2,101,348,108)	–	4,384,265,423						
Less: impairment		–	–	–	–	–						
		3,259,704,984	3,225,908,547	(2,101,348,108)	–	4,384,265,423				26,866,719	–	–

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

15. Construction in progress (Continued)

Construction in progress (Continued)

In 2019, the movements of significant projects were as follows (Audited):

Name of projects	Budget RMB'000	Opening balance RMB	Addition RMB	Transferred to fixed assets (Note V. 14) RMB	Transferred to intangible assets (Note V. 17) RMB	Closing balance RMB	Source of fund	The proportion of project investment to budget (%)	Percentage of completion RMB	Capitalized interest accumulated RMB	The capitalized interest in current year RMB	The capitalized interest rate in current year (%)
Product quality projects	9,446,025	317,713,236	1,910,638,534	(607,551,593)	-	1,620,800,177	Internally financed/loan	51	51	11,446,953	-	-
Energy-saving and environmental protection projects	5,860,750	427,718,198	981,696,495	(580,247,499)	-	829,167,194	Internally financed/loan	42	42	4,816,770	-	-
Equipment advancement and other modification projects	1,809,246	665,964,168	620,343,297	(670,639,731)	-	615,667,734	Internally financed/loan	79	79	7,597,740	-	-
Other projects	N/A	251,276,475	87,022,694	(143,224,407)	(1,004,883)	194,069,879	Internally financed/loan	N/A	N/A	3,005,256	-	-
		1,662,672,077	3,599,701,020	(2,001,663,230)	(1,004,883)	3,259,704,984						
Less: impairment		-	-	-	-	-						
		1,662,672,077	3,599,701,020	(2,001,663,230)	(1,004,883)	3,259,704,984				26,866,719	-	-

16. Right-of-use assets

For the six months ended 30 June 2020 (Unaudited)

	Plant and buildings	Motor vehicles	Land use rights	Total
Cost				
At the beginning of the period	423,945,762	15,681,935	3,578,032	443,205,729
Addition	-	-	-	-
Disposal	-	-	-	-
At the end of the period	423,945,762	15,681,935	3,578,032	443,205,729
Accumulated depreciation:				
At the beginning of the period	22,663,474	1,568,193	94,159	24,325,826
Provided	11,211,697	784,097	47,079	12,042,873
Disposal	-	-	-	-
At the end of the period	33,875,171	2,352,290	141,238	36,368,699
Impairment:				
At the beginning of the period and at the end of the period	-	-	-	-
Net carrying amount:				
At the end of the period	390,070,591	13,329,645	3,436,794	406,837,030
At the beginning of the period	401,282,288	14,113,742	3,483,873	418,879,903

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

16. Right-of-use assets (Continued)

2019 (Audited)

	Plant and buildings	Machinery and equipment	Motor vehicles	Land use rights	Total
Cost:					
At the beginning of the year	423,374,857	789,969	15,681,935	3,578,032	443,424,793
Addition	570,905	–	–	–	570,905
Disposal	–	(789,969)	–	–	(789,969)
At the end of the year	423,945,762	–	15,681,935	3,578,032	443,205,729
Accumulated depreciation:					
At the beginning of the year	–	–	–	–	–
Provided	22,663,474	162,641	1,568,193	94,159	24,488,467
Disposal	–	(162,641)	–	–	(162,641)
At the end of the year	22,663,474	–	1,568,193	94,159	24,325,826
Impairment:					
At the beginning of the year and at the end of the year	–	–	–	–	–
Net carrying amount:					
At the end of the year	401,282,288	–	14,113,742	3,483,873	418,879,903
At the beginning of the year	423,374,857	789,969	15,681,935	3,578,032	443,424,793

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

17. Intangible assets

For the six months ended 30 June 2020 (Unaudited)

	Concession rights (Note)	Land use rights	Mining rights	Patent	Total
Cost:					
At the beginning of the period	152,483,993	2,646,285,974	135,387,958	2,301,173	2,936,459,098
Addition	–	21,964,534	–	–	21,964,534
Transferred from construction in progress	–	–	–	–	–
Disposal	–	–	–	–	–
Exchange realignment	–	–	(515,573)	42,843	(472,730)
At the end of the period	152,483,993	2,668,250,508	134,872,385	2,344,016	2,957,950,902
Accumulated amortisation:					
At the beginning of the period	48,864,604	777,863,644	135,387,958	1,215,930	963,332,136
Provided	3,238,878	26,347,447	–	251,859	29,838,184
Disposal	–	–	–	–	–
Exchange realignment	–	–	(515,573)	22,629	(492,944)
At the end of the period	52,103,482	804,211,091	134,872,385	1,490,418	992,677,376
Impairment:					
At the beginning of the period and at the end of the period	–	–	–	–	–
Net carrying amount:					
At the end of the period	100,380,511	1,864,039,417	–	853,598	1,965,273,526
At the beginning of the period	103,619,389	1,868,422,330	–	1,085,243	1,973,126,962

As of 30 June 2020, details of the intangible assets without the property right certificate are as follows (31 December 2019: RMB67,274,194):

	Book value	Reason
Land use rights	88,958,205	The relevant materials for applying the certificate have not been completed

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

17. Intangible assets (Continued)

31 December 2019 (Audited)

	Concession rights (Note)	Land use rights	Mining rights	Patent	Total
Cost:					
At the beginning of the year	151,479,110	2,476,152,224	133,744,221	885,668	2,762,261,223
Addition	–	185,801,825	–	1,419,095	187,220,920
Transferred from construction in progress	1,004,883	–	–	–	1,004,883
Disposal	–	(15,668,075)	–	–	(15,668,075)
Exchange realignment	–	–	1,643,737	(3,590)	1,640,147
At the end of the year	152,483,993	2,646,285,974	135,387,958	2,301,173	2,936,459,098
Accumulated amortisation:					
At the beginning of the year	42,294,400	730,295,485	133,744,221	661,787	906,995,893
Provided	6,570,204	48,206,659	–	556,832	55,333,695
Disposal	–	(638,500)	–	–	(638,500)
Exchange realignment	–	–	1,643,737	(2,689)	1,641,048
At the end of the year	48,864,604	777,863,644	135,387,958	1,215,930	963,332,136
Impairment:					
At the beginning of the year and at the end of the year	–	–	–	–	–
Net carrying amount:					
At the end of the year	103,619,389	1,868,422,330	–	1,085,243	1,973,126,962
At the beginning of the year	109,184,710	1,745,856,739	–	223,881	1,855,265,330

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

17. Intangible assets (Continued)

Note: The concession rights are owned by a subsidiary of the Company, Maanshan Iron & Steel (Hefei) Industrial Water Supply Co., Ltd. ("Hefei Water Supply"). On 18 May 2011, Hefei Water Supply obtained a concession right by signing the "Concession Arrangement for Hefei Circle Economy Park Industrial Water Supply" (the "Arrangement") with the Administrative Committee of Hefei Circle Economic Park (the "Park") through open tender. According to the Arrangement, Hefei Water Supply has the right to receive fees from water users in the Park by providing principal services including: industrial water supply, and designing, constructing, occupying, operating and maintaining the industrial water treatment plant, water abstraction and pipe networks. The infrastructure construction contract was applied, and no construction service revenue was recognised. According to the agreement, the payment for the project during the construction was recognised as an intangible asset. The specified concession service period is 25 years. Hefei Water Supply is obliged to transfer all infrastructures to the grantor, the Administrative Committee of Hefei Circle Economy Park, at the end of the period of the Arrangement with smooth operation guaranteed.

* The Group's land use rights are located in Mainland China and are held under medium term leases.

18. Deferred tax assets/liabilities

Deferred tax assets and deferred liabilities before being offset:

	30 June 2020		31 December 2019	
	Unaudited		Audited	
	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	Deferred tax assets
Deferred tax assets				
Asset impairment provision	93,116,130	23,941,786	137,238,701	34,997,160
Sales incentive	167,086,325	41,771,581	196,627,803	49,156,951
Payroll payable	54,688,956	14,201,077	61,739,642	15,954,083
Government grants	271,118,679	67,779,670	287,866,829	71,966,707
Others	191,092,841	48,150,154	190,622,445	49,590,203
	777,102,931	195,844,268	874,095,420	221,665,104

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

18. Deferred tax assets/liabilities (Continued)

	30 June 2020		31 December 2019	
	Unaudited Taxable temporary differences	Deferred tax liabilities	Audited Taxable temporary differences	Deferred tax liabilities
Deferred tax liabilities				
Fair value adjustments related to business combination not under common control	80,869,332	20,217,333	86,001,300	21,500,325
Changes in fair value of financial products and funds	—	—	1,191,700	297,925
Changes in fair value of other equity instrument investments	31,630,106	7,907,527	33,323,392	8,330,848
	112,499,438	28,124,860	120,516,392	30,129,098

Net amount of deferred tax assets/liabilities after being offset:

	30 June 2020		31 December 2019	
	Unaudited Offset amount	Net amount	Audited Offset amount	Net amount
Deferred tax assets	7,907,527	187,936,741	8,628,773	213,036,331
Deferred tax liabilities	7,907,527	20,217,333	8,628,773	21,500,325

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

	30 June 2020 Unaudited	31 December 2019 Audited
Deductible temporary differences	3,161,115,997	3,111,806,061
Deductible tax losses	2,235,743,382	2,313,774,566
	5,396,859,379	5,425,580,627

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

18. Deferred tax assets/liabilities (Continued)

Unrecognised deferred tax assets arising from deductible tax losses will expire in the following years:

	30 June 2020 Unaudited	31 December 2019 Audited
To expire in 2020	874,587,674	883,722,592
To expire in 2021	65,700,348	67,022,420
To expire in 2022	6,894,359	3,886,270
To expire in 2023	155,006,750	136,799,743
To expire in 2024 and subsequent years (Note)	1,133,554,251	1,222,343,541
	2,235,743,382	2,313,774,566

Note: As of 30 June 2020, overseas subsidiaries of the Company had deductible tax losses amounting to RMB402,367,038 (31 December 2019: RMB332,192,579) without an expiration date.

The Group considered that it would be not possible to generate enough taxable profit to utilise the above tax losses and therefore did not recognise the relevant deferred tax assets.

The Group's unrecognised taxable temporary differences were as follows:

	30 June 2020 Unaudited	31 December 2019 Audited
Taxable temporary differences (Note)	1,732,659,204	1,640,610,958

Note: The Group's taxable temporary differences of unrecognised deferred tax liabilities arose from long-term equity investments in its domestic joint ventures, associates and overseas subsidiaries. These taxable temporary differences would be reversed with tax consequences on the Group through future disposal of shares or receipt of dividends from overseas subsidiaries. Since the Group can control the dividend plans of overseas subsidiaries and would not dispose of equity investments in these joint ventures and associates in the foreseeable future, it had not recognised any deferred tax liabilities according to the abovementioned taxable temporary differences.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

19. Deposits and balances from banks and other financial institutions

	30 June 2020 Unaudited	31 December 2019 Audited
Domestic bank deposits	200,000,000	400,031,889

20. Customer deposits

	30 June 2020 Unaudited	31 December 2019 Audited
Demand deposits	3,795,996,147	9,495,412,157
Notice deposits	1,549,636,115	756,045,669
Time deposits	3,117,735,833	713,438,176
	8,463,368,095	10,964,896,002

Details of customer deposits of Masteel Finance related to the related parties as of 30 June 2020 and 31 December 2019 are disclosed in Note X.6.

21. Repurchase agreements

	30 June 2020 Unaudited	31 December 2019 Audited
Notes	99,068,750	400,115,076
Bonds	—	986,465,372
	99,068,750	1,386,580,448

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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

22. Short-term loans

	30 June 2020 Unaudited	31 December 2019 Audited
Pledged loans (<i>Note 1</i>)	102,230,000	127,316,634
Unsecured loans	13,734,137,861	10,220,434,950
Inward documentary notes and letters of credit	1,318,130,735	2,532,301,575
	15,154,498,596	12,880,053,159

Note 1: As of 30 June 2020, the Group obtained the bank loans of RMB102,230,000 (31 December 2019: RMB127,316,634) by pledging bank acceptance notes.

As of 30 June 2020, the interest rates of the above short-term loans ranged from 1.138% to 4.350% (31 December 2019: 2.480% to 4.570%).

As of 30 June 2020, the Group had no overdue short-term loans.

23. Financial liabilities held for trading

	30 June 2020 Unaudited	31 December 2019 Audited
Derivative financial liabilities - Forward foreign exchange contracts	668,202	2,258,750

As of 30 June 2020, the fair value of the forward foreign exchange contracts held by the Group is determined based on the forward foreign exchange rate on the last trading day of the period.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

24. Notes payable

	30 June 2020 Unaudited	31 December 2019 Audited
Bank acceptance notes	3,529,740,685	7,313,729,148

As of 30 June 2020 and 31 December 2019, the ageing of the Group's notes payable was all within six months, and there were no overdue notes.

25. 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 2020 Unaudited	31 December 2019 Audited
Within one year	6,480,482,538	5,994,021,801
One to two years	19,055,619	114,525,131
Two to three years	4,832,543	10,584,079
Over three years	11,853,540	11,195,995
	6,516,224,240	6,130,327,006

The amounts of related parties among the balances of trade payables as of 30 June 2020 and 31 December 2019 are disclosed in Note X.6 to the financial statements.

As of 30 June 2020, the material trade payables aged over one year were as follows:

	Amount payable	Reason for non-settlement
Company 1	2,567,600	Note
Company 2	2,300,000	Note
Company 3	2,279,250	Note
Company 4	1,841,861	Note
Company 5	1,563,974	Note
	10,552,685	

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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

26. Contract liabilities

	30 June 2020 Unaudited	31 December 2019 Audited
Advances from customers	3,903,969,212	3,765,254,551

As of 30 June 2020, contract liabilities aged over one year amounting to RMB28,842,639 (31 December 2019: RMB29,509,316) are mainly due to unsettlement of the contracts.

27. Payroll and employee benefits payable

For the six months ended 30 June 2020 (Unaudited)

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Short-term employee benefits	419,534,907	1,790,813,071	1,807,432,288	402,915,690
Post-employment benefits (defined contribution plans)	13,380,705	231,436,786	229,260,950	15,556,541
Supplementary retirement benefits due within one year (i) (Note V.34)	1,175,285	—	264,546	910,739
One-off termination compensation (ii)	221,209,046	90,880,178	273,278,301	38,810,923
Early retirement benefits due within one year (Note V.34)	36,676,995	10,642,384	11,945,032	35,374,347
	691,976,938	2,123,772,419	2,322,181,117	493,568,240

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

27. Payroll and employee benefits payable (Continued)

2019 (Audited)

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Short-term employee benefits	487,882,993	3,872,052,254	3,940,400,340	419,534,907
Post-employment benefits (defined contribution plans)	8,374,667	646,382,753	641,376,715	13,380,705
Supplementary retirement benefits due within one year (i) (Note V.34)	1,020,924	1,175,285	1,020,924	1,175,285
One-off termination compensation (ii)	–	1,186,857,044	965,647,998	221,209,046
Early retirement benefits due within one year (Note V.34)	66,364,324	36,676,995	66,364,324	36,676,995
	563,642,908	5,743,144,331	5,614,810,301	691,976,938

- (i) MG-VALDUNES, an overseas subsidiary of the Company, provides retired workers with supplementary benefits, including supplementary pension allowance, medical expenses and supplementary medical insurance, which are regarded as defined benefit plans. The present value of the defined benefit plans is equal to the discounted value of the estimated future cash outflow. The discount rate is determined by the interest rate of government bonds of which maturity is close to the payment date of the defined benefit plans. The payroll and employee benefits payable with over one year of maturity are presented in long-term compensation.
- (ii) One-off termination compensation is the termination compensation paid by the Company to its employees due to human resource optimization.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

27. Payroll and employee benefits payable (Continued)

Short-term employee benefits:

For the six months ended 30 June 2020 (Unaudited)

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Salaries, bonuses and subsidies	347,961,358	1,380,964,818	1,487,137,524	241,788,652
Welfare	40,041,384	108,380,367	62,565,475	85,856,276
Social insurance	16,836	89,440,400	61,322,132	28,135,104
Including: Medical insurance	10,626	82,546,959	55,383,660	27,173,925
Work-related injury insurance	4,274	5,064,442	4,516,423	552,293
Maternity insurance	1,936	1,828,999	1,422,049	408,886
Housing fund	24,055,257	166,466,601	168,399,210	22,122,648
Labour union fee and employee education fee	7,460,072	45,560,885	28,007,947	25,013,010
	419,534,907	1,790,813,071	1,807,432,288	402,915,690

2019 (Audited)

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Salaries, bonuses and subsidies	417,736,774	3,037,045,307	3,106,820,723	347,961,358
Welfare	41,041,480	149,421,222	150,421,318	40,041,384
Social insurance	7,713	257,631,247	257,622,124	16,836
Including: Medical insurance	3,179	235,524,716	235,517,269	10,626
Work-related injury insurance	4,193	15,209,003	15,208,922	4,274
Maternity insurance	341	6,897,528	6,895,933	1,936
Housing fund	23,090,488	351,316,887	350,352,118	24,055,257
Labour union fee and employee education fee	6,006,538	76,637,591	75,184,057	7,460,072
	487,882,993	3,872,052,254	3,940,400,340	419,534,907

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

27. Payroll and employee benefits payable (Continued)

Defined contribution plans:

For the six months ended 30 June 2020 (Unaudited)

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Pension insurance	4,839,066	175,515,412	173,713,578	6,640,900
Unemployment insurance	911	4,108,008	2,998,180	1,110,739
Supplementary pension scheme	8,540,728	51,813,366	52,549,192	7,804,902
	13,380,705	231,436,786	229,260,950	15,556,541

2019 (Audited)

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Pension insurance	5,676	527,259,492	522,426,102	4,839,066
Unemployment insurance	913	12,643,735	12,643,737	911
Supplementary pension scheme	8,368,078	106,479,526	106,306,876	8,540,728
	8,374,667	646,382,753	641,376,715	13,380,705

As of 30 June 2020 and 31 December 2019, the balance of payroll and employee benefits payable did not include 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) have participated in the established retirement benefit contribution plans (hereinafter referred to as the "Annuity Plan") established by the Group. The employees who have participated in the Annuity Plan used the bases of social insurance premiums as their deposit base. The deposit rates of the Group and employees were 5% and 1%, respectively.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

28. Taxes payable

	30 June 2020	31 December 2019
	Unaudited	Audited
Corporate income tax	149,192,335	183,442,321
Water conservancy funds	125,000,017	108,057,922
Land use tax	96,797,608	89,246,979
Value-added tax	48,263,294	91,030,703
Personal income tax	56,633,335	13,428,147
Environment protection tax	13,058,708	11,000,000
City construction and maintenance tax	6,478,548	7,410,424
Other taxes	42,970,168	43,592,922
	538,394,013	547,209,418

The basis of calculation and the applicable tax rates are disclosed in Note IV to the financial statements.

29. Other payables

	30 June 2020	31 December 2019
	Unaudited	Audited
Interest payables	37,427,568	67,341,709
Dividends payable	631,327,156	6,953,033
Other payables	3,985,070,172	4,220,201,537
	4,653,824,896	4,294,496,279

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

29. Other payables (Continued)

Interest payables

	30 June 2020 Unaudited	31 December 2019 Audited
Interest payables for short-term loans	32,648,128	57,831,510
Instalment interest payables for long-term loans repayable on due date	4,779,440	9,510,199
	37,427,568	67,341,709

As of 30 June 2020, there was no overdue interest payable.

Dividends payable

	30 June 2020 Unaudited	31 December 2019 Audited
Dividends paid	631,327,156	6,953,033

As of 30 June 2020, due to the unclaimed dividends declared from the years of 2007 to 2011, the Group had accumulated unpaid dividends payable over one year amounting to RMB6,612,733.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

29. Other payables (Continued)

Other payables

	30 June 2020 Unaudited	31 December 2019 Audited
Payable for forfeiting	1,929,609,357	2,355,550,174
Special funds (<i>Note 1</i>)	696,685,404	663,706,807
Payable for construction, maintenance and inspection fees	411,784,005	334,123,176
Sales incentives	309,265,687	327,435,827
Employee settlement for productivity shutting down	152,568,484	152,568,484
Tax risk provision	85,000,000	85,000,000
Social welfare and housing fund payable	53,950,047	43,146,483
Service fees payable	28,496,491	23,119,427
Accrued interest for letters of credit	—	3,609,646
Others	317,710,697	231,941,513
	3,985,070,172	4,220,201,537

Note 1: Special funds include the Renewable Energy Development Fund, Major Water Conservancy Project Construction Fund and Special Fund for Restructuring. The Ministry of Finance of the People's Republic of China published the Finance and Tax [2017] No. 50: "the announcement of cancelling special funds for industrial enterprise restructuring" and announced the cancellation of the collection of the special fund for industrial enterprise restructuring since 1 July 2017.

As of 30 June 2020, significant other payables aged over one year were as follows:

	Amount payable	Reason for non-settlement
Company 1	152,568,484	Note
Company 2	8,000,000	Note
Company 3	6,440,000	Note
Company 4	4,000,000	Note
Company 5	3,000,000	Note
	174,008,484	

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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

30. Non-current liabilities due within one year

	30 June 2020 Unaudited	31 December 2019 Audited
Long-term loans due within one year (Note V.32)	820,351,500	1,529,940,232
Lease liabilities due within one year (Note V.33)	16,210,643	16,261,266
Long-term payables due within one year (Note)	130,867,400	130,867,400
	967,429,543	1,677,068,898

Note: The long-term payables due within one year is a non-interest-bearing loan of Ma Steel (Hefei) Co., Ltd. (Ma Steel (Hefei)) due from Hefei Industrial Investment Holdings Co., Ltd., a minority shareholder of Ma Steel (Hefei).

31. Accrued liabilities

For the six months ended 30 June 2020 (Unaudited)

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Pending litigation or arbitration	4,225,995	3,040,815	435,529	6,831,281
Pending onerous contract (Note)	16,341,471	304,227	–	16,645,698
Others	2,097,209	1,509,553	1,317,447	2,289,315
	22,664,675	4,854,595	1,752,976	25,766,294

2019 (Audited)

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Pending litigation or arbitration	7,134,461	1,358,955	4,267,421	4,225,995
Pending onerous contract (Note)	19,502,965	–	3,161,494	16,341,471
Others	3,360,095	1,421,997	2,684,883	2,097,209
	29,997,521	2,780,952	10,113,798	22,664,675

Note: As of 30 June 2020, the accrued liabilities of the pending onerous contract represented expected losses from executing some sales orders signed by the Group's subsidiary, MG-VALDUNES. The management of the Group estimated that the cost of executing those orders would exceed the agreed price and estimated the provision accordingly.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

32. Long-term loans

	30 June 2020 Unaudited	31 December 2019 Audited
Guaranteed loans (<i>Note</i>)	49,500,000	916,344,832
Unsecured loans	4,058,551,500	4,081,795,400
	4,108,051,500	4,998,140,232
Less: Long-term loans due within one year (<i>Note V.30</i>)	820,351,500	1,529,940,232
	3,287,700,000	3,468,200,000

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

As of 30 June 2020, the interest rates of the above long-term loans ranged from 1.20% to 4.75% (31 December 2019: from 1.20% to 5.94%).

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

	30 June 2020 Unaudited	31 December 2019 Audited
Within one year or on demand (<i>Note V.30</i>)	820,351,500	1,529,940,232
One to two years (inclusive)	3,200,000,000	3,350,000,000
Two to three years (inclusive)	25,000,000	50,000,000
Three to five years (inclusive)	—	—
Over five years	62,700,000	68,200,000
	4,108,051,500	4,998,140,232

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

33. Lease liabilities

	30 June 2020 Unaudited	31 December 2019 Audited
Plant and buildings	401,927,258	409,710,810
Motor vehicles	13,793,914	14,438,861
Land use rights	3,526,798	3,544,430
	419,247,970	427,694,101
Less: Lease liabilities due within one year (Note V.30)	16,210,643	16,261,266
	403,037,327	411,432,835

34. Long-term payroll and employee benefits payable

	30 June 2020 Unaudited	31 December 2019 Audited
1. Early retirement benefits (Note 1)	105,684,630	115,529,167
Less: Early retirement benefits due within one year	35,374,347	36,676,995
2. Supplementary retirement benefits (Note 2)	23,804,693	23,650,816
Less: Supplementary retirement benefits due within one year	910,739	1,175,285
	93,204,237	101,327,703

Note 1: Early retirement benefits

For the six months ended 30 June 2020	Opening balance	Increase during the period	Unrecognised financing expense	Decrease during the period	Closing balance	Less: Due within one year	Closing balance
Early retirement benefits	115,529,167	-	2,100,495	(11,945,032)	105,684,630	35,374,347	70,310,283

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

34. Long-term employee benefits payable (Continued)

Note 2: Supplementary retirement benefits

For the six months ended 30 June 2020	Opening balance	Increase during the period	Decrease during the period	Closing balance	Less: Due within one year	Closing balance
Supplementary retirement benefits	23,650,816	418,423	(264,546)	23,804,693	910,739	22,893,954

Early retirement benefits expected to be paid by the Group:

	30 June 2020 Unaudited	31 December 2019 Audited
Undiscounted value		
Within one year	35,374,347	36,676,995
One to two years	18,521,834	20,171,395
Two to three years	17,142,933	17,557,912
Over three years	40,388,434	48,966,278
	111,427,548	123,372,580
Financing expense unrecognised	(5,742,918)	(7,843,413)
	105,684,630	115,529,167
Less: Due within one year	35,374,347	36,676,995
	70,310,283	78,852,172

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

34. Long-term employee benefits payable (Continued)

An early retirement benefits scheme was implemented by the Group due to the implementation of the human resource optimisation policy, which allows qualified employees to early retire on a voluntary basis. The Company undertakes the 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 internal-decided standard, and the Company is also responsible for social insurance and housing fund in accordance with local social security requirements. The Company forecasted that the amount of early retirement benefits needed to be paid in the future years using a growth rate of 3% which is based on the average growth rate of CPI. When deciding the payment responsibility in the future for the employees participating in the early retirement plan, the Company adjusted the payment responsibility based on the average mortality of Chinese people from "China Life Insurance Mortality Table (2010 to 2013)". The adjusted payment responsibility was discounted by the treasury bond rate of 30 June 2020 and accounted for in general and administrative expenses. As of 30 June 2020, the current portion of the payment responsibility that would be paid within 12 months was accounted for in short-term employee benefits.

35. Deferred revenue

30 June 2020 (Unaudited)

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Compensation of land purchasing and storage (Note)	525,206,124	—	—	525,206,124
Government grants	877,077,563	7,953,084	28,495,181	856,535,466
	1,402,283,687	7,953,084	28,495,181	1,381,741,590

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

35. Deferred revenue (Continued)

31 December 2019 (Audited)

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Compensation of land purchasing and storage (<i>Note</i>)	535,750,210	–	10,544,086	525,206,124
Government grants	829,045,345	107,716,912	59,684,694	877,077,563
	1,364,795,555	107,716,912	70,228,780	1,402,283,687

As of 30 June 2020, liabilities related to government grants were as follows:

	Opening balance	Increase during the period	Included in other income	Closing balance	Related to assets/income
Subsidy funds for #4 blast furnace project	167,238,659	–	(4,312,004)	162,926,655	Assets
Technological transformation fund for Phase II silicon steel	73,041,669	–	(2,200,000)	70,841,669	Assets
Subsidy for fixed assets of thin plate project	44,729,530	–	(2,364,247)	42,365,283	Assets
Subsidy for hot-rolled 1580 project	32,868,750	–	(990,000)	31,878,750	Assets
Special fund for the strong foundation project of the Ministry of Industry and Information Technology	22,580,000	–	–	22,580,000	Assets
Alloy bar production line refinement project of electric furnace plant	30,381,720	–	(741,840)	29,639,880	Assets
EMU steel wheel production line project	28,374,990	–	(1,100,000)	27,274,990	Assets
Subsidy for Maanshan railway industry (Maanshan)	24,136,100	–	(504,000)	23,632,100	Assets
Comprehensive utilisation of gas for power generation of a thermal power plant	21,426,823	–	(545,380)	20,881,443	Assets
New-zone Thermal Power Plant CCGT system engineering	18,129,972	–	(2,156,000)	15,973,972	Assets
Intelligent manufacturing special fund	16,626,561	–	(686,719)	15,939,842	Assets
Environmental funds for desulfurization project of 3rd iron plant's flue gas (BOT)	11,697,759	–	(295,244)	11,402,515	Assets
Subsidies for galvanizing projects	11,563,083	–	(453,453)	11,109,630	Assets
Environmental subsidy funds for flue gas desulfurization and 135 MW thermal power	11,244,500	–	(283,800)	10,960,700	Assets
Others	363,037,447	7,953,084	(11,862,494)	359,128,037	Assets
	877,077,563	7,953,084	(28,495,181)	856,535,466	

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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

35. Deferred revenue (Continued)

As of 31 December 2019, liabilities related to government grants were as follows:

	Opening balance	Increase during the year	Included in other income	Closing balance	Related to assets/income
Technological transformation fund for Phase II silicon steel	77,441,669	–	(4,400,000)	73,041,669	Assets
Subsidy for hot-rolled 1580 project	34,848,750	–	(1,980,000)	32,868,750	Assets
New-zone Thermal Power Plant CCPP system engineering	22,441,972	–	(4,312,000)	18,129,972	Assets
EMU steel wheel production line project	30,574,990	–	(2,200,000)	28,374,990	Assets
Environmental subsidy funds for flue gas desulfurization and 135 MW thermal power	11,812,100	–	(567,600)	11,244,500	Assets
Subsidy for fixed assets of thin plate project	49,458,023	–	(4,728,493)	44,729,530	Assets
Environmental funds for desulfurization project of 3rd iron plant's flue gas (BOT)	12,288,243	–	(590,484)	11,697,759	Assets
Alloy bar production line refinement project of electric furnace plant	31,865,400	–	(1,483,680)	30,381,720	Assets
Subsidy for Maanshan railway industry (Maanshan)	11,144,100	14,000,000	(1,008,000)	24,136,100	Assets
Comprehensive utilisation of gas for power generation of a thermal power plant	22,517,583	–	(1,090,760)	21,426,823	Assets
Subsidy funds for #4 blast furnace project	175,862,663	–	(8,624,004)	167,238,659	Assets
Subsidies for galvanizing projects	9,322,034	3,109,800	(868,751)	11,563,083	Assets
Special fund for the strong foundation project of the Ministry of Industry and Information Technology	–	22,580,000	–	22,580,000	Assets
Intelligent manufacturing special fund	–	18,000,000	(1,373,439)	16,626,561	Assets
Others	339,467,818	50,027,112	(26,457,483)	363,037,447	Assets
	829,045,345	107,716,912	(59,684,694)	877,077,563	

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

36. Share capital

For the six months ended 30 June 2020 (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 restrictions							
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 restrictions							
1. A shares	5,967,751,186	77.5	-	-	-	5,967,751,186	77.5
2. H shares	1,732,930,000	22.5	-	-	-	1,732,930,000	22.5
Sub-total	7,700,681,186	100.0	-	-	-	7,700,681,186	100.0
C. Total shares	7,700,681,186	100.0	-	-	-	7,700,681,186	100.0

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

36. Share capital (Continued)

2019 (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 restrictions							
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 restrictions							
1. A shares	5,967,751,186	77.5	-	-	-	5,967,751,186	77.5
2. H shares	1,732,930,000	22.5	-	-	-	1,732,930,000	22.5
Sub-total	7,700,681,186	100.0	-	-	-	7,700,681,186	100.0
C. Total shares	7,700,681,186	100.0	-	-	-	7,700,681,186	100.0

* Other than H share dividends, which are paid in Hong Kong dollars, all shares, including A shares and H shares, have the same right to the Company's operating results and voting rights. The par value for each A share or H share is RMB1.00.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

37. Capital reserve

For the six months ended 30 June 2020 (Unaudited)

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Share premium	8,333,840,683	–	–	8,333,840,683
Others	19,659,078	–	–	19,659,078
Total	8,353,499,761	–	–	8,353,499,761

2019 (Audited)

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium	8,332,628,114	1,212,569	–	8,333,840,683
Others	19,659,078	–	–	19,659,078
Total	8,352,287,192	1,212,569	–	8,353,499,761

38. Other comprehensive income

The accumulated balance of other comprehensive income attributable to owners of the parent in the consolidated statement of financial position:

	1 January 2019	Increase/ (decrease)	31 December 2019 Audited	Increase/ (decrease)	30 June 2020 Unaudited
Other comprehensive income that may not be reclassified to profit or loss:					
Change in fair value of other equity instrument investments	15,651,936	9,340,609	24,992,545	(1,269,965)	23,722,580
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)	–	(2,745,469)	–	(2,745,469)
Exchange differences arising from foreign currency translation	(125,608,630)	3,600,750	(122,007,880)	11,180,387	(110,827,493)
	(112,702,163)	12,941,359	(99,760,804)	9,910,422	(89,850,382)

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

38. Other comprehensive income (Continued)

The amount of other comprehensive income in the consolidated income statement:

For the six months ended 30 June 2020 (Unaudited)

	Amount before tax	Less: charged to other comprehensive income before and reclassified to profit or loss in the current period	Less: charged to other comprehensive income before and reclassified to retained earnings in the 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 instrument investments	(1,693,287)	-	-	423,322	(1,269,965)	-
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	-	-	-	-	-	-
Exchange differences arising from foreign currency translation	11,180,387	-	-	-	11,180,387	-
	9,487,100	-	-	423,322	9,910,422	-

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

38. Other comprehensive income (Continued)

The amount of other comprehensive income in the consolidated income statement (Continued):

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 instrument 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)	-
	(1,793,261)	-	-	(386,200)	(2,179,461)	-

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

39. Special reserve

30 June 2020 (Unaudited)

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Safety fund	35,484,176	43,104,065	(26,155,858)	52,432,383

31 December 2019 (Audited)

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Safety fund	31,037,123	128,115,628	(123,668,575)	35,484,176

Special reserve is the safety fund accrued according to the article of [2012]No.16 "The regulation on the accrual and usage of enterprise's safety production fee" promulgated 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.

40. Surplus reserve

30 June 2020 (Unaudited)

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Statutory reserve (Note i)	3,960,901,258	—	—	3,960,901,258
Discretionary surplus reserve (Note ii)	529,154,989	—	—	529,154,989
Reserve fund (Note iii)	95,685,328	—	—	95,685,328
Enterprise expansion fund (Note iii)	65,510,919	—	—	65,510,919
	4,651,252,494	—	—	4,651,252,494

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

40. Surplus reserve (Continued)

31 December 2019 (Audited)

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Statutory reserve (<i>Note i</i>)	3,881,550,020	79,351,238	–	3,960,901,258
Discretionary surplus reserve (<i>Note ii</i>)	529,154,989	–	–	529,154,989
Reserve fund (<i>Note iii</i>)	95,685,328	–	–	95,685,328
Enterprise expansion fund (<i>Note iii</i>)	65,510,919	–	–	65,510,919
	4,571,901,256	79,351,238	–	4,651,252,494

- (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 capitalised as these companies' share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital of these companies.
- (ii) The Company is authorized to allocate the discretionary surplus reserve from profit after tax after the allocation of the statutory reserve. Upon the approval of the board, the discretionary surplus reserve can be used to cover losses or increase capital.
- (iii) Upon the approval of the board, these subsidiaries are required to allocate certain of their profit after tax as determined in accordance with the CAS and related regulations to the enterprise expansion fund and the reserve fund. The allocation rates are determined by their respective boards of directors.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

41. General reserve

	30 June 2020 Unaudited	31 December 2019 Audited
General reserve (Note)	325,786,322	325,786,322

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.

42. Retained earnings

	30 June 2020 Unaudited	31 December 2019 Audited
Retained earnings at the beginning of the period/year	5,966,218,930	7,405,577,274
Net profit attributable to owners of the parent	812,342,511	1,128,148,980
Less: Transfer to surplus reserve	—	79,351,238
Transfer to general reserve	—	100,944,918
Distribution to shareholders (Note V.62)	616,054,495	2,387,211,168
Retained earnings at the end of the period/year	6,162,506,946	5,966,218,930

43. Revenue and cost of sales

	For the six months ended 30 June			
	2020 (Unaudited)		2019 (Unaudited)	
	Revenue	Cost of sales	Revenue	Cost of sales
Principal operating income	36,780,404,394	33,632,240,893	36,386,178,608	33,073,018,737
Other operating income	648,631,160	570,789,279	640,515,213	599,405,868
	37,429,035,554	34,203,030,172	37,026,693,821	33,672,424,605

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

43. Revenue and cost of sales (Continued)

Revenue is presented as follows:

	For the six months ended 30 June	
	2020	2019
	Unaudited	Unaudited
Revenue from contracts with customers	37,257,186,422	36,920,235,838
Rental income	4,517,154	2,680,771
Interest income	167,331,978	103,777,212
	37,429,035,554	37,026,693,821

Timing of revenue recognition from contracts with customers:

	For the six months ended 30 June	
	2020	2019
	Unaudited	Unaudited
At a point in time		
Sale of steel products	35,351,066,137	34,841,817,090
Sale of other products	1,792,501,354	1,979,462,798
Over time		
Processing	38,120,343	46,009,187
Packaging services	31,433,082	18,021,441
Others	44,065,506	34,925,322
	37,257,186,422	36,920,235,838

Revenue recognised that was included in contract liabilities at the beginning of the period:

	For the six months ended 30 June	
	2020	2019
	Unaudited	Unaudited
Revenue from contracts with customers	3,723,552,719	3,520,862,245

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

43. Revenue and cost of sales (Continued)

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) at the period end are expected to be recognised as revenue as follows:

	For the six months ended 30 June	
	2020	2019
	Unaudited	Unaudited
Within one year	3,903,969,212	3,765,254,551

Note: For the sale of products, the Group satisfies a performance obligation when the customer obtains the control of the relevant products, and for the provision of services, the Group satisfies a performance obligation based on the performance progress over the contract period. The maturity of contract payment of the Group is 30 to 90 days, without existence of a significant financing component. The contracts between the Group and its certain customers contain sales rebate arrangements (future price reductions based on cumulative sales volumes), which form a variable consideration. The Group determines the variable consideration based on the expected or the most probable value. However, the sales price including the variable consideration should not exceed the amount accumulatively recognised which is not likely to be significantly reversed when the uncertainty disappears.

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

44. Taxes and surcharges

	For the six months ended 30 June	
	2020	2019
	Unaudited	Unaudited
City construction and maintenance tax	44,137,257	61,088,453
Land usage tax	48,295,440	48,643,011
Education surcharge	32,104,393	40,706,466
Property tax	53,990,519	52,239,081
Environment protection tax	31,328,358	24,836,745
Stamp duty	23,592,588	17,761,220
Water conservancy funds	29,335,863	29,053,902
Vehicle and vessel usage tax	124,968	114,668
Other taxes	3,091,737	6,755,444
	266,001,123	281,198,990

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

45. Selling expenses

	For the six months ended 30 June	
	2020	2019
	Unaudited	Unaudited
Transportation fees	424,770,627	336,403,448
Employee benefits	54,706,075	46,576,152
Insurance premium	3,384,072	2,198,233
Others	47,579,091	46,335,599
	530,439,865	431,513,432

46. General and administrative expenses

	For the six months ended 30 June	
	2020	2019
	Unaudited	Unaudited
Employee benefits	284,514,066	290,327,852
Office expenses	151,397,184	167,297,723
Employee termination benefits	53,194,407	53,332,750
Depreciation of property, plant and equipment	40,977,789	34,286,697
Maintenance expenses	29,581,872	10,967,748
Amortisation of intangible assets	26,186,744	21,720,314
Travel and entertainment expenses	15,840,443	12,252,518
Others	90,971,791	121,149,502
	692,664,296	711,335,104

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

47. R&D expenses

	For the six months ended 30 June	
	2020	2019
	Unaudited	Unaudited
Material and power expenses	367,709,047	103,053,343
Employee benefits	116,450,532	119,762,410
Depreciation of equipment	90,952,437	74,365,329
Outsourced research expenses	38,277,855	23,365,024
Testing and processing expenses	17,035,465	19,175,298
Others	5,970,866	14,814,301
	636,396,202	354,535,705

48. Financial expenses

	For the six months ended 30 June	
	2020	2019
	Unaudited	Unaudited
Interest expense (Note)	335,172,239	415,505,618
Less: interest income	26,639,917	51,850,462
Less: capitalised interest	—	—
Exchange (gain)/loss	(28,788,425)	7,701,744
Others	11,019,018	18,650,031
	290,762,915	390,006,931

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

49. Other income

	For the six months ended 30 June	
	2020	2019
	Unaudited	Unaudited
Government grants related to daily operating activities	40,902,893	47,349,002
Refund of withholding personal income tax commission	727,564	1,085,332
	41,630,457	48,434,334

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

49. Other income (Continued)

The government grants related to the ordinary course of business are as follows:

	For the six months ended 30 June		Related to assets/income
	2020	2019	
	Unaudited	Unaudited	
Tax incentives for development zone	3,625,864	–	Income
Advanced enterprises rising and energy-saving technology reform fund	3,101,914	–	Income
Green ecological development award	1,000,000	–	Income
Refund of land usage tax	480,600	116,620	Income
Special subsidies for science and technology	378,029	–	Income
Subsidy of land usage tax	–	1,563,000	Income
Advanced manufacturing capital	–	600,000	Income
Settlement support incentive fund	–	270,000	Income
High-tech zone outstanding contribution award	–	150,000	Income
Skill allowance of Hefei labour bureau	–	36,000	Income
Subsidy fund for #4 blast furnace project	4,312,004	4,312,002	Assets
Subsidy for fixed assets of thin plate project	2,364,247	2,364,247	Assets
Technological transformation fund for phase II silicon steel	2,200,000	2,200,000	Assets
New-zone thermal power plant CAPP system engineering	2,156,000	2,156,000	Assets
EMU steel wheel production line project	1,100,000	1,100,000	Assets
Subsidy for hot-rolled 1580 project	990,000	990,000	Assets
Engineering of alloy bar finishing production line in electric furnace plant	741,840	741,840	Assets
Comprehensive utilisation of gas for power generation of a thermal power plant	545,380	545,380	Assets
Subsidy for Maanshan railway industry (Maanshan)	504,000	504,000	Assets
Subsidies for galvanizing projects	453,453	415,297	Assets
Environmental funds for desulfurization project of 3rd iron plant's flue gas (BOT)	295,244	295,242	Assets
Environmental subsidy funds for flue gas desulfurization and 135 MW thermal power	283,800	283,800	Assets
Other grants related to income	3,821,305	11,049,096	Income
Other grants related to assets	12,549,213	17,656,478	Assets
	40,902,893	47,349,002	

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

50. Investment income

	For the six months ended 30 June	
	2020	2019
	Unaudited	Unaudited
Investment income from long-term equity investments under the equity method	163,604,830	311,705,507
Gain from dividend income of other equity instrument investments still held	8,280,000	—
Gain from disposal of financial assets held for trading	26,326,103	60,910,020
Gain from disposal of debt instruments investment	33,748,637	38,277,492
	231,959,570	410,893,019

51. Gain on the changes in fair value

	For the six months ended 30 June	
	2020	2019
	Unaudited	Unaudited
Financial assets held for trading	27,720,772	18,268,032
Including: Derivative financial instruments	(1,191,700)	4,480,576
Financial liabilities held for trading	1,590,548	8,012,670
	29,311,320	26,280,702

52. Credit impairment losses

	For the six months ended 30 June	
	2020	2019
	Unaudited	Unaudited
Bad debts impairment	8,030,101	44,824,218
Debt instruments investment impairment	—	123,844
Provision – loan commitment	—	(237,196)
Impairment losses on financial assets purchased under agreement to resell	—	(733,624)
	8,030,101	43,977,242

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

53. Impairment losses

	For the six months ended 30 June	
	2020	2019
	Unaudited	Unaudited
Provision for inventories	73,128,980	135,620,418
Impairment of fixed assets	—	106,155,192
	73,128,980	241,775,610

54. Loss from disposal of assets

	For the six months ended 30 June	
	2020	2019
	Unaudited	Unaudited
Loss from disposal of fixed assets	62,159,618	936,915

55. Non-operating income

	For the six months ended 30 June		
	2020	2019	Included in 2020 non- recurring gains and losses
	Unaudited	Unaudited	Unaudited
Government grants not related to the ordinary course of business	251,011,204	271,900,265	251,011,204
Others	3,165,346	2,406,188	3,165,346
	254,176,550	274,306,453	254,176,550

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

55. Non-operating income (Continued)

The government grants not related to the ordinary course of business are as follows:

	For the six months ended 30 June	
	2020	2019
	Unaudited	Unaudited
Compensation for settlement of employees	250,175,531	175,815,265
Grants for reduction of overcapacity	—	95,885,000
Others	835,673	200,000
	251,011,204	271,900,265

56. Non-operating expenses

	For the six months ended 30 June		
	2020	2019	Included in 2020 non- recurring gains and losses
	Unaudited	Unaudited	Unaudited
Charity donation	337,249	311,800	337,249
Penalty expenditure	1,958,373	1,225,770	1,958,373
Others	613,445	72,553	613,445
	2,909,067	1,610,123	2,909,067

57. Income tax expenses

	For the six months ended 30 June	
	2020	2019
	Unaudited	Unaudited
Mainland China current income tax expense	194,310,119	215,832,933
Hong Kong current income tax expense	3,868,481	3,934,644
Overseas current income tax expense	548,207	2,689,879
Deferred tax expense	24,239,919	17,156,515
	222,966,726	239,613,971

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

57. Income tax expenses (Continued)

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

	For the six months ended 30 June	
	2020	2019
	Unaudited	Unaudited
Profit before tax	1,220,591,112	1,657,293,672
Tax at the applicable tax rate of 25% (<i>Note</i>)	305,147,778	414,323,418
Effect of different tax rates of some subsidiaries	(3,997,314)	(5,140,443)
Non-deductible expenses	21,636,437	29,911,164
Adjustments in respect of current income tax		
of previous periods	(12,046,686)	(9,619,042)
Other tax preference	(77,592,438)	(57,429,156)
Income not subject to tax	(9,266,505)	(8,707,094)
Unrecognised deductible temporary differences and tax losses	114,923,641	108,968,932
Utilised previous years' tax losses and the reversal of deductible temporary differences unrecognised in previous periods	(73,277,589)	(152,886,967)
Share of profits or losses of joint ventures and associates	(42,560,598)	(79,806,841)
Tax charge at the Group's effective rate	222,966,726	239,613,971
The Group's effective rate	18.27%	14.46%

Note: The Group's income tax has been provided at the rate on the estimated taxable profits arising in the PRC during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries or regions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

58. Earnings per share

	For the six months ended 30 June	
	2020	2019
	cents/share	cents/share
Basic earnings per share		
Continuing operations	10.55	14.86
Diluted earnings per share		
Continuing operations	10.55	14.86

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 2020 and 2019, 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	
	2020	2019
	Unaudited	Unaudited
Earnings		
Profit attributable to owners of the parent		
Continuing operations	812,342,511	1,144,660,011
Number of shares		
Weighted average number of ordinary shares in issue during the period	7,700,681,186	7,700,681,186

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

59. Notes to the statement of cash flows

	For the six months ended 30 June	
	2020 Unaudited	2019 Unaudited
(1) Cash received relating to other operating activities:		
Government grants	21,416,433	52,639,559
Employee relocation compensation received from the government	250,175,531	175,815,265
Interest income	26,639,917	37,818,765
Decrease in deposits for notes, letters of credit and guarantees	328,973,996	—
Others	6,769,102	11,400,912
	633,974,979	277,674,501
(2) Cash paid relating to other operating activities:		
Increase in deposits for notes, letters of credit and guarantees	—	37,959,170
Office expenses	116,497,225	131,995,556
Safety fund	34,727,868	33,383,426
Bank charges	9,603,712	14,108,928
Travel and entertainment expenses	21,018,596	20,007,501
Insurance expenses	5,853,835	4,950,862
Environmental improvement fee	3,429,107	159,942
Research and development expenses	5,970,866	14,814,301
Others	65,503,203	91,991,308
	262,604,412	349,370,994
(3) Cash paid relating to other investing activities:		
Payment of steel futures deposits	54,631,062	40,515,624
(4) Cash received relating to other financing activities:		
Discounted notes	102,230,000	3,471,463
(5) Cash paid relating to other financing activities:		
Withholding shareholders' personal income tax	—	105,205,310
Shareholders' loan	—	79,132,600
Lease liability expenditure	18,937,361	18,669,280
	18,937,361	203,007,190

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

60. 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	
	2020	2019
	Unaudited	Unaudited
Net profit	997,624,386	1,417,679,701
Add: Credit impairment losses	8,030,101	43,977,242
Provision for asset impairment losses	73,128,980	241,775,610
Depreciation of property, plant and equipment	1,515,488,515	1,685,905,549
Amortisation of right-of-use assets	12,042,873	12,296,285
Amortisation of intangible assets	29,838,184	27,386,142
Amortisation of investment properties	1,174,599	874,650
Amortisation of deferred revenue	(28,495,181)	(33,564,286)
Disposal loss on fixed assets, intangible assets and other long-term assets	62,159,618	936,915
Increase in special reserve	10,101,186	16,193,307
Financial expenses	306,383,814	250,053,646
Investment income	(231,959,570)	(410,893,019)
Gain on fair value changes	(29,311,320)	(26,280,702)
Decrease in deferred tax assets	25,522,912	18,825,708
Decrease in deferred tax liabilities	(1,282,992)	(1,282,992)
Decrease in inventories	440,014,592	76,626,800
Decrease/(increase) in receivables from operating activities	5,443,846,162	(6,125,472,054)
(Decrease)/increase in payables from operating activities	(7,688,559,863)	5,777,974,280
Net cash flows from operating activities	945,746,996	2,973,012,782
Endorsement of bank acceptance bills received for the sale of goods and the provision of services	5,734,196,391	873,429,761

Note: The Group had no significant non-cash investing and financing activities (2019: nil).

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

60. Supplements to the statement of cash flows (Continued)

(2) Cash and cash equivalents

Net changes in cash and cash equivalents:

	For the six months ended 30 June	
	2020	2019
	Unaudited	Unaudited
Ending balance of cash	8,418,114,599	6,846,574,485
Less: Opening balance of cash	7,239,650,634	6,934,175,776
Add: Ending balance of cash equivalents	—	—
Less: Opening balance of cash equivalents	—	—
Net increase/(decrease) in cash and cash equivalents	1,178,463,965	(87,601,291)

	For the six months ended 30 June	
	2020	2019
	Unaudited	Unaudited
Cash	8,418,114,599	6,846,574,485
Including: Cash on hand	39,816	67,391
Balances in banks without restrictions	8,418,074,783	6,846,507,094
Ending balance of cash and cash equivalents	8,418,114,599	6,846,574,485

61. Restricted assets

	30 June 2020 Unaudited	31 December 2019 Audited	
Cash and bank balances (Note V.1)	2,181,117,922	2,174,161,378	(i)
Financing receivables (Note V.4)	1,071,832,720	4,597,328,266	(ii)
	3,252,950,642	6,771,489,644	

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

61. Restricted assets (Continued)

- (i) As of 30 June 2020, the Group's restricted cash and bank balances included cash deposits as collateral amounting to RMB1,132,274,599 (31 December 2019: RMB1,461,248,595) pledged as security for trade facilities and performance for bank acceptance notes, letters of credit and guarantees, and mandatory reserves with the central bank of RMB1,048,843,323 (31 December 2019: RMB712,912,783).
- (ii) As of 30 June 2020, the Group pledged the bank acceptance notes of RMB969,602,720 (31 December 2019: RMB4,470,011,632) to issue notes payable and the bank acceptance notes of RMB102,230,000 (31 December 2019: RMB127,316,634) to obtain the short-term loan.

62. Dividends

According to the "2019 Annual Profit Distribution Plan" approved by the Company's 2019 Annual General Meeting on 29 June 2020, the Group would distribute dividends to all shareholders at RMB0.08 per share (tax included) (2019: RMB0.31 per share), for 7,700,681,186 shares amounting to RMB616,054,495 (2019: RMB2,387,211,168). The dividends had not been paid by 30 June 2020 and were included in the financial statements.

63. Monetary items denominated in foreign currencies

	30 June 2020 (Unaudited)			31 December 2019 (Audited)		
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
Cash and bank balances						
HKD	3,171,472	0.9134	2,896,823	3,302,983	0.8958	2,958,812
USD	228,754,991	7.0795	1,619,470,959	312,056,626	6.9762	2,176,969,434
EUR	17,444,293	7.9610	138,874,017	14,492,810	7.8155	113,268,557
JPY	4,824	0.0658	317	–	0.0641	–
AUD	54,349,375	4.8657	264,447,754	50,452,679	4.8843	246,426,020
CAD	796,517	5.1843	4,129,383	212,334	5.1739	1,098,595
GBP	177	8.7144	1,542	16,492	9.1501	150,903
ZAR	1,269,433	0.4101	520,594	80,459	0.4943	39,771
AED	1,144,422	1.9275	2,205,873	2,444,163	1.8992	4,641,954
			2,032,547,262			2,545,554,046
Financial assets held for trading						
EUR	3,159,942	7.9610	25,156,298	2,255,765	7.8155	17,629,931
Trade receivables						
USD	22,587,561	7.0795	159,908,638	5,338,324	6.9762	37,241,216
EUR	19,698,933	7.9610	156,823,206	23,173,880	7.8155	181,115,459
AUD	2,636,667	4.8657	12,829,231	838,833	4.8843	4,097,112

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

63. Monetary items denominated in foreign currencies (Continued)

	30 June 2020 (Unaudited)			31 December 2019 (Audited)		
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
			329,561,075			222,453,787
Other receivables						
HKD	566,565	0.9134	517,500	595,565	0.8958	533,507
EUR	1,127,716	7.9610	8,977,747	958,419	7.8155	7,490,524
AUD	21	4.8657	102	21	4.8843	103
USD	4,151	7.0795	29,387	4,151	6.9762	28,958
AED	19,758	1.9275	38,084	19,758	1.8992	37,524
			9,562,820			8,090,616
Trade payables						
EUR	34,020,552	7.9610	270,837,614	11,250,195	7.8155	87,925,899
AED	–	1.9275	–	5,000	1.8992	9,496
			270,837,614			87,935,395
	30 June 2020 (Unaudited)			31 December 2019 (Audited)		
	Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
Other payables						
AUD	5,000	4.8657	24,329	45,600	4.8843	222,724
HKD	4,029,613	0.9134	3,680,649	4,029,523	0.8958	3,609,647
EUR	1,531,551	7.9610	12,192,678	1,546,627	7.8155	12,087,663
USD	272,564,087	7.0795	1,929,617,454	337,655,195	6.9762	2,355,550,171
AED	116,500	1.9275	224,554	–	1.8992	–
			1,945,739,664			2,371,470,205
Short-term loan						
USD	215,951,087	7.0795	1,528,825,720	210,921,764	6.9762	1,471,432,410
Long-term loans due within one year						
USD	17,000,000	7.0795	120,351,500	24,360,000	6.9762	169,940,232

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

VI. CHANGE IN THE SCOPE OF CONSOLIDATION

1. Newly established subsidiaries

For the six months ended 30 June 2020, there were no newly established subsidiaries.

2. Disposal of a subsidiaries

For the six months ended 30 June 2020, there was no disposal of subsidiaries.

3. Changes in the scope of consolidation for other reasons

For the six months ended 30 June 2020, there was no change in the scope of consolidation for other reasons.

VII. INTERESTS IN OTHER ENTITIES

1. Interests in subsidiaries

Details of the subsidiaries are as follows:

	Place of operation	Place of registration	Business nature	Percentage of equity (%)		
				Paid-in capital	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.	Guangdong, PRC	Guangdong, PRC	Manufacturing	RMB120,000,000	74.99	–
Ma Steel (HK)	Hong Kong, PRC	Hong Kong, PRC	Manufacturing	HKD350,000,000	100	–
Holly Industrial Co., Ltd. ("Holly Industrial")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB30,000,000	71	29
Ma Steel (Jinhua) Processing and Distribution Co., Ltd. ("Ma Steel (Jinhua)")	Zhejiang, PRC	Zhejiang, PRC	Manufacturing	RMB120,000,000	75	–
MG Trading	Germany	Germany	Trading	EUR153,388	100	–
Ma Steel (Australia)	Australia	Australia	Mining	AUD21,737,900	100	–
Ma Steel (Hefei)	Anhui, PRC	Anhui, PRC	Manufacturing	RMB2,500,000,000	71	–
Ma Steel (Hefei) Processing and Distribution Co., Ltd. ("Ma Steel (Hefei) Processing")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB120,000,000	67	28

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in subsidiaries (Continued)

	Place of operation	Place of registration	Business nature	Percentage of equity (%)		
				Paid-in capital	Direct	Indirect
Subsidiaries acquired by establishment or investment (Continued)						
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) Material Technology Co., Ltd. ("Hefei Material")	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	–
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	France	France	Manufacturing	EUR130,200,000	100	–
Ma'anshan Oubang Colour-coated Technology Co., Ltd. ("Ma Steel Oubang Colour-coated")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB50,000,000	67	–
Masteel America	USA	USA	Service industry	USD500,000	100	–

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in subsidiaries (Continued)

	Place of operation	Place of registration	Business nature	Percentage of equity (%)		
				Paid-in capital	Direct	Indirect
Subsidiaries acquired by establishment or investment (Continued)						
Anhui Ma Steel Antitrust Material Technology Co., Ltd. ("Ma Steel Antitrust")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB10,000,000	51	—
Maanshan Meite Metallurgical Power Technology Co.,Ltd. ("Meite Metallurgical Power")	Anhui, PRC	Anhui, PRC	Service industry	RMB500,000	100	—
Masteel Middle East	Dubai	Dubai	Trading	AED4,000,000	100	—
Maanshan (Changchun) Iron and Steel Sales Co., Ltd. ("Changchun Sales")	Jilin, PRC	Jilin, PRC	Trading	RMB10,000,000	100	—
Masteel (Wuhan) Material Technology Co., Ltd. ("Wuhan Material") (Note 1)	Hubei, PRC	Hubei, PRC	Manufacturing	RMB250,000,000	85	—
Magang Hongfei Power Energy Co., Ltd. ("Masteel Hongfei")	Anhui, PRC	Anhui, PRC	Service industry	RMB100,000,000	51	—
Subsidiaries acquired through business combination						
Masteel (Yangzhou) Processing and Distribution Co., Ltd. ("Masteel (Yangzhou) Processing")	Jiangsu, PRC	Jiangsu, PRC	Manufacturing	USD20,000,000	71	—
Anhui ChangJiang Iron and Steel	Anhui, PRC	Anhui, PRC	Manufacturing	RMB1,200,000,000	55	—
Baowu Group MaSteel Rail Transportation Material Technology Co., Ltd. ("Masteel Transportation Material") (Note 2)	Anhui, PRC	Anhui, PRC	Manufacturing	RMB1,486,296,194	100	—
Mascometal Co.,Ltd.("Mascometal")	Anhui, PRC	Anhui, PRC	Manufacturing	EUR32,000,000	66	—
Subsidiary acquired under common control						
Masteel Finance	Anhui, PRC	Anhui, PRC	Financial services	RMB2,000,000,000	91	—

Note 1: In 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 in 2018, completed the second phase of capital contribution of RMB53,125,000 in 2019 and completed the third phase of capital contribution of RMB74,375,000 during the current period.

Note 2: On 7 April 2020, Masteel Transportation Material Technology Co., Ltd. was officially renamed as Baowu Group Masteel Rail Transportation Material Technology Co., Ltd.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in subsidiaries (Continued)

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

	30 June 2020 or for the six months ended 30 June 2020 (Unaudited)	31 December 2019 (Audited) or for the six months ended 30 June 2019 (Unaudited)
--	---	--

The proportion of equity held by non-controlling interests:

Ma Steel (Hefei)	29%	29%
Anhui Chang Jiang Iron and Steel	45%	45%
Masteel Finance	9%	9%

Profit or loss attributable to non-controlling interests:

	30 June 2020 or for the six months ended 30 June 2020 (Unaudited)	31 December 2019 (Audited) or for the six months ended 30 June 2019 (Unaudited)
Ma Steel (Hefei)	4,808,509	10,546,543
Anhui Chang Jiang Iron and Steel	169,693,740	240,083,465
Masteel Finance	13,848,618	12,095,720

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in subsidiaries (Continued)

Dividends paid to non-controlling interests:

	30 June 2020 or for the six months ended 30 June 2020 (Unaudited)	31 December 2019 (Audited) or for the six months ended 30 June 2019 (Unaudited)
Ma Steel (Hefei)	—	—
Anhui Chang Jiang Iron and Steel	270,000,000	513,000,000
Masteel Finance	6,835,590	9,397,887

Cumulative balances of non-controlling interests at the balance sheet date:

	30 June 2020 or for the six months ended 30 June 2020 (Unaudited)	31 December 2019 (Audited) or for the six months ended 30 June 2019 (Unaudited)
Ma Steel (Hefei)	679,732,390	673,809,772
Anhui Chang Jiang Iron and Steel	2,390,576,455	2,493,476,559
Masteel Finance	290,238,729	283,225,701

Notes to the Financial Statements (Continued)

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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 group intra-eliminations.

	Ma Steel (Hefei)	Anhui Chang Jiang Iron and Steel	Masteel Finance
30 June 2020 or for the six months ended 30 June 2020 (Unaudited)			
Current assets	1,432,344,167	6,158,308,939	16,580,633,824
Non-current assets	3,045,280,258	4,227,384,708	1,289,409,090
Total assets	4,477,624,425	10,385,693,647	17,870,042,914
Current liabilities	(1,534,095,013)	(5,051,637,581)	(14,623,383,488)
Non-current liabilities	(599,624,620)	(21,663,944)	(21,784,661)
Total liabilities	(2,133,719,633)	(5,073,301,525)	(14,645,168,149)
Revenue	2,203,305,746	7,150,438,144	250,775,578
Net profit	16,581,065	377,097,200	153,873,533
Total comprehensive income	16,581,065	377,097,200	153,873,533
Net cash flows (used in)/generated from operating activities	(16,384,121)	407,291,974	2,428,541,357

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in subsidiaries (Continued)

	Ma Steel (Hefei)	Anhui Chang Jiang Iron and Steel	Masteel Finance
31 December 2019 (Audited) or for the six months ended 30 June 2019 (Unaudited)			
Current assets	1,670,195,156	6,418,062,041	18,661,684,721
Non-current assets	3,139,504,112	4,075,753,165	3,247,078,627
Total assets	4,809,699,268	10,493,815,206	21,908,763,348
Current liabilities	(1,883,412,083)	(4,929,808,639)	(18,739,550,955)
Non-current liabilities	(602,805,212)	(22,947,546)	(22,260,160)
Total liabilities	(2,486,217,295)	(4,952,756,185)	(18,761,811,115)
Revenue	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	36,367,391	533,518,812	134,396,892
Net cash flows (used in)/generated from operating activities	(73,998,907)	(632,096,096)	830,428,685

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Interests in joint ventures and associates

	Place of operation	Place of registration	Business nature	Registered capital	Percentage of equity (%)		Accounting method
					Direct	Indirect	
Joint ventures							
BOC-Ma Steel	Anhui, PRC	Anhui, PRC	Manufacturing	RMB468,000,000	50	–	Equity method
MASTEEL-CMI	Anhui, PRC	Anhui, PRC	Service industry	RMB1,000,000	50	–	Equity method
Associates							
Henan JinMa Energy	Henan, PRC	Henan, PRC	Manufacturing	RMB535,421,000	26.89	–	Equity method
Shenglong Chemical	Shandong, PRC	Shandong, PRC	Manufacturing	RMB568,800,000	31.99	–	Equity method
Xinchuang Environmental Protection (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
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
Ouye Lianjin	Anhui, PRC	Anhui, PRC	Trading	RMB400,000,000	45	–	Equity method
Masteel K. Wah	Anhui, PRC	Anhui, PRC	Manufacturing	USD19,574,333	30	–	Equity method
Magang Chemicals & Energy	Anhui, PRC	Anhui, PRC	Manufacturing information technology	RMB1,333,333,333	45	–	Equity method
Phima Intelligence (Note 2)	Anhui, PRC	Anhui, PRC	Service industry	RMB361,093,720	–	18.19	Equity method

Note 1: As of 30 June 2020, the Group held 16.34% equity interests of Xinchuang Environmental Protection. The directors believed that the Company was able to exercise significant influence over Xinchuang Environmental Protection through one director and one supervisor designated by the Company in Xinchuang Environmental Protection, although the equity interests in it were less than 20%. Thus, the equity investment in Xinchuang Environmental Protection was accounted for as an associate.

Note 2: As of 30 June 2020, the Group held 18.19% equity interests of Phima Intelligence. The directors believed that the Company was able to exercise significant influence over Phima Intelligence through one director designated by the Company who was also nominated as a member of the Audit Committee in Phima Intelligence, although the equity interests in it were less than 20%. Thus, the equity investment in Phima Intelligence was accounted for as an associate.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Interests in joint ventures and associates (Continued)

BOC-Ma Steel, one of the Group's material joint ventures, was accounted for using the equity method.

The financial information of BOC-Ma Steel is as follows, which has been adjusted for all the accounting policy differences and reconciled to the carrying amount of the financial statements.

	30 June 2020 or for the six months ended 30 June 2020	31 December 2019 or for the six months ended 30 June 2019
Current assets	493,484,133	420,129,331
Non-current assets	157,970,807	188,936,797
Total assets	651,454,940	609,066,128
Current liabilities	60,534,709	60,768,847
Non-current liabilities	—	4,906,456
Total liabilities	60,534,709	65,675,303
Non-controlling interests	—	—
Equity attributable to owners of the parent	590,920,231	543,390,825
The Group's share of net assets	295,460,116	271,695,413
Adjustment	—	—
The carrying value of the investment	295,460,116	271,695,413
Revenue	302,908,474	279,573,669
Income tax expenses	35,469,166	30,226,198
Net profit	101,416,787	90,482,354
Other comprehensive income	—	—
Total comprehensive income	101,416,787	90,482,354
Dividends received	27,000,000	45,000,000

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Interests in joint ventures and associates (Continued)

Henan JinMa Energy, Shenglong Chemical, Magang Chemicals & Energy and Ouyeel Blockchain Finance are the Group's material associates and are accounted for using the equity method.

The financial information of individually material associates is as follows, which has been adjusted to all the accounting policy differences and reconciled to the carrying amount of the financial statements:

	30 June 2020 or for the six months ended 30 June 2020	31 December 2019 or for the six months ended 30 June 2019
Henan JinMa Energy		
Current assets	3,498,390,000	3,389,213,000
Non-current assets	2,682,744,000	2,100,891,000
Total assets	6,181,134,000	5,490,104,000
Current liabilities	2,099,083,000	1,675,050,000
Non-current liabilities	500,906,000	413,610,000
Total liabilities	2,599,989,000	2,088,660,000
Non-controlling interests	888,093,000	767,603,000
Equity attributable to owners of the parent	2,693,052,000	2,633,841,000
The Group's share of net assets	726,450,022	707,573,964
Adjustment	—	—
The carrying value of the investment	726,450,022	707,573,964
Revenue	3,372,591,000	3,968,372,796
Income tax expenses	87,386,000	112,066,949
Net profit	241,479,000	342,038,760
Total comprehensive income	243,148,000	344,397,900
Dividends received	43,200,000	50,400,000

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

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VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Interests in joint ventures and associates (Continued)

	30 June 2020 or for the six months ended 30 June 2020	31 December 2019 or for the six months ended 30 June 2019
Shenglong Chemical		
Current assets	2,283,802,075	1,776,227,037
Non-current assets	1,437,548,364	1,488,260,340
Total assets	3,721,350,439	3,264,487,377
Current liabilities	1,052,635,972	704,936,856
Non-current liabilities	24,147,769	8,064,165
Total liabilities	1,076,783,741	713,001,021
Non-controlling interests	—	—
Equity attributable to owners of the parent	2,644,566,698	2,551,486,356
The Group's share of net assets	845,996,887	816,220,485
Adjustment	—	—
The carrying value of the investment	845,996,887	816,220,485
Revenue	2,219,194,612	3,009,673,830
Income tax expenses	16,939,063	280,475,399
Net profit	86,831,275	279,962,305
Total comprehensive income	86,831,275	279,962,305
Dividends received	—	16,000,000

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Interests in joint ventures and associates (Continued)

	30 June 2020 or for the six months ended 30 June 2020	31 December 2019 or for the six months ended 30 June 2019
Magang Chemicals & Energy		
Current assets	1,040,267,167	726,468,354
Non-current assets	796,258,406	992,609,756
Total assets	1,836,525,573	1,719,078,110
Current liabilities	166,441,096	91,299,697
Non-current liabilities	—	—
Total liabilities	166,441,096	91,299,697
Non-controlling interests	179,000,000	161,500,000
Equity attributable to owners of the parent	1,491,084,477	1,466,278,413
The Group's share of net assets	670,988,015	659,825,286
Adjustment	(632,763)	(632,763)
The carrying value of the investment	670,355,252	659,192,523
Revenue	1,080,933,907	1,296,458,289
Income tax expenses	5,331,541	25,368,749
Net profit	16,806,064	93,345,525
Total comprehensive income	16,806,064	93,345,525
Dividends received	—	—

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

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VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Interests in joint ventures and associates (Continued)

	30 June 2020 or for the six months ended 30 June 2020	31 December 2019 or for the six months ended 30 June 2019
Ouye Lianjin		
Current assets	5,135,014,176	3,918,291,645
Non-current assets	439,342,822	223,913,087
Total assets	5,574,356,998	4,142,204,732
Current liabilities	4,306,019,606	3,113,527,232
Non-current liabilities	90,000,000	—
Total liabilities	4,396,019,606	3,113,527,232
Non-controlling interests	482,721,526	315,277,881
Equity attributable to owners of the parent	695,615,866	713,399,619
The Group's share of net assets	313,027,140	321,029,829
Adjustment	6,275,766	6,275,766
The carrying value of the investment	319,302,906	327,305,595
Revenue	10,043,449,649	5,491,515,934
Income tax expenses	43,087,784	22,114,800
Net profit	9,769,071	62,236,431
Total comprehensive income	9,769,071	62,236,431
Dividends received	10,637,500	—

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Interests in joint ventures and associates (Continued)

The summarised financial information of the joint ventures and the associates that are not individually material to the Group is as follows:

	30 June 2020 Unaudited	31 December 2019 Audited
--	------------------------------	--------------------------------

Joint ventures

The carrying value of the Group's investments

501,306

501,306

	For the six months ended June	
	2020 Unaudited	2019 Unaudited

Total shown below (calculated according to the respective equity holding percentage)

Net profit

-

650

Other comprehensive income

-

-

Total comprehensive income

-

650

	30 June 2020 Unaudited	31 December 2019 Audited
--	------------------------------	--------------------------------

Associates

The carrying value of the Group's investments

762,758,274

763,730,382

	For the six months ended June	
	2020 Unaudited	2019 Unaudited

Total shown below (calculated according to the respective equity holding percentage)

Net profit

16,713,032

24,535,099

Other comprehensive income

-

-

Total comprehensive income

16,713,032

24,535,099

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS

1. Classification of financial instruments

The carrying amounts of each of the categories of financial instruments at the end of the reporting period are as follows:

30 June 2020 (Unaudited)

Financial assets

	Financial assets at fair value through profit or loss		Financial assets measured at amortised cost	Financial assets at fair value through other comprehensive income		Total
	According to standard	Designated		According to standard	Designated	
Cash and bank balances	-	-	10,602,786,055	-	-	10,602,786,055
Financial assets held for trading	2,058,977,448	-	-	-	-	2,058,977,448
Financing receivables	-	-	-	7,248,286,411	-	7,248,286,411
Trade receivables	-	-	1,138,682,644	-	-	1,138,682,644
Other receivables	-	-	219,868,325	-	-	219,868,325
Financial assets purchased under agreements to resell	-	-	789,990,318	-	-	789,990,318
Loans and advances to customers	-	-	4,149,279,777	-	-	4,149,279,777
Debt instrument investments	-	-	1,222,075,992	-	-	1,222,075,992
Other equity instrument investments	-	-	-	-	276,883,222	276,883,222
	2,058,977,448	-	18,122,683,111	7,248,286,411	276,883,222	27,706,830,192

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

1. Classification of financial instruments (Continued)

The carrying amounts of each of the categories of financial instruments at the end of the reporting period are as follows (Continued):

30 June 2020 (Unaudited) (Continued)

Financial liabilities

	Financial liabilities at fair value through profit or loss		Financial liabilities at amortised cost	Total
	According to standard	Designated		
Deposits and balances from banks and other financial institutions	–	–	200,000,000	200,000,000
Customer deposits	–	–	8,463,368,095	8,463,368,095
Repurchase agreements	–	–	99,068,750	99,068,750
Short-term loans	–	–	15,154,498,596	15,154,498,596
Financial liabilities held for trading	668,202	–	–	668,202
Notes payable	–	–	3,529,740,685	3,529,740,685
Trade payables	–	–	6,516,224,240	6,516,224,240
Other payables	–	–	3,665,620,961	3,665,620,961
Non-current liabilities due within one year	–	–	967,429,543	967,429,543
Long-term loans	–	–	3,287,700,000	3,287,700,000
Lease liabilities	–	–	403,037,327	403,037,327
	668,202	–	42,286,688,197	42,287,356,399

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

1. Classification of financial instruments (Continued)

The carrying amounts of each of the categories of financial instruments at the end of the reporting period are as follows (Continued):

31 December 2019 (Audited)

Financial assets

	Financial assets at fair value through profit or loss		Financial assets measured at amortised cost	Financial assets at fair value through other comprehensive income		Total
	According to standard	Designated		According to standard	Designated	
Cash and bank balances	-	-	9,517,313,695	-	-	9,517,313,695
Financial assets held for trading	2,126,112,194	-	-	-	-	2,126,112,194
Financing receivables	-	-	-	11,098,699,421	-	11,098,699,421
Trade receivables	-	-	1,092,930,122	-	-	1,092,930,122
Other receivables	-	-	153,805,113	-	-	153,805,113
Financial assets purchased under agreements to resell	-	-	2,369,966,754	-	-	2,369,966,754
Loans and advances to customers	-	-	4,256,415,190	-	-	4,256,415,190
Debt instrument investments	-	-	3,182,221,639	-	-	3,182,221,639
Other equity instrument investments	-	-	-	-	278,576,509	278,576,509
	2,126,112,194	-	20,572,652,513	11,098,699,421	278,576,509	34,076,040,637

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

1. Classification of financial instruments (Continued)

The carrying amounts of each of the categories of financial instruments at the end of the reporting period are as follows (Continued):

31 December 2019 (Audited) (Continued)

Financial liabilities

	Financial liabilities at fair value through profit or loss		Financial liabilities at amortised cost	Total
	According to standard	Designated		
Deposits and balances from banks and other financial institutions	–	–	400,031,889	400,031,889
Customer deposits	–	–	10,964,896,002	10,964,896,002
Repurchase agreements	–	–	1,386,580,448	1,386,580,448
Short-term loans	–	–	12,880,053,159	12,880,053,159
Financial liabilities held for trading	2,258,750	–	–	2,258,750
Notes payable	–	–	7,313,729,148	7,313,729,148
Trade payables	–	–	6,130,327,006	6,130,327,006
Other payables	–	–	3,350,074,505	3,350,074,505
Non-current liabilities due within one year	–	–	1,677,068,898	1,677,068,898
Long-term loans	–	–	3,468,200,000	3,468,200,000
Lease liabilities	–	–	411,432,835	411,432,835
	2,258,750	–	47,982,393,890	47,984,652,640

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

2. Offsetting of financial instruments

For the six months ended 30 June 2020, there were no offsetting arrangements for account receivables (2019: Nil).

3. Transfer of financial assets

Financial assets transferred but not yet fully derecognised

As of 30 June 2020, the Group endorsed (but not yet fully derecognised) bank acceptance notes to its suppliers with a carrying amount of RMB300,091,976 for settlement of trade payables (31 December 2019: RMB472,905), and the bank acceptance notes discounted to banks which were not derecognised amounted to RMB102,230,000 (31 December 2019: RMB127,316,634). As of 30 June 2020, their maturity periods ranged from 1 to 6 months. Pursuant to the relevant provisions of the “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 recognise 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 2020, the carrying amount of trade payables settled by the Group through them amounted to RMB300,091,976 (31 December 2019: RMB472,905). As of 30 June 2020, the short-term loans obtained by the pledge of notes receivable amounted to RMB102,230,000 (31 December 2019: RMB127,316,634).

Transferred financial assets fully derecognised but with continuing involvement

As of 30 June 2020, the Group endorsed (and fully derecognised) bank acceptance notes to its suppliers with a carrying amount of RMB5,138,215,058 (31 December 2019: RMB898,350,720) for settlement of trade payables, and the bank acceptance notes discounted to banks which were fully derecognised amounted to RMB198,651,244 (31 December 2019: RMB1,178,421,214). As of 30 June 2020, their maturity periods ranged from 1 to 6 months. Pursuant to the relevant provisions of the “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 derecognised them and then settled the account payables associated therewith.

For the six months ended 30 June 2020, no gain or loss was recognised at the date of transfer. No income or expense was recognised for the current period or on an accumulative basis as a result of the Group’s Continuing Involvement in derecognised financial assets. Endorsements were incurred evenly during the current period.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Financial instrument risk

The Group faces 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 instrument investments, interest-bearing bank borrowings, trade receivables, financing receivables, notes payable and trade payables, etc. The Group's risk management strategies to lower such risks are outlined below.

The Board of Directors is responsible for planning and establishing the Group's risk management framework, formulating the Group's risk management policies and related guidelines, and supervising the implementation of risk management measures. The Group has formulated risk management policies to identify and analyse 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 investments and business portfolios, 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 recognised 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, trade receivable 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 ranks, these financial instruments face lower credit risk.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Financial instrument risk (Continued)

Credit risk (Continued)

The Group's other financial assets comprise debt instruments investments, other receivables, financial assets purchased under agreements to resell and loans and advances to customers, and the credit risk of these financial assets arises from default of the counterparties, with a maximum exposure equal to the carrying amounts of these instruments.

The maximum credit risk exposure that the Group faces on each balance sheet date is the total amount gained from customers minus the amount of impairment provision.

Since the Group trades only with recognised 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 9% (2019: 13%) and 30% (2019: 38%) of the Group's trade receivables were due from the Group's largest customer and five largest customers in terms of trade receivables respectively. The Group did not hold any collateral or credit enhancements for the balance of trade receivables.

Measurement of expected credit losses

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of all cash shortfalls) over the expected life of the financial instrument. The credit loss is the difference between all contractual cash flows that are due to an entity in accordance with the contract and all the cash flows that the entity expects to receive (i.e. all cash shortfalls), discounted at the original effective interest rate.

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

- Phase I: Financial instruments whose credit risk has not increased significantly will be included in phase I, and the Group measures the loss provision for those instruments at an amount equal to 12-month expected credit losses.
- Phase II: Financial instruments whose credit risk has increased significantly but without objective evidence for impairment will be included in phase II, and the Group measures the loss provision for those instruments at an amount equal to lifetime expected credit losses.
- Phase III: Financial instruments that are evidently credit-impaired at the financial position date will be included in phase III and the Group measures the loss provision for those financial instruments at an amount equal to lifetime expected credit losses.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Financial instrument risk (Continued)

Credit risk (Continued)

Measurement of expected credit losses (Continued)

For a financial instrument, whose loss allowance has been measured at an amount equal to lifetime expected credit losses in the previous accounting period, if its credit risk has not increased significantly at the end of the current period, the Group should measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

Criteria for a 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 forecast 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 the financial position date and the default risks at initial recognition to determine the change of default risk of financial instruments in the expected lifetime.

When one or several of the following quantitative, qualitative or maxim criteria are triggered, the Group determines the credit risk of a financial instrument has increased significantly:

- As of the financial position date, the default risk in the rest of expected lifetime has increased over a specific percentage;
- Material adverse change occurs in the operation or financial position of main debtors or receiving warning customer lists;
- The overdue of debtors' contract payment (including principal and interest) has reached a specific period.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Financial instrument risk (Continued)

Credit risk (Continued)

Definition of credit-impaired financial assets

When considering whether credit impairment has incurred, the Group will consider both quantitative and qualitative factors, which agree with the goal of the Group's credit risk management. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event. Instead, the combined effect of several events may have caused financial assets to become credit-impaired.

Parameters for expected credit loss measurement

Depending on whether credit risk has increased significantly or whether impairment has occurred, the Group measures the loss allowance for different instruments at an amount equal to 12-month expected credit losses or equal to lifetime expected credit losses. The key parameters for measuring expected credit losses include the default probability, default loss rate and default risk exposure. Based on the external credit rate applied in credit risk management, the Group will consider the quantitative analysis of historical statistics (such as the credit rate of the counterparty, the guarantee method, the nature of collateral and the repayment style), as well as forecast information to establish the model for default probability, default loss rate and default risk exposure.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Financial instrument risk (Continued)

Credit risk (Continued)

Parameters for expected credit loss measurement (Continued)

Definitions:

- Default probability is the probability that a debtor fails to fulfil its repayment duty in 12 months or in the rest of the expected lifetime. The Group's default probability is based on the external credit rate and adjusted by carefully chosen forecast information, to reflect debtors' probability of default under the current macro-economic condition;
- Default loss rate is the Group's expectation on the level of loss if default risk exposed and caused losses. Default loss rate varies with the types of trading counterparty, the ways of recourse and priority and the nature of collaterals. Default loss rate is the loss percentage of exposure when default occurs and is calculated based on 12-month expected credit losses or lifetime expected credit losses;
- Default risk exposure is the amount to be recovered by the Group when default occurs during the next 12 months or the rest of the expected lifetime.

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

These indicators will have different impacts on the default probability and default loss rate for different types of businesses. In the process, the Group will apply management judgement. Based on the result of judgement, the Group will forecast those indicators every half year and apply regression analysis to determine the impact of the indicators on the 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 is disclosed in Note V.3 and Note V.6.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Financial instrument risk (Continued)

Credit risk (Continued)

The carrying amount of financial assets by credit risk level is disclosed as follows:

30 June 2020 (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	2,244,915,888	—	107,258,543	—
Discounted notes	1,797,105,346	—	—	—
Financial assets purchased under agreements to resell	789,990,318	—	—	—
Debt instrument investments	1,222,075,992	—	—	—
	6,054,087,544	—	107,258,543	—

31 December 2019 (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	2,362,695,268	—	151,157,385	—
Discounted notes	1,683,047,996	—	56,922,827	—
Factoring	2,591,714	—	—	—
Financial assets purchased under agreements to resell	2,369,966,754	—	—	—
Debt instrument investments	3,182,221,639	—	—	—
	9,600,523,371	—	208,080,212	—

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Financial instrument risk (Continued)

Liquidity risk

The Group applies a liquidity planning tool to manage liquidity risk of funding shortfalls, which takes both the maturity of financial instruments and estimated operating cash flows of the Group into consideration.

The Group's aim is to balance the sustainability and flexibility of the financing through interest-bearing loans and other instruments. As of 30 June 2020, 91% of the Group's debts were due within 1 year (31 December 2019: 90%).

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

30 June 2020 (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	200,000,000	-	-	-	-	200,000,000
Customer deposits	8,463,368,095	-	-	-	-	8,463,368,095
Repurchase agreements	99,068,750	-	-	-	-	99,068,750
Short-term loans	15,154,498,596	-	-	-	-	15,154,498,596
Financial liabilities held for trading	668,202	-	-	-	-	668,202
Notes payable	3,529,740,685	-	-	-	-	3,529,740,685
Trade payables	6,516,224,240	-	-	-	-	6,516,224,240
Other payables	3,655,620,961	-	-	-	-	3,655,620,961
Non-current liabilities due within one year	967,429,543	-	-	-	-	967,429,543
Long-term loans	288,982,170	3,239,892,792	25,994,785	602,250	63,468,900	3,618,940,897
Lease liabilities	20,378,783	35,713,579	35,713,579	71,427,158	457,434,126	620,667,225
Total	38,895,980,025	3,275,606,371	61,708,364	72,029,408	520,903,026	42,826,227,194

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Financial instrument risk (Continued)

Liquidity risk (Continued)

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

31 December 2019 (Audited)

	Within 1 year	1-2 years	2-3 years	3-5 years	Over 5 years	Total
Deposits and balances from banks and other financial institutions	400,031,889	–	–	–	–	400,031,889
Customer deposits	10,964,896,002	–	–	–	–	10,964,896,002
Repurchase agreements	1,386,580,448	–	–	–	–	1,386,580,448
Short-term loans	12,880,053,159	–	–	–	–	12,880,053,159
Financial liabilities held for trading	2,258,750	–	–	–	–	2,258,750
Notes payable	7,313,729,148	–	–	–	–	7,313,729,148
Trade payables	6,130,327,006	–	–	–	–	6,130,327,006
Other payables	3,350,074,505	–	–	–	–	3,350,074,505
Non-current liabilities due within one year	1,677,068,898	–	–	–	–	1,677,068,898
Long-term loans	402,402,355	3,410,193,042	52,044,688	669,167	69,388,000	3,934,697,252
Lease liabilities	20,783,485	36,170,655	35,713,579	71,427,158	475,419,030	639,513,907
Total	44,528,205,645	3,446,363,697	87,758,267	72,096,325	544,807,030	48,679,230,964

Market risk

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with a floating interest rate.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Financial instrument risk (Continued)

Market risk (Continued)

Interest rate risk (Continued)

The following table demonstrates the sensitivity to a reasonably possible change in market interest rates for assets and liabilities denominated in foreign currencies as at 30 June 2020, 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 months ended 30 June 2020 (Unaudited)		
RMB	50	(8,783,515)
USD	50	(232,832)
RMB	(50)	8,783,515
USD	(50)	232,832
For the six months ended 30 June 2019 (Unaudited)		
RMB	50	(10,564,888)
USD	50	(145,488)
RMB	(50)	10,564,888
USD	(50)	145,488

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 their functional currencies.

The business of the Group is principally located in the PRC. While most of the transactions are conducted in Renminbi, certain of its sales, purchases and borrowings are denominated in United States dollars, Euros and Australian dollars. Fluctuations of the exchange rates of Renminbi against these foreign currencies can affect the Group's results of operations.

In addition, the Group has exposure to foreign exchange risks arising from foreign currency borrowings. The Group uses foreign exchange forward contracts to reduce exchange rate exposure.

The carrying amounts and related maximum exposure to foreign currency risk of the Group's cash, financial assets held for trading, trade receivables, other receivables, short term loans, trade payables, other payables and long-term loans are stated in Note V.63 to the financial statements.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Financial instrument risk (Continued)

Market risk (Continued)

Exchange rate risk (Continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the exchange rates of the USD, EUR, AUD and HKD with all other variables held constant, of the Group's net profit and equity (due to changes in the fair values of monetary assets and liabilities).

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in net profit	Increase/ (decrease) in other comprehensive income, net of tax	Increase/ (decrease) in equity
30 June 2020 (Unaudited)				
Depreciation of RMB against USD	1%	(13,554,742)	54,107	(13,500,635)
Depreciation of RMB against EUR	1%	206,938	3,321,886	3,528,824
Depreciation of RMB against AUD	1%	–	2,818,722	2,818,722
Depreciation of RMB against HKD	1%	101	4,691,832	4,691,933
Appreciation of RMB against USD	(1%)	13,554,742	(54,107)	13,500,635
Appreciation of RMB against EUR	(1%)	(206,938)	(3,321,886)	(3,528,824)
Appreciation of RMB against AUD	(1%)	–	(2,818,722)	(2,818,722)
Appreciation of RMB against HKD	(1%)	(101)	(4,691,832)	(4,691,933)

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Financial instrument risk (Continued)

Market risk (Continued)

Exchange rate risk (Continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the exchange rates of the USD, EUR, AUD and HKD with all other variables held constant, of the Group's net profit and equity (due to changes in the fair values of monetary assets and liabilities). (Continued)

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in net profit	Increase/ (decrease) in other comprehensive income, net of tax	Increase/ (decrease) in equity
30 June 2019 (Unaudited)				
Depreciation of RMB against USD	1%	(10,979,156)	48,995	(10,930,161)
Depreciation of RMB against EUR	1%	119,822	2,326,142	2,445,964
Depreciation of RMB against AUD	1%	–	2,285,793	2,285,793
Depreciation of RMB against HKD	1%	230	3,999,929	4,000,159
Appreciation of RMB against USD	(1%)	10,979,156	(48,995)	10,930,161
Appreciation of RMB against EUR	(1%)	(119,822)	(2,326,142)	(2,445,964)
Appreciation of RMB against AUD	(1%)	–	(2,285,793)	(2,285,793)
Appreciation of RMB against HKD	(1%)	(230)	(3,999,929)	(4,000,159)

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 maximise shareholders' value.

The Group manages its capital structure and makes adjustments according to changes in economic conditions and the risk characteristics of the relevant assets. In order to maintain or adjust the capital structure, the Group may adjust the distribution of profits to shareholders, return capital to shareholders or issue new shares. The Group is not subject to externally imposed capital requirements constraints. For the six months ended 30 June 2020, capital management objectives, policies or procedures of the Group did not change.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

5. Capital management (Continued)

The Group uses a gearing ratio to manage its capital. The gearing ratio refers to the percentage of net debt versus total capital attributable to owners of the parent plus net debt, and the target gearing ratio for the Group is between 50% and 70%. Net debt includes customer deposits, bank loans, notes payable, trade payables, payroll and employee benefits payable, other payables, etc., minus cash. Capital refers to total capital attributable to owners of the parent. The Group's gearing ratio at the end of the reporting period was as follows:

	30 June 2020 Unaudited	31 December 2019 Audited
Deposits and balances from banks and other institutions	200,000,000	400,031,889
Customer deposits	8,463,368,095	10,964,896,002
Repurchase agreements	99,068,750	1,386,580,448
Short-term loans	15,154,498,596	12,880,053,159
Financial liabilities held for trading	668,202	2,258,750
Notes payable	3,529,740,685	7,313,729,148
Trade payables	6,516,224,240	6,130,327,006
Payroll and employee benefits payable	493,568,240	691,976,938
Other payables	4,653,824,896	4,294,496,279
Non-current liabilities due within one year	967,429,543	1,677,068,898
Long-term loans	3,287,700,000	3,468,200,000
Lease liabilities	403,037,327	411,432,835
Long-term employee benefits payable	93,204,237	101,327,703
Less: Cash and bank balances	10,602,786,055	9,517,313,695
Net liabilities	33,259,546,756	40,205,065,360
Capital attributable to owners of the parent	27,156,308,710	26,933,162,065
Capital and net liabilities	60,415,855,466	67,138,227,425
Gearing ratio	55%	60%

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

IX. DISCLOSURE OF FAIR VALUE

1. Financial assets and liabilities measured at fair value

30 June 2020 (Unaudited)

	Inputs used for fair value measurement			Total
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	
Financial assets				
Recurring fair value measurement for				
financial assets held for trading	–	–	2,058,977,448	2,058,977,448
Financing receivables	–	7,248,286,411	–	7,248,286,411
Other equity instrument investments	–	265,589,988	11,293,234	276,883,222
	–	7,513,876,399	2,070,270,682	9,584,147,081
Financial liabilities				
Recurring fair value measurement for				
financial liabilities held for trading	668,202	–	–	668,202

31 December 2019 (Audited)

	Inputs used for fair value measurement			Total
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	
Financial assets				
Recurring fair value measurement for				
financial assets held for trading	103,763,821	–	2,022,348,373	2,126,112,194
Financing receivables	–	11,098,699,421	–	11,098,699,421
Other equity instrument investments	–	267,217,945	11,358,564	278,576,509
	103,763,821	11,365,917,366	2,033,706,937	13,503,388,124
Financial liabilities				
Recurring fair value measurement for				
financial liabilities held for trading	2,258,750	–	–	2,258,750

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

IX. DISCLOSURE OF FAIR VALUE (CONTINUED)

1. Financial assets and liabilities measured at fair value (Continued)

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 2020. The fair value of forward foreign exchange contracts was determined by the forward foreign exchange rate on the last trading day of June 2020. The fair value of the future contracts was determined by the settlement price of the Dalian Commodity Exchange on the last trading date in the first half year of 2020.

The Group's level 2 fair value measurement items mainly include unlisted equity investments and debt investments. The fair value of the unlisted equity investments was determined by the comparable company multiplier method based on the financial statement information of these unlisted companies as of 30 June 2020 and the information of the comparable listed companies in the same industry. Financing receivables measured at fair value through other comprehensive income were discounted by the market interest rate.

The Group's level 3 fair value measurement items mainly include financial products, trust products and unlisted equity investments not available for the comparable company multiplier method. The fair value of financial products and trust products is determined by the discounted cash flow model, with consideration of the initial transaction prices, near-term transactions of the same or similar financial instruments, or transactions of comparable financial instruments between the third parties. If necessary, the assessment model will be adjusted according to delays, early redemption, liquidity, default risk, and changes in the market, economy or specific circumstances. The fair value of the unlisted equity instrument investments not available for the comparable company multiplier method was determined by the net asset basis method as of 30 June 2020.

2. Financial assets and liabilities disclosed at fair value

30 June 2020 (Unaudited)

	Inputs used for fair value measurement			Total
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	
Financial liabilities				
Long-term loans	– 3,424,059,891		– 3,424,059,891	
Lease liabilities	– 403,037,327		– 403,037,327	
	– 3,827,097,218		– 3,827,097,218	

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

IX. DISCLOSURE OF FAIR VALUE (CONTINUED)

2. Financial assets and liabilities disclosed at fair value (Continued)

31 December 2019 (Audited)

	Inputs used for fair value measurement			Total
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	
Financial liabilities				
Long-term loans	– 3,638,179,673		– 3,638,179,673	
Lease liabilities	– 411,432,835		– 411,432,835	
	– 4,049,612,508		– 4,049,612,508	

3. Valuation of fair value

Fair value of financial instruments

The carrying amounts and fair values of the Group's financial instruments, excluding lease liabilities and financial instruments of which the difference between the fair values and carrying amounts is very little, are as follows:

	Carrying amounts		Fair values	
	30 June 2020	31 December 2019	30 June 2020	31 December 2019
	Unaudited	Audited	Unaudited	Audited
Financial liabilities				
Long-term loans	3,287,700,000	3,468,200,000	3,424,059,891	3,638,179,673

Management had assessed the fair value of cash and bank balances, trade receivables, other receivables, debt instruments investments, financial assets purchased under agreements to resell, note payables, trade payables, other payables, loans and advances to customers, customer deposits, repurchase agreements, short-term loans, non-current liabilities due within one year and other current liabilities, etc. Since the residual terms of the above-mentioned items were relatively short, the fair values were similar to the carrying amounts.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

IX. DISCLOSURE OF FAIR VALUE (CONTINUED)

3. Valuation of fair value (Continued)

Fair value of financial instruments (Continued)

The policies and procedures for accounting financial instruments at fair value are developed by the Group's finance team led by the finance manager. The Group's finance team reports directly to the financial officer and the Audit Committee. At each balance sheet date, the finance team analyses changes in the value of financial instruments and determines the main applicable inputs to the valuation. Valuations are subject to the approval of the financial officer. The finance team discusses the valuation process and results twice a year with the Audit Committee for interim and annual financial reporting.

The fair value of the financial assets and liabilities is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. The following methods and assumptions are used in estimating fair value.

The method of discounted cash flows is adopted to determine the fair value of lease liabilities and long-term loans, in which the market return rate of other financial instruments with similar contract terms, credit risk, remaining maturities and yield characteristics is used as the discount rate. As of 30 June 2020, the default risk for the long-term loans was evaluated as not significant.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

X. RELATED PARTY 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 China Baowu.

2. Subsidiaries

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

3. Associates and joint ventures

Details of associates and joint ventures are set out 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
Anhui Magang Logistics Container Transportation 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
Magang Group Mining Co., Ltd.	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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

X. RELATED PARTY RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)**4. Other related parties (Continued)**

Name	Relationship with the Company
Magang (Group) Holding Company Limited	Controlled by the Holding
Taochong Mining Company	
Magang (Group) Holding Company Limited	Controlled by the Holding
Qingyang Cloud Mine	
Anhui 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
Baowu Heavy Industry Co., Ltd. (Note)	Controlled by the Holding
Shanghai MaSteel Engineering Technology Co., Ltd.	Controlled by the Holding
Phima Intelligence	Controlled by the Holding
AI Robot (Shanghai) Co., Ltd.	Controlled by the Holding
Yangtze River Delta (Hefei) Digital 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
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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

4. Other related parties (Continued)

Name	Relationship with the Company
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
Anhui Masteel Mining Resources Co., Ltd.	Controlled by the Holding
Anhui Masteel Changran Energy Co. Ltd.	Controlled by the Holding
Meitai Macao Commercial Service Offshore Co. Ltd.	Controlled by the Holding
Shanxi Fuma Carbon Material Technology Co. Ltd	Controlled by the Holding
Maanshan Chenma Hydrogen Energy Technology Co., Ltd.	Controlled by the Holding
Masteel Zhixin Resources Technology Co. Ltd	Controlled by the Holding
Masteel Fuyuan Metal Resources Co., Ltd.	Controlled by the Holding
Masteel Chengxing Metal Resources Co. Ltd	Controlled by the Holding
Masteel Lihua Metal Resources Co., Ltd.	Controlled by the Holding

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

X. RELATED PARTY RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)**4. Other related parties (Continued)**

Name	Relationship with the Company
Ouyeel (Jingjiang) Blockchain Finance and Metal Recycling Resources Co., Ltd	Controlled by the Holding
LiaoNing Jiheyuan Renewable Resources Co., Ltd	Controlled by the Holding
Ouyeel (Pingxiang) Blockchain Finance and Metal Recycling Resources Co., Ltd	Controlled by the Holding
Anhui BRC & Masteel Weldmesh Co., Ltd.	Joint venture of the Holding
Ruitai Masteel New Material Technology Co., Ltd.	Associate of the Holding
Ma Steel Gongchang United Roller Co., Ltd.	Associate of the Holding
Anhui Wanbao Mining Limited Co., Ltd.	Associate of the Holding
Maanshan Jiangnan Chemical Industry Co., Ltd.	Associate of the Holding
Tongling Yuanda Limestone Mining Co. Ltd.	Associate of the Holding
Maanshan Mine Research Institute Blasting Engineering Co., Ltd.	Associate of the Holding
China Logistics Hefei Co., Ltd.	Associate of the Holding
Maanshan China-Japan Resource Regeneration Technology Co., Ltd.	Associate of the Holding
Maanshan Iron Construction Group Co., Ltd.	Associate of the Holding
Anhui Nanda Masteel Environment Technology Co., Ltd.	Associate of the Holding
Maanshan Zhongye Huaxin Water Environment Control Co., Ltd.	Associate of the Holding
Suzhou Suma Industry Development Co., Ltd.	Associate of the Holding
Anhui Keda Electricity Selling Co., Ltd.	Associate of the Holding
China Railway Resources Technology Co., Ltd.	Associate of the Holding
Anhui Huasu Co., Ltd.	Associate of the Holding
China Baowu Steel Group Co., Ltd.	Ultimate controlling party
Baosteel Resources Holdings (Shanghai) Co., Ltd.	Controlled by the ultimate controlling party
Anhui Wanbao Mining Limited Co., Ltd.	Controlled by the ultimate controlling party
Shanghai Baosteel Trading Co., Ltd.	Controlled by the ultimate controlling party
Shanghai Ouyeel Material Technology Co., Ltd.	Controlled by the ultimate controlling party
Shenyang Baosteel Northeast Trading Co., Ltd.	Controlled by the ultimate controlling party

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

4. Other related parties (Continued)

Name	Relationship with the Company
Guangzhou Baosteel South Trade Co., Ltd.	Controlled by the ultimate controlling party
Hwabao Trust Co.,Ltd.	Controlled by the ultimate controlling party
Shanghai Baosight Software Co., Ltd.	Controlled by the ultimate controlling party
Ouyeel Cloud Commerce Co., Ltd.	Controlled by the ultimate controlling party
Shanghai Baosteel Steel Trading Co., Ltd.	Controlled by the ultimate controlling party
Baowu Equipment Intelligent Technology Co., Ltd.	Controlled by the ultimate controlling party
Ouyeel International E-commerce Co., Ltd.	Controlled by the ultimate controlling party
Chengdu Baosteel Automobile Steel Parts Processing and Distribution Co., Ltd.	Controlled by the ultimate controlling party
Chongqing Baosteel Automobile Steel Parts Co., Ltd.	Controlled by the ultimate controlling party
Shanghai Baosteel Engineering & Technology Co., Ltd.	Controlled by the ultimate controlling party
Shanghai Jinyi Testing Technology Co., Ltd.	Controlled by the ultimate controlling party
Baosteel Roll Technology Co., Ltd.	Controlled by the ultimate controlling party
Shanghai Baosteel Foundry Co., Ltd.	Controlled by the ultimate controlling party
Zhejiang Zhoushan Wugang Terminal Co., Ltd.	Controlled by the ultimate controlling party
Baoshan Iron & Steel Co., Ltd.	Controlled by the ultimate controlling party
Wuhan Iron and Steel Co., Ltd.	Controlled by the ultimate controlling party
Nanjing Meibao New Building Material Co., Ltd.	Controlled by the ultimate controlling party
Beijing Baosteel North Trade Co., Ltd.	Controlled by the ultimate controlling party

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

X. RELATED PARTY RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)**4. Other related parties (Continued)**

Name	Relationship with the Company
Shanghai Baosteel Magnetic Industry Co., Ltd.	Controlled by the ultimate controlling party
Anhui Baosteel Steel Distribution Co., Ltd.	Controlled by the ultimate controlling party
Eastern Steel E-Commerce Co., Ltd.	Controlled by the ultimate controlling party
Shanghai Iron & Steel Exchange Co., Ltd.	Controlled by the ultimate controlling party
Baosteel Magnetic Industry (Jiangsu) Co., Ltd.	Controlled by the ultimate controlling party
WISCO Group Xiangyang Heavy Equipment Materials Co., Ltd.	Controlled by the ultimate controlling party
General Electric (Wuhan) Automation Co., Ltd.	Joint venture of the ultimate controlling party

Note: On 31 March 2020, Masteel Engineering Technology (Group) Co., Ltd. was renamed as Baowu Heavy Industry Co., Ltd., and the transactions and balances with the related party are disclosed under Baowu Heavy Industry Co., Ltd.

5. Significant transactions carried out between the Group and its related parties

Regarding the related party transactions under items (1) to (19) disclosed below, save and except for the transactions with BOC-Ma Steel, Ma-Steel OCI Chemical, Henan JinMa Energy and Shenglong Chemical under items (12) to (17), all transactions constituted connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules of the Stock Exchange of Hong Kong.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

5. Significant transactions carried out between the Group and its related parties (Continued)

(1) Purchases of ore from related parties

		For the six months ended 30 June	
		2020	2019
	Note	Unaudited	Unaudited
The Holding	(i)	2,021,156,694	2,063,834,130
Baosteel Resources Holdings (Shanghai) Co., Ltd.	(i)	170,836,104	–
		2,191,992,798	2,063,834,130

- (i) The terms for the purchases of iron ore from the Holding were determined in accordance with an agreement dated 15 August 2018 entered into between the Company and the Holding. The agreement stipulated that the price should be determined based on the Platts Index. The terms for the purchases of iron ore from China Baowu were determined in accordance with the Daily Related Party Transaction Agreement dated 30 December 2019 entered into between the Company and China Baowu, and the purchases are based on market prices under negotiation.

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

		For the six months ended 30 June	
		2020	2019
	Note	Unaudited	Unaudited
The Holding	(ii)	1,574,457	4,420,463
Ruitai Masteel New Material Technology Co., Ltd.	(ii)	557,035,099	414,399,948
Anhui Masteel Equipment Maintenance Co., Ltd.	(ii)	220,794,798	228,853,135
Xinchuang Environmental Protection Masteel Automobile Transportation Service Co., Ltd.	(ii)	257,188,764	234,142,689
Masteel Heavy Machinery Manufacturing Co., Ltd.	(ii)	215,594,376	169,498,774
Phima Intelligence	(ii)	156,980,516	134,041,696
		145,612,390	191,831,014

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

X. RELATED PARTY 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 (Continued)

		For the six months ended 30 June	
		2020	2019
	Note	Unaudited	Unaudited
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(ii)	6,028,741	98,221,411
Baowu Heavy Industry Co., Ltd.	(ii)	75,039,992	85,770,847
Anhui Zhonglian Shipping Co., Ltd.	(ii)	73,366,071	24,536,614
Masteel Transportation Equipment Manufacturing Co., Ltd.	(ii)	55,439,097	22,133,729
Magang (Group) Logistics Co., Ltd.	(ii)	41,819,705	11,618,454
Maanshan Xinchuangbaineng Energy Technology Co., Ltd.	(ii)	23,515,724	20,857,802
Ma Steel International Trade and Economic Co., Ltd.	(ii)	593,014	110,146
Others	(ii)	106,453,136	73,735,321
		1,937,035,880	1,714,172,043

- (ii) The terms for the provision of certain services, including on-the-job training, food and sanitary services, environmental and hygiene services, maintenance of roads and landscaping services, telecommunications service, contracts of transportation services, equipment repair and maintenance services, and engineering design services were determined in accordance with a service agreement between the Group and the Holding and its subsidiaries.

(3) Agency fees paid to related parties

		For the six months ended 30 June	
		2020	2019
	Note	Unaudited	Unaudited
Ma Steel International Trade and Economic Co., Ltd.	(iii)	9,773,930	9,124,860

- (iii) The transactions with the Holding and its subsidiaries, and transactions with China Baowu and its subsidiaries were conducted on terms mutually agreed between the Group and the related parties based on market prices.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

5. Significant transactions carried out between the Group and its related parties (Continued)

(4) Rental expenses

	Note	For the six months ended 30 June	
		2020 Unaudited	2019 Unaudited
The Holding	(iv)	19,052,965	29,316,077

(iv) The Group rents an office building from the Holding and pays the rental fee according to the price negotiated by the Group and the Holding based on the market price.

(5) Purchases of fixed assets and construction services

	Note	For the six months ended 30 June	
		2020 Unaudited	2019 Unaudited
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(iii)	101,167,668	–
Baowu Heavy Industry Co., Ltd.	(iii)	852,259,954	375,393,590
Maanshan Iron Construction Group Co., Ltd.	(iii)	25,377,126	23,371,719
Xinchuang Environmental Protection	(iii)	52,031,050	15,144,378
Phima Intelligence	(iii)	2,161,388	–
Maanshan Jiahua Commodity Concrete Co., Ltd.	(iii)	20,666,786	10,450,712
Masteel Transportation Equipment Manufacturing Co., Ltd.	(iii)	–	2,949,225
Anhui Masteel Equipment Maintenance Co., Ltd.	(iii)	24,364,204	23,369,205
Masteel Heavy Machinery Manufacturing Co., Ltd.	(iii)	25,754,280	–
Masteel Automobile Transportation Service Co., Ltd.	(iii)	15,584,280	–
Shanghai Baosteel Engineering & Technology Co., Ltd.	(iii)	35,160,061	–
Baoshan Iron & Steel Co., Ltd.	(iii)	12,922,164	–
Masteel Group Design and Research Institute Co., Ltd.	(iii)	7,212,665	–
Others	(iii)	16,357,601	–
		1,191,019,227	450,678,829

(iii) The transactions with the Holding and its subsidiaries, and transactions with China Baowu and its subsidiaries were conducted on terms mutually agreed between the Group and the related parties based on market prices.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

5. Significant transactions carried out between the Group and its related parties (Continued)

(6) Supply of utilities, services and other goods

		For the six months ended 30 June	
		2020	2019
	Note	Unaudited	Unaudited
The Holding	(iii)	56,857	48,177
Ma Steel Powder Metallurgy Co., Ltd.	(iii)	52,354,881	43,392,169
Xinchuang Environmental Protection	(iii)	33,590,525	43,813,590
Masteel Heavy Machinery Manufacturing Co., Ltd.	(iii)	8,045,957	12,019,523
Maanshan Jiahua Commodity Concrete Co., Ltd.	(iii)	5,349,868	3,285,341
Phima Intelligence	(iii)	2,800,444	2,812,488
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(iii)	2,260,456	2,926,288
Anhui Masteel Equipment Maintenance Co., Ltd.	(iii)	2,083,723	3,693,197
Masteel Transportation Equipment Manufacturing Co., Ltd.	(iii)	1,645,367	1,487,113
Baowu Heavy Industry Co., Ltd	(iii)	1,800,493	2,747,635
Ruitai Masteel New Material Technology Co., Ltd.	(iii)	490,311	4,051,877
Masteel Refractory Materials Co., Ltd.	(iii)	17,204	17,841
Others	(iii)	30,374,633	23,525,655
		140,870,719	143,820,894

- (iii) The transactions with the Holding and its subsidiaries, and transactions with China Baowu and its subsidiaries were conducted on terms mutually agreed between the Group and the related parties based on market prices.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

X. RELATED PARTY 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 30 June	
		2020 Unaudited	2019 Unaudited
Baowu Heavy Industry Co., Ltd.	(iii)	55,037,610	91,933,435
Anhui BRC & Masteel Weldmesh Co., Ltd.	(iii)	29,526,644	36,530,990
Guangzhou Baosteel South Trade Co., Ltd.	(iii)	26,465,614	–
Maanshan Xinchuangbaineng Energy Technology Co., Ltd.	(iii)	9,067,543	–
Ma Steel International Trade and Economic Co., Ltd.	(iii)	–	12,973,664
Shanghai Baosteel Trading Co., Ltd.	(iii)	7,410,816	–
Shenyang Baosteel Northeast Trading Co., Ltd.	(iii)	3,697,952	–
Others	(iii)	3,095,864	464,509
		134,302,043	141,902,598

(iii) The transactions with the Holding and its subsidiaries, and transactions with China Baowu and its subsidiaries were conducted on terms mutually agreed between the Group and the related parties based on market prices .

(8) Provision of leasing services to related parties

	Note	For the six months ended 30 June	
		2020 Unaudited	2019 Unaudited
Anhui Masteel Surface Engineering Technology Co., Ltd.	(iii)	305,922	308,728
Phima Intelligence	(iii)	82,500	82,500
		388,422	391,228

(iii) The transactions with the Holding and its subsidiaries, and transactions with China Baowu and its subsidiaries were conducted on terms mutually agreed between the Group and the related parties based on market prices.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

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

5. Significant transactions carried out between the Group and its related parties (Continued)

(9) Interest paid to related parties

		For the six months ended 30 June	
		2020	2019
	Note	Unaudited	Unaudited
The Holding	(v)	35,767,546	10,020,198
Baowu Heavy Industry Co., Ltd.	(v)	4,170,520	1,575,549
Maanshan Iron & Steel Group Mining Co., Ltd.	(v)	2,064,742	3,806,715
Xinchuang Environmental Protection	(v)	1,025,319	1,026,175
Anhui Masteel Luo He Mining Co., Ltd.	(v)	780,658	1,274,664
Magang Group Biding and Consulting Co., Ltd.	(v)	745,962	434,351
Magang (Group) Holding Company Limited Assets Management Company	(v)	682,832	128,136
Anhui Masteel Zhang Zhuang Mining Co., Ltd.	(v)	590,912	1,286,920
Ruitai Masteel New Material Technology Co., Ltd.	(v)	316,710	643,631
Ma Steel International Trade and Economic Co., Ltd.	(v)	411,356	373,919
Phima Intelligence	(v)	—	228,084
Maanshan Masteel Surface Engineering Technology Co., Ltd.	(v)	252,506	315,209
Masteel Group Kang Tai Land Development Co., Ltd.	(v)	243,356	200,132
Others	(v)	6,462,097	2,561,713
		53,514,516	23,875,396

- (v) Masteel Finance absorbed deposits from the Holding and its subsidiaries, and paid interest to them at the interest rates ranging from 0.42% to 2.18% for the six months ended 30 June 2020 (for the six months ended 30 June 2019: 0.42% to 2.18%).

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

X. RELATED PARTY 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 30 June	
		2020	2019
		Unaudited	Unaudited
The Holding	(vi)	38,177,825	37,742,673
Maanshan Iron & Steel Group Mining Co., Ltd.	(vi)	32,715,520	10,972,553
Masteel Chengxing Metal Resources Co. Ltd.	(vi)	3,099,805	2,474,065
Baowu Heavy Industry Co., Ltd.	(vi)	2,033,494	795,380
Anhui Masteel Luo He Mining Co., Ltd.	(vi)	1,280,431	1,293,938
Ruitai Masteel New Material Technology Co., Ltd.	(vi)	1,101,509	–
Ma Steel Powder Metallurgy Co., Ltd.	(vi)	999,605	479,514
Anhui BRC & Masteel Weldmesh Co., Ltd.	(vi)	848,039	1,047,843
Magang (Group) Logistics Co., Ltd.	(vi)	–	74,579
Others	(vi)	6,263,969	4,588,648
		86,520,197	59,469,193

- (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 note discounting and entrusted loans. 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.

(11) Purchases of land from related parties

	Note	For the six months ended 30 June	
		2020	2019
		Unaudited	Unaudited
Magang Chemicals & Energy	(vii)	21,684,011	–

- (vii) The transactions with Magang Chemicals & Energy were conducted based on the valuation result of the fair value of the land.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

5. Significant transactions carried out between the Group and its related parties (Continued)

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

		For the six months ended 30 June	
		2020	2019
	Note	Unaudited	Unaudited
Magang Chemicals & Energy	(viii)	763,389,438	972,265,424
Ma-Steel OCI Chemical	(viii)	10,759,449	10,499,468
BOC-Ma Steel	(viii)	137,256,549	112,601,812
Ouye Lianjin	(viii)	3,444,629	3,966,766
Masteel K. Wah	(viii)	374,904,213	338,541,858
		1,289,754,278	1,437,875,328

(13) Purchases of products from joint ventures and associates

		For the six months ended 30 June	
		2020	2019
	Note	Unaudited	Unaudited
Ouye Lianjin	(viii)	1,783,222,151	2,253,505,651
Magang Chemicals & Energy	(viii)	639,900,383	805,158,613
Henan JinMa Energy	(viii)	449,611,231	459,587,194
BOC-Ma Steel	(viii)	338,118,776	281,043,256
Shenglong Chemical	(viii)	—	3,300,475
		3,210,852,541	3,802,595,189

- (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, etc., were determined in accordance with the service agreements between the Group and the Holding.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

X. RELATED PARTY RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)**5. Significant transactions carried out between the Group and its related parties (Continued)****(14) Agency fee to an associate**

	Note	For the six months ended 30 June	
		2020 Unaudited	2019 Unaudited
Ouye Lianjin	(ix)	7,605,438	10,487,940

(ix) The transactions above with joint ventures and associates were conducted on terms mutually agreed between the Group and the related parties based on market prices.

(15) Provision of rental service to a joint venture and associates

	Note	For the six months ended 30 June	
		2020 Unaudited	2019 Unaudited
Magang Chemicals & Energy	(ix)	203,965	–
BOC-Ma Steel	(ix)	625,000	625,000
		828,965	625,000

(ix) The transactions above with joint ventures and associates were conducted on terms mutually agreed between the Group and the related parties based on market prices.

(16) Interest charges for financial services to a joint venture and associates

	Note	For the six months ended 30 June	
		2020 Unaudited	2019 Unaudited
Magang Chemicals & Energy	(ix)	3,454,626	4,837,408
BOC-Ma Steel	(ix)	2,145,588	1,931,156
Masteel K. Wah	(ix)	1,156,521	–
Ouye Lianjin	(ix)	1,784,830	1,759,621
Ma-Steel Commercial Factoring	(ix)	65,906	–
Ma-Steel Financial Leasing	(ix)	184,084	–
Ma-Steel OCI Chemical	(ix)	3,780	–
Phima Intelligence	(ix)	327,967	–
		9,123,302	8,528,185

(ix) The transactions above with joint ventures and associates were conducted on terms mutually agreed between the Group and the related parties based on market prices.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

X. RELATED PARTY RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)**5. Significant transactions carried out between the Group and its related parties (Continued)****(17) Financial service income received from associates**

		For the six months ended 30 June	
		2020	2019
	Note	Unaudited	Unaudited
Ouye Lianjin	(ix)	24,916,308	—
Masteel K. Wah	(ix)	11,631	—
		24,927,939	—

(ix) The transactions above with joint ventures and associates were conducted on terms mutually agreed between the Group and the related parties based on market prices.

(18) Guarantee provided by a related party**30 June 2020 (Unaudited)**

	Note	Guarantee's name	Guarantee amount	Start date	End date	Has guarantee expired or not
The Holding	(x)	The Company	RMB49.5 million	2014.7	2025.10	Not yet as of the approval date of the report

31 December 2019 (Audited)

	Note	Guarantee's name	Guarantee amount	Start date	End date	Has guarantee expired or not
The Holding	(x)	The Company	RMB0.916 billion	2014.7	2025.10	Not yet as of the approval date of the report

(x) During the period, the Holding had not guaranteed additional certain bank loans of the Group (2019: approximately RMB0.1 billion) without attached conditions. The Holding had guaranteed part of the bank loans without attached conditions amounting to approximately RMB49.5 million as of 30 June 2020 (31 December 2019: approximately RMB0.916 billion).

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

X. RELATED PARTY 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 services to the Group and its subsidiaries, and from 1 January 2019 to 31 December 2021, 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 2020, the highest daily deposit balance was RMB11.296 billion (2019: RMB14.688 billion); the highest average daily deposit balance on a monthly basis was RMB10.892 billion (2019: RMB7.404 billion); the highest daily loan balance was RMB2.368 billion (2019: RMB2.787 billion); and the highest average daily loan balance on a monthly basis was RMB2.299 billion (2019: RMB2.684 billion).

6. Receivables due from/payables due to related parties

	30 June 2020 (Unaudited)		31 December 2019 (Audited)	
	Carrying amount	Provision	Carrying amount	Provision
Trade receivables				
The Holding and its subsidiaries				
The Holding	29,074	5,551	29,074	291
Masteel Heavy Machinery Manufacturing Co., Ltd.	4,352,520	658,965	4,243,281	42,433
Anhui Masteel Equipment Maintenance Co, Ltd.	51,936	519	8,154,025	81,540
Baowu Heavy Industry Co., Ltd.	16,023,964	160,240	17,475,806	174,758
Xinchuang Environmental Protection	182,323	1,823	—	—
Other entities controlled by the Holding	1,497,561	14,976	802,138	8,021
	22,137,378	842,074	30,704,324	307,043

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

6. Receivables due from/payables due to related parties (Continued)

	30 June 2020 (Unaudited)		31 December 2019 (Audited)	
	Carrying amount	Provision	Carrying amount	Provision
Trade receivables (Continued)				
The ultimate controlling party and its subsidiaries				
Wuhan Iron and Steel Co., Ltd.	—	—	895,388	8,954
Nanjing Meibao New Building Material Co., Ltd.	—	—	936,676	9,367
	—	—	1,832,064	18,321
Associates and joint ventures of the Group				
BOC-Ma Steel	—	—	22,988,938	229,889
Magang Chemicals & Energy	104,604,076	1,046,041	154,574,444	1,545,744
Ouye Lianjin	413,856	4,138	2,528,942	25,290
	105,017,932	1,050,179	180,092,324	1,800,923
Other receivables				
The Holding and its subsidiaries				
The Holding	120,000	18,000	120,000	18,000
	120,000	18,000	120,000	18,000

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

X. RELATED PARTY RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)**6. Receivables due from/payables due to related parties (Continued)**

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Prepayments		
The Holding and its subsidiaries		
Baowu Heavy Industry Co., Ltd.	–	174,957,075
Ma Steel International Trade and Economic Co., Ltd.	64,298,275	137,943,628
Masteel Group Design and Research Institute Co., Ltd.	35,102,500	–
Shanghai Baosight Software Co., Ltd.	9,347,726	–
Other entities controlled by the Holding	32,624	24,064
	108,781,125	312,924,767
The ultimate controlling party and its subsidiaries		
Shanghai Baosteel Engineering & Technology Co., Ltd.	–	8,720,000
Ouyeel Cloud Commerce Co., Ltd.	15,202,764	–
Ouyeel International E-commerce Co., Ltd.	566,451	–
Shanghai Baosteel Steel Trading Co., Ltd.	172,551	–
Chongqing Baosteel Automobile Steel Parts Co., Ltd.	638	–
Chengdu Baosteel Automobile Steel Parts Processing and Distribution Co., Ltd.	10	–
General Electric (Wuhan) Automation Co., Ltd.	–	12,796,727
Baosteel Resources Holdings (Shanghai) Co., Ltd.	–	4,239,130
	15,942,414	25,755,857

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

6. Receivables due from/payables due to related parties (Continued)

	30 June 2020 (Unaudited)		31 December 2019 (Audited)	
	Carrying amount	Provision	Carrying amount	Provision
Loans and advances to customers				
The Holding and its subsidiaries				
The Holding	900,000,000	23,566,462	1,150,000,000	30,112,701
Anhui Masteel Mining Resources Group Co., Ltd.	2,044,238,800	53,528,306	1,905,427,344	49,893,534
Masteel Chengxing Metal Resources Co., Ltd.	100,000,000	2,618,496	168,675,353	4,416,757
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	50,000,000	1,309,248	96,781,831	2,534,228
Ma Steel International Trade and Economic Co., Ltd.	—	—	40,685,180	1,065,340
Baowu Heavy Industry Co., Ltd.	143,261,479	3,751,296	36,000,000	942,658
Masteel Heavy Machinery Manufacturing Co., Ltd.	13,000,000	340,404	31,000,000	811,734
Masteel Fuyuan Metal Resources Co., Ltd.	57,841,085	1,514,566	25,000,000	654,624
Shanghai Masteel International Trade and Economic Co., Ltd.	—	—	20,000,000	523,699
Guizhou Xinchuan Environmental Protections Co., Ltd.	2,200,778	57,627	10,826,747	283,498
Anhui Masteel Luo He Mining Co., Ltd.	60,000,000	1,571,097	60,000,000	1,571,097
Anhui BRC & Masteel Weldmesh Co., Ltd.	30,000,000	785,549	42,921,836	1,123,906
Anhui Zhonglian Shipping Co., Ltd.	57,921,997	1,516,685	60,538,652	1,585,202
Ruitai Masteel New Material Technology Co., Ltd.	104,186,658	2,728,123	—	—
Other entities controlled by the Holding	59,797,535	1,565,796	65,625,061	1,718,389
	3,622,448,332	94,853,655	3,713,482,004	97,237,367
Associate of the Group				
Ouye Lianjin	538,516,408	14,101,029	387,322,833	10,142,032

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

6. Receivables due from/payables due to related parties (Continued)

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Trade payables		
The Holding and its subsidiaries		
The Holding	391,901,646	357,450,871
Masteel Heavy Machinery Manufacturing Co., Ltd.	82,146,557	38,791,801
Xinchuang Environmental Protection	61,575,569	68,696,805
Ma Steel International Trade and Economic Co., Ltd.	109,486	109,242
Baowu Heavy Industry Co., Ltd.	56,291,641	42,919,824
Phima Intelligence	5,084,923	68,741,777
Masteel Transportation Equipment Manufacturing Co., Ltd.	37,364,536	22,543,649
Anhui Masteel Equipment Maintenance Co, Ltd.	5,495,687	68,350,436
Ruitai Masteel New Material Technology Co., Ltd.	147,302,036	217,587
Masteel Chengxing Metal Resources Co. Ltd.	192,728,343	–
Maanshan Masteel Surface Engineering Technology Co., Ltd.	159,766,128	34,906,601
Other entities controlled by the Holding	147,686,656	107,918,647
	1,287,453,208	810,647,240

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

X. RELATED PARTY RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)**6. Receivables due from/payables due to related parties (Continued)**

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Trade payables (Continued)		
The ultimate controlling party and its subsidiaries		
Baosteel Resources Holdings (Shanghai) Co., Ltd.	24,200,617	2,256,496
Baowu Equipment Intelligent Technology Co., Ltd.	—	5,601,150
Other entities controlled by the ultimate controlling party	855,821	10,577,106
	25,056,438	18,434,752
Joint ventures and associates of the Group		
BOC-Ma Steel	—	55,179,453
Henan JinMa Energy	18,739,485	20,202,316
Magang Chemicals & Energy	111,360,699	127,456,946
Ma-Steel Commercial Factoring	—	14,831,313
Ouye Lianjin	166,097,162	4,822,113
	296,197,346	222,492,141

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

X. RELATED PARTY RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)**6. Receivables due from/payables due to related parties (Continued)**

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Other payables		
The Holding and its subsidiaries		
Maanshan Xinchuangbaineng Energy Technology Co., Ltd.	5,159,030	3,972,366
Masteel Automobile Transportation Service Co., Ltd.	736,320	736,320
Xinchuang Environmental Protection	454,468	357,318
Anhui Magang Logistics Port Container Transportation Co., Ltd.	224,673	–
Baowu Heavy Industry Co., Ltd.	98,000	146,174
Anhui Masteel Equipment Maintenance Co, Ltd.	128,865	204,865
Maanshan Masteel Electric Repair Co., Ltd.	–	54,204
Other entities controlled by the Holding	2,250,672	1,569,973
	9,052,028	7,041,220
The ultimate controlling party and its subsidiaries		
Shanghai Baosteel Engineering & Technology Co., Ltd.	120,000	100,000
Other entities controlled by the ultimate controlling party	50,000	10,000
	170,000	110,000
Joint venture of the Group		
BOC-Ma Steel	70,000	70,000

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

6. Receivables due from/payables due to related parties (Continued)

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Contract liabilities		
The Holding and its subsidiaries		
The Holding	150,785	150,785
Ma Steel International Trade and Economic Co., Ltd.	2	195,813
Baowu Heavy Industry Co., Ltd.	18,311	30,911,489
Maanshan Iron Construction Group Co., Ltd.	1,062,071	2,260,763
Anhui Masteel Zhang Zhuang Mining Co., Ltd.	2,185,715	2,185,715
Other entities controlled by the Holding	5,936,310	4,197,247
	9,353,194	39,901,812
The ultimate controlling party and its subsidiaries		
Eastern Steel E-Commerce Co., Ltd.	—	19,279,696
Shanghai Iron & Steel Exchange Co., Ltd.	892,343	1,022,114
Baosteel Magnetic Industry (Jiangsu) Co., Ltd.	344,441	418,161
Ouyeel Cloud Commerce Co., Ltd.	107,490,724	6,152,039
Shanghai Ouyeel Material Technology Co., Ltd.	42,686	55,708
	108,770,194	26,927,718
Associates of the Group		
Shenglong Chemical	11	—
Masteel K. Wah	18,384,136	13,237,241
	18,384,147	13,237,241
Dividends receivable		
Associates of the Group		
Masteel Financial Leasing	4,041,333	—
Dividends payable		
The Holding and its subsidiaries		
The Holding	280,520,414	—

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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

6. Receivables due from/payables due to related parties (Continued)

	30 June 2020 (Unaudited)	31 December 2019 (Audited)
Customer deposits		
The Holding and its subsidiaries		
The Holding	3,420,153,355	6,943,487,354
Baowu Heavy Industry Co., Ltd.	621,679,358	484,640,854
Masteel Heavy Machinery Manufacturing Co., Ltd.	78,146,992	113,271,840
Anhui Masteel Zhang Zhuang Mining Co., Ltd.	67,873,743	49,056,710
Anhui Masteel Mining Resources Group Co., Ltd.	296,371,296	185,905,021
Xinchuang Environmental Protection	86,433,924	122,580,311
Ma Steel International Trade and Economic Co., Ltd.	86,173,217	102,743,643
Masteel Group Kang Tai Land Development Co., Ltd.	63,885,146	77,467,806
Other entities controlled by the Holding	1,422,673,063	1,310,323,298
	6,143,390,094	9,389,476,837
Joint venture and associates of the Group		
BOC-Ma Steel	215,090,702	166,045,114
Ouye Lianjin	516,100,503	243,307,090
Masteel K. Wah	171,351,542	182,743,983
Magang Chemicals & Energy	777,409,018	466,397,590
Ma-Steel Commercial Factoring	10,000	39,404,937
Ma-Steel Financial Leasing	67,971,103	7,099,906
Ma-Steel OCI Chemical	566,216	565,867
	1,748,499,084	1,105,564,487

The fee charged by Masteel Finance for the financing services and deposit services provided to the Holding and its subsidiaries was determined based on negotiation between the parties.

As of 30 June 2020, in current assets and current liabilities, except for the interests charged 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 Financial Statements (Continued)

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X. RELATED PARTY RELATIONSHIP AND RELATED PARTY TRANSACTIONS (CONTINUED)**7. Commitment with related parties**

As of 30 June 2020, the Group had no investment commitment with related parties.

XI. COMMITMENTS AND CONTINGENCIES**1. Significant commitments***Capital commitments*

	30 June 2020 Unaudited	31 December 2019 Audited
Contracted, but not provided for		
Capital commitments	4,567,062,503	4,779,116,831
Investment commitments	13,969,500	13,969,500
	4,581,032,003	4,793,086,331

Credit commitments

	30 June 2020 Unaudited	31 December 2019 Audited
Acceptance bill	800,592,281	1,359,403,353

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

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

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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” (Guo Shui Han [2007] No. 664) in June 2007, which stated that the relevant local tax bureaus must correct immediately the expired tax incentives of the nine Hong Kong listed companies. The income tax difference between the results of the previously expired preferential rate and the applicable rate should be treated in accordance with the relevant provisions of the “People’s Republic of China Administration of Tax Collection Law”.

The Company was one of the nine companies mentioned above and used a 15% preferential tax rate in the previous year. After understanding the above information, the Company and the tax authorities issued a comprehensive communication and according to the tax authorities, the applicable corporate income tax rate in 2007 was 33%, which was adjusted from the original 15%. The Company had not been recovered prior year income tax differences.

Based on the comprehensive communication between the Company and the tax authorities, the directors of the Company believe that it is uncertain whether the tax authorities will recover the difference between the previous years’ income tax at this stage, and the final result of this matter cannot be estimated reliably. Therefore, the financial statements have not made any provisions or adjustments related to the income tax differences.

Pending litigation

As of 30 June 2020, the Group and the Company did not have significant pending litigations.

XII. EVENTS AFTER THE BALANCE SHEET DATE

As of the approval date of the financial statements, there are no other significant events after the balance sheet date that need to be disclosed by the Group.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

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XIII. OTHER SIGNIFICANT EVENTS

1. Leases

As lessor

The Group has leased certain of its investment properties under operating lease arrangements ranging from two to eighteen years. The periodic rental was fixed during the operating lease periods. As of 30 June 2020, the rental income recognised by the Group was RMB4,517,154 (For the six months ended 30 June 2019: RMB2,680,771). According to the lease contracts, the future minimum lease receivables under non-cancellable leases are as follows:

	30 June 2020 Unaudited	31 December 2019 Audited
Remaining lease period		
Within 1 year	3,168,028	3,168,028
1 to 2 years, inclusive	2,273,050	2,813,050
2 to 3 years, inclusive	1,620,562	2,088,028
3 to 4 years, inclusive	838,028	995,562
4 to 5 years, inclusive	838,028	838,028
over 5 years	2,374,413	2,793,427
	11,112,109	12,696,123

As lessee

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

	For the six months ended 30 June	
	2020 Unaudited	2019 Unaudited
Interest expense on lease liabilities	10,491,230	10,882,088
Expenses relating to short-term leases accounted for applying the simplified approach	2,047,217	3,146,334
Expenses relating to leases of low-value assets accounted for applying the simplified approach (other than short-term leases)	819,041	172,890
Total cash flow for leases	21,803,620	37,845,748

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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 organisation 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 further detailed information.

Other information

Product and service information

External principal operating income

	For the six months ended 30 June	
	2020	2019
	Unaudited	Unaudited
Sale of steel products	34,133,876,189	33,635,909,225
Sale of steel billets and pig iron	1,217,189,948	1,205,907,865
Sale of coke by-products	36,036,055	–
Others	1,393,302,202	1,544,361,518
	36,780,404,394	36,386,178,608

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

2. Operating segment information (Continued)

Geographical information

External principal operating income

	For the six months ended 30 June	
	2020	2019
	Unaudited	Unaudited
Mainland China	34,924,802,538	33,941,755,844
Overseas and Hong Kong	1,855,601,856	2,444,422,764
	36,780,404,394	36,386,178,608

Non-current assets

	30 June	31 December
	2020	2019
	Unaudited	Audited
Mainland China	40,735,008,911	39,090,556,947
Overseas and Hong Kong	217,364,791	217,815,932
	40,952,373,702	39,308,372,879

The non-current asset 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 to which the sales accounted for 10% or more of its total revenue.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

3. Other financial information

	Group		Company	
	30 June	31 December	30 June	31 December
	2020	2019	2020	2019
	Unaudited	Audited	Unaudited	Audited
Current assets	39,290,072,701	46,522,057,819	19,964,965,126	23,916,198,032
Less: Current liabilities	44,546,520,766	50,076,547,161	32,071,514,059	33,977,168,360
Net current liabilities	(5,256,448,065)	(3,554,489,342)	(12,106,548,933)	(10,060,970,328)

	Group		Company	
	30 June	31 December	30 June	31 December
	2020	2019	2020	2019
	Unaudited	Audited	Unaudited	Audited
Total assets	80,707,266,366	86,322,043,538	60,229,561,661	62,444,988,565
Less: Current liabilities	44,546,520,766	50,076,547,161	32,071,514,059	33,977,168,360
Total assets less current liabilities	36,160,745,600	36,245,496,377	28,158,047,602	28,467,820,205

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

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 analysed below:

	30 June 2020 Unaudited	31 December 2019 Audited
Within one year	2,697,369,430	3,133,767,463
One to two years	15,435,022	14,119,742
Two to three years	14,717,930	22,668,320
Over three years	29,522,422	23,184,592
	2,757,044,804	3,193,740,117
Less: Provisions for bad debts	42,066,828	39,323,552
	2,714,977,976	3,154,416,565

The trade receivables balances were analysed as follows:

	30 June 2020					31 December 2019				
	(Unaudited)					(Audited)				
	Carrying amount		Provision for bad debts		Book value	Carrying amount		Provision for bad debts		Book value
	Amount	Ratio (%)	Amount	Ratio (%)		Amount	Ratio (%)	Amount	Ratio (%)	
Bad debt provision assessed individually	2,209,264,008	80	–	–	2,209,264,008	2,756,498,204	86	–	–	2,756,498,204
Bad debt provision assessed in portfolios based on credit risk characteristics	547,780,796	20	(42,066,828)	8	505,713,968	437,241,913	14	(39,323,552)	9	397,918,361
	2,757,044,804	100	(42,066,828)		2,714,977,976	3,193,740,117	100	(39,323,552)		3,154,416,565

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

1. Trade receivables (Continued)

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

	30 June 2020 (Unaudited)			31 December 2019 (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
Trade receivables to subsidiaries	2,209,264,008	–	–	2,756,498,204	–	–

The Company's provision for bad debts of trade receivables analysed by ageing was as follows:

	30 June 2020 (Unaudited)			31 December 2019 (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	497,173,689	1	(4,971,737)	377,458,746	1	(3,774,587)
One to two years	6,546,275	15	(981,941)	14,109,775	15	(2,116,466)
Two to three years	14,717,930	46	(6,770,248)	22,668,320	46	(10,427,427)
Over three years	29,342,902	100	(29,342,902)	23,005,072	100	(23,005,072)
Total	547,780,796		(42,066,828)	437,241,913		(39,323,552)

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 2020	39,323,552	2,743,276	–	–	–	–	42,066,828
31 December 2019	63,813,647	–	(24,490,095)	–	–	–	39,323,552

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS
(CONTINUED)

1. Trade receivables (Continued)

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

30 June 2020 (Unaudited)

	Relationship with the Company	Ending balance	Ageing	Percentage of trade receivables	Ending balance of provision
Company 1	Subsidiary	882,245,965	Within one year	32%	—
Company 2	Subsidiary	764,102,581	Within one year	28%	—
Company 3	Third party	104,604,076	Within one year	4%	1,046,041
Company 4	Subsidiary	102,250,599	Within one year	4%	—
Company 5	Subsidiary	100,703,653	Within one year	4%	—
		1,953,906,874		72%	1,046,041

31 December 2019 (Audited)

	Relationship with the Company	Ending balance	Ageing	Percentage of trade receivables	Ending balance of provision
Company 1	Subsidiary	1,086,779,332	Within one year	34%	—
Company 2	Subsidiary	705,026,500	Within one year	22%	—
Company 3	Subsidiary	187,619,223	Within one year	6%	—
Company 4	Third party	152,551,557	Within one year	5%	1,525,516
Company 5	Subsidiary	141,949,862	Within one year	4%	—
		2,273,926,474		71%	1,525,516

As of 30 June 2020 and 31 December 2019, there were no trade receivables that were derecognised due to the transfer of financial assets.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

2. Other receivables

	30 June 2020 Unaudited	31 December 2019 Audited
Dividends receivable	65,377,740	–
Other receivables	150,835,199	94,415,995
	216,212,939	94,415,995

Dividends receivable

	30 June 2020 Unaudited	31 December 2019 Audited
Subsidiary- Ma Steel Shanghai Sales	28,000,000	–
Subsidiary- Ma Steel (Cihu)	18,400,000	–
Subsidiary- Hefei Material	7,000,000	–
Subsidiary- Chongqing Material	7,000,000	–
Subsidiary- Ma Steel (Guangzhou)	1,830,753	–
Subsidiary- Ma Steel (Wuhu)	266,987	–
Other equity instrument investments – MCC17	2,880,000	–
	65,377,740	–

Other receivables

An ageing analysis of the other receivables is as follows:

	30 June 2020 Unaudited	31 December 2019 Audited
Within one year	151,455,920	94,088,849
One to two years	555,000	555,000
Two to three years	–	–
Over three years	410,899,576	410,946,826
	562,910,496	505,590,675
Less: Provision for bad debts	412,075,297	411,174,680
	150,835,199	94,415,995

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS
(CONTINUED)

2. Other receivables (Continued)

Other receivables classified by nature:

	30 June 2020 Unaudited	31 December 2019 Audited
Due from trading companies	403,317,627	403,317,627
Guarantee for steel futures	101,772,591	47,141,529
Prepayments of customs duties and VAT	41,653,820	32,041,791
Others	16,166,458	23,089,728
	562,910,496	505,590,675
Less: Provision for bad debts	412,075,297	411,174,680
	150,835,199	94,415,995

The movements of bad debt provision based on the 12-month expected credit losses and lifetime credit losses were as follows:

30 June 2020 (Unaudited)

	Phase I 12-month expected credit losses	Phase II Lifetime expected credit losses	Stage III Credit-impaired financial assets (Lifetime expected credit losses)	Total
Opening balance	77,406	7,779,647	403,317,627	411,174,680
Changes due to the				
opening balance	—	—	—	—
– Shift to Phase II	—	—	—	—
– Shift to Phase III	—	—	—	—
– Back to Phase II	—	—	—	—
– Back to Phase I	—	—	—	—
Provided	900,617	—	—	900,617
Reversal	—	—	—	—
Other changes	—	—	—	—
Closing balance	978,023	7,779,647	403,317,627	412,075,297

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

2. Other receivables (Continued)

*Other receivables (Continued)**31 December 2019 (Audited)*

	Phase I	Phase II	Stage III	Total
	12-month expected credit losses	Lifetime expected credit losses	Credit-impaired financial assets (Lifetime expected credit losses)	
Opening balance	313,961	8,194,939	403,317,627	411,826,527
Changes due to the opening balance	(2,400)	2,400	–	–
– Shift to Phase II	(2,400)	2,400	–	–
– Shift to Phase III	–	–	–	–
– Back to Phase II	–	–	–	–
– Back to Phase I	–	–	–	–
Provided	–	–	–	–
Reversal	(234,155)	(417,692)	–	(651,847)
Other changes	–	–	–	–
Closing balance	77,406	7,779,647	403,317,627	411,174,680

During the current period, there were no other receivables that had been written off (31 December 2019: Nil).

As of 30 June 2020, the top five other receivables were as follows:

	Balance	Ratio to total other receivables (%)	Nature	Ageing	Balance of bad debts
Company 1	132,058,434	23	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	37,243,732	7	Due from trading companies	More than 3 years	(37,243,732)
	403,317,626	72			(403,317,626)

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS
(CONTINUED)

2. Other receivables (Continued)

Other receivables (Continued)

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

	Balance	Ratio to total other receivables (%)	Nature	Ageing	Balance of bad debts
Company 1	132,058,434	26	Due from trading companies	More than 3 years	(132,058,434)
Company 2	127,685,367	25	Due from trading companies	More than 3 years	(127,685,367)
Company 3	60,939,960	12	Due from trading companies	More than 3 years	(60,939,960)
Company 4	45,390,133	9	Due from trading companies	More than 3 years	(45,390,133)
Company 5	37,243,732	7	Due from trading companies	More than 3 years	(37,243,732)
	403,317,626	79			(403,317,626)

3. Long-term equity investments

	30 June 2020 Unaudited	31 December 2019 Audited
Long-term investments under the equity method		
Joint ventures (i)	295,961,422	272,196,719
Associates (i)	3,034,120,475	2,979,631,679
Long-term investments under the cost method		
Subsidiaries (ii)	8,899,405,687	8,825,030,687
Subtotal	12,229,487,584	12,076,859,085
Less: Provision for impairment	599,167,213	599,167,213
Total	11,630,320,371	11,477,691,872

In the opinion of the directors, there was no material restriction on the realisation of investments as of 30 June 2020.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS
(CONTINUED)

3. Long-term equity investments (Continued)

(i) Investments in joint ventures and associates

30 June 2020 (Unaudited)

	Opening balance	Changes during the period							Ending balance	Impairment at the end of the period
		Increase	Decrease	Investment income under the equity method	Other comprehensive income	Other equity movement	Cash dividends declared	Provision for impairment		
Joint ventures										
BOC-Ma Steel	271,695,413	-	-	50,708,394	-	56,309	(27,000,000)	-	295,460,116	-
MASTEEL-CMI	501,306	-	-	-	-	-	-	-	501,306	-
Associates										
Henan JinMa Energy	707,573,964	-	-	61,298,432	-	777,626	(43,200,000)	-	726,450,022	-
Shenglong Chemical	816,220,485	-	-	27,777,325	-	1,999,077	-	-	845,996,887	-
Xinchuang Environmental Protection	66,964,108	-	-	5,588,945	-	(485,376)	(5,130,578)	-	66,937,099	-
Ma-Steel OCI Chemical	147,887,236	-	-	(1,918,408)	-	899,385	(4,000,000)	-	142,868,213	-
Ma-Steel Commercial Factoring	157,570,298	-	-	2,839,545	-	-	-	-	160,409,843	-
Magang Chemicals & Energy	659,825,286	-	-	7,562,729	-	3,600,000	-	-	670,988,015	-
Masteel K.Wah.	102,560,472	-	-	4,882,783	-	-	-	-	107,443,255	-
Ouye Lianjin	321,029,830	-	-	2,634,811	-	-	(10,637,500)	-	313,027,141	-
	3,251,828,398	-	-	161,374,556	-	6,847,021	(89,968,078)	-	3,330,081,897	-

Note: Please refer to Note V.11 for details.

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS
(CONTINUED)

3. Long-term equity investments (Continued)

(i) Investments in joint ventures and associates (Continued)

31 December 2019 (Audited)

	Opening balance	Changes during the year							Ending balance	Impairment at the end of the year
		Increase	Decrease	Investment income under the equity method	Other comprehensive income	Other equity movement	Cash dividends declared	Provision for impairment		
Joint ventures										
BOC-Ma Steel	268,088,957	-	-	88,606,456	-	-	(85,000,000)	-	271,695,413	-
MASTEEL-CMI	501,735	-	-	(429)	-	-	-	-	501,306	-
Associates										
Henan JinMa Energy	613,018,859	-	-	157,352,305	-	2,002,800	(64,800,000)	-	707,573,964	-
Shenglong Chemical	732,685,925	-	-	162,822,030	-	694,949	(79,982,419)	-	816,220,485	-
Shanghai Iron and Steel Electronic	7,790,111	-	(7,484,171)	(305,940)	-	-	-	-	-	-
Xinchuang Environmental Protection	57,681,293	-	-	11,393,478	-	582,123	(2,692,786)	-	66,964,108	-
Ma-Steel OCI Chemical	146,519,873	-	-	5,231,952	-	935,411	(4,800,000)	-	147,887,236	-
Ma-Steel Commercial Factoring	77,647,587	75,000,000	-	6,999,632	-	-	(2,076,921)	-	157,570,298	-
Magang Chemicals & Energy	600,632,763	-	-	59,192,523	-	-	-	-	659,825,286	-
Masteel K.Wah.	79,975,786	-	-	22,584,686	-	-	-	-	102,560,472	-
Ouye Lianjin	139,673,024	135,000,000	-	46,356,806	-	-	-	-	321,029,830	-
	2,724,215,913	210,000,000	(7,484,171)	560,233,499	-	4,215,283	(239,352,126)	-	3,251,828,398	-

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS
(CONTINUED)

3. Long-term equity investments (Continued)

(ii) Investments in subsidiaries

30 June 2020 (Unaudited)

	Opening balance	Changes during the period				Ending balance	Impairment at the end of the period	Cash dividends declared
		Increase	Disposal/ cancellation	Other movement	Provision for impairment			
Ma Steel (Wuhu)	8,225,885	-	-	-	-	8,225,885	-	14,000,000
Ma Steel (Cihu)	48,465,709	-	-	-	-	48,465,709	-	-
Ma Steel (Guangzhou)	93,058,200	-	-	-	-	93,058,200	-	-
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	-	9,058,794
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	-	10,720,000
Ma Steel (Yangzhou) Processing	116,462,300	-	-	-	-	116,462,300	-	-
Wuhu Technique	106,500,000	-	-	-	-	106,500,000	-	-
Chongqing Material	175,000,000	-	-	-	-	175,000,000	-	-
Anhui Chang Jiang Iron and Steel	1,234,444,444	-	-	-	-	1,234,444,444	-	330,000,000
Masteel Finance	1,843,172,609	-	-	-	-	1,843,172,609	-	69,115,411
Hefei Material	140,000,000	-	-	-	-	140,000,000	-	-
MG-VALDUNES	439,915,772	-	-	-	-	439,915,772	(599,167,213)	-
Ma Steel Hangzhou Sales	10,000,000	-	-	-	-	10,000,000	-	9,000,000
Ma Steel Wuxi Sales	10,000,000	-	-	-	-	10,000,000	-	6,000,000
Ma Steel Nanjing Sales	10,000,000	-	-	-	-	10,000,000	-	7,000,000
Ma Steel Wuhan Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma Steel Shanghai Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma Steel Rail Transportation	1,522,317,563	-	-	-	-	1,522,317,563	-	-
Ma Steel Oubang Colour-coated	10,050,000	-	-	-	-	10,050,000	-	-
Masteel America	3,298,375	-	-	-	-	3,298,375	-	-
Ma Steel Antitrust	3,060,000	-	-	-	-	3,060,000	-	-
Mascometal	127,368,631	-	-	-	-	127,368,631	-	-
Meite Metallurgical Power	500,000	-	-	-	-	500,000	-	-
Masteel Middle East	5,476,450	-	-	-	-	5,476,450	-	-
Changchun Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma Steel Hongfei	51,000,000	-	-	-	-	51,000,000	-	-
Wuhan Material	85,000,000	74,375,000	-	-	-	159,375,000	-	-
Total	8,225,863,474	74,375,000	-	-	-	8,300,238,474	(599,167,213)	454,894,205

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS
(CONTINUED)

3. Long-term equity investments (Continued)

(ii) Investments in subsidiaries (Continued)

31 December 2019 (Audited)

	Opening balance	Changes during the year				Ending balance	Impairment at the end of the year	Cash dividends declared
		Increase	Disposal/ cancellation	Other 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	13,058,200	-	-	-	93,058,200	-	1,360,900
Ma Steel (HK)	52,586,550	-	-	-	-	52,586,550	-	-
MG Trading	1,573,766	-	-	-	-	1,573,766	-	-
Holly Industrial	21,478,316	-	-	-	-	21,478,316	-	6,675,672
Ma Steel (Jinhua)	90,000,000	-	-	-	-	90,000,000	-	-
Ma Steel (Australia)	126,312,415	-	-	-	-	126,312,415	-	-
Ma Steel (Hefei)	1,775,000,000	-	-	-	-	1,775,000,000	-	-
Ma Steel (Hefei) Processing	85,596,489	-	-	-	-	85,596,489	-	15,879,000
Ma Steel (Yangzhou) Processing	116,462,300	-	-	-	-	116,462,300	-	10,650,000
Wuhu Technique	106,500,000	-	-	-	-	106,500,000	-	-
Chongqing Material	175,000,000	-	-	-	-	175,000,000	-	14,000,000
Anhui Chang Jiang Iron and Steel	1,234,444,444	-	-	-	-	1,234,444,444	-	627,000,000
Masteel Finance	1,843,172,609	-	-	-	-	1,843,172,609	-	95,023,085
Hefei Material	140,000,000	-	-	-	-	140,000,000	-	8,750,000
MG-VALDUNES	883,022,985	156,060,000	-	-	(599,167,213)	439,915,772	(599,167,213)	-
Ma Steel Hangzhou Sales	10,000,000	-	-	-	-	10,000,000	-	5,501,800
Ma Steel Wuxi Sales	10,000,000	-	-	-	-	10,000,000	-	5,101,300
Ma Steel Nanjing Sales	10,000,000	-	-	-	-	10,000,000	-	5,514,300
Ma Steel Wuhan Sales	10,000,000	-	-	-	-	10,000,000	-	6,141,800
Ma Steel Shanghai Sales	10,000,000	-	-	-	-	10,000,000	-	20,835,400
Ma Steel Rail Transportation	396,021,369	1,126,296,194	-	-	-	1,522,317,563	-	-
Ma Steel Oubang Colour-coated	10,050,000	-	-	-	-	10,050,000	-	-
Masteel America	3,298,375	-	-	-	-	3,298,375	-	-
Ma Steel Antitrust	3,060,000	-	-	-	-	3,060,000	-	-
Mascometal	127,368,631	-	-	-	-	127,368,631	-	-
Meite Metallurgical Power	500,000	-	-	-	-	500,000	-	-
Masteel Middle East	2,041,200	3,435,250	-	-	-	5,476,450	-	-
Changchun Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma Steel Hongfei	-	51,000,000	-	-	-	51,000,000	-	-
Wuhan Material	31,875,000	53,125,000	-	-	-	85,000,000	-	-
Total	7,422,056,043	1,402,974,644	-	-	(599,167,213)	8,225,863,474	(599,167,213)	845,593,257

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS
(CONTINUED)

4. Revenue and cost of sales

	For the six months ended 30 June 2020 Unaudited		For the six months ended 30 June 2019 Unaudited	
	Revenue	Cost of sales	Revenue	Cost of sales
Principal operating income	30,441,123,264	28,659,506,544	29,597,334,681	27,641,667,697
Other operating income	573,429,695	590,017,755	532,032,667	540,768,597
	31,014,552,959	29,249,524,299	30,129,367,348	28,182,436,294

Revenue from contracts with customers:

	For the six months ended 30 June	
	2020 Unaudited	2019 Unaudited
Sales of products	31,010,035,805	30,126,103,324
Rental income	4,517,154	3,264,024
	31,014,552,959	30,129,367,348

Timing of revenue recognition from contracts with customers:

	For the six months ended 30 June	
	2020 Unaudited	2019 Unaudited
Recognised at a point in time		
Sales of steel products	29,179,601,056	28,234,275,134
Sales of other products	1,820,021,795	1,878,463,512
Recognised over time		
Consulting services	8,995,246	12,039,899
Other	1,417,708	1,324,779
	31,010,035,805	30,126,103,324

Notes to the Financial Statements (Continued)

For the six months ended 30 June 2020

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS
(CONTINUED)

4. Revenue and cost of sales (Continued)

The revenue recognised in the book value of contract liabilities at the beginning of the period is as follows:

	For the six months ended 30 June	
	2020	2019
	Unaudited	Unaudited
Sales of products	2,413,738,426	2,333,768,437

The estimated time for the total transaction price allocated to the period-end outstanding (or partially unfulfilled) performance obligations to be recognised as revenue is as follows:

	For the six months ended 30 June	
	2020	2019
	Unaudited	Unaudited
Within one year	2,776,777,128	2,455,027,803

5. Investment income

	For the six months ended 30 June	
	2020	2019
	Unaudited	Unaudited
Investment income from long-term investments under the equity method	161,374,556	301,512,152
Investment income from long-term investments under the cost method	517,391,945	845,593,357
Investment income from other equity instrument investments still held	8,280,000	—
Gain from disposal of financial assets held for trading	1,903,660	415,436
	688,950,161	1,147,520,945

As at the balance sheet date, there was no significant restriction imposed upon the remittance of the Company's investment income.

Supplementary Information

1. BREAKDOWN OF NON-RECURRING GAINS OR LOSSES

The calculation of non-recurring gains or losses is in accordance with the “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 2020 Unaudited
Items of non-recurring gains or losses	
Loss from disposal of non-current assets	(62,159,618)
Government grants recognised in current period profit or loss (excluding those closely related to the Company's ordinary business, conforming to the national policies and regulations and enjoying ongoing fixed amount or quantity according to a certain standard)	291,914,097
Employee termination compensation	(53,194,407)
Except for the effective hedging business related to the ordinary business of the Company, changes in fair value of financial assets and financial liabilities held for trading, as well as the return on investment generated from the disposal of financial assets and financial liabilities held for trading and financial assets at fair value through other comprehensive income.	97,666,060
Net non-operating income or expenses other than the above items	256,279
	274,482,411
Income tax effect	27,146,750
Non-controlling interests effect (net of tax)	963,543
Net effect of non-recurring gains or losses	246,372,118
Net profit attributable to owners of the parent excluding non-recurring gains or losses	
Net profit attributable to owners of the parent	812,342,511
Less: Net effect of non-recurring gains or losses	246,372,118
Net profit attributable to owners of the parent excluding non-recurring gains or losses	565,970,393

Supplementary Information (Continued)

2. RETURN ON NET ASSETS AND EARNINGS PER SHARE

For the six months ended 30 June 2020 (Unaudited)

	Return on weighted average net assets (%)	Earnings per share (cents/share)	
		Basic	Diluted
Net profit attributable to owners of the parent	2.97	10.55	10.55
Net profit attributable to owners of the parent excluding non-recurring gains or losses	2.07	7.35	7.35

For the six months ended 30 June 2019 (Unaudited)

	Return on weighted average net assets (%)	Earnings per share (cents/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 excluding non-recurring gains or losses	2.92	10.92	10.92

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**
26 August 2020



馬 鞍 山 鋼 鐵 股 份 有 限 公 司
Maanshan Iron & Steel Company Limited