MA STEEL

馬 鞍 山 鋼 鐵 股 份 有 限 公 司

Maanshan Iron & Steel Company Limited

(A joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 00323)

SUMMARY OF 2018 ANNUAL RESULTS ANNOUNCEMENT

1. IMPORTANT NOTICE

1.1 This summary of 2018 annual results announcement is from the full text of the annual report. To fully understand the business performance, financial position and future outlook of the Company, investors shall refer to the website of the Shanghai Stock Exchange and other designated media of the China Securities Regulatory Commission to carefully read the full text of the annual report.

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

1.3 Except for Mr. Wang Xianzhu, an independent director, who had Ms. Zhang Chunxia, also an independent director, to attend the board meeting and vote on behalf of him, all other directors attended the board meeting.

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

1.5 **Profit distribution plan or plan for the capitalization of capital reserve during the reporting period considered by the Board**

The Board suggests a final dividend of RMB0.31 per share (tax included) shall be distributed for the year of 2018 and retained earnings will be carried forward to the year of 2019. No capital surplus shall be transferred to share capital. The distribution plan is going to be submitted to the Annual General Meeting for approval.

2. COMPANY PROFILE

2.1 Company Information

Types of shares	Place of listing	Stock abbreviation	Stock code
A Share	The Shanghai Stock Exchange	Magang stock	600808
H Share	The Stock Exchange of Hong Kong Limited	Maanshan Iron & Steel	00323

Contact people and details	Company Secretary, Joint Company Secretary	Joint Company Secretary
Name	He Hongyun	Rebecca Chiu
Office address	No. 8, Jiuhuaxi Road, Maanshan City, Anhui Province, PRC	Room 1204-16, 12/F, The Chinese Bank Building, 61-65 Des Voeux Road, Central
Telephone	86-555-2888158/2875251	(852) 2155 2649
Email address	mggfdms@magang.com.cn	rebeccachiu@chiuandco.com

2.2 Introduction of the Company's Major Businesses during the Reporting Period

As one of the largest iron and steel producers and sellers in China, the Company's major businesses are production and sales of iron and steel products; the main production processes include iron making, steel making, steel rolling, etc. Major product 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 thin plates and medium plates. Thin plates can be further categorized into hot and cold-rolled thin plates, galvanized plates and coil-coating plates.
- Long products: Major products include section steel and wire rod.
- Wheels and axles: Major products include train wheels, axles and rings.

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

3. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS

3.1 Major Accounting Data and Financial Indicators for the Past Three Years

Unit: million RMB

	2018	2017	**Increase/ decrease compared to previous year** *(%)*	2016
Total Assets	**76,872.00**	72,191.59	6.48	66,245.53
Revenue	**81,951.81**	73,228.03	11.91	48,275.10
Net profit attributable to owners of the parent	**5,943.29**	4,128.94	43.94	1,228.89
Net profit excluding non-recurring gains or losses attributable to owners of the parent	**5,092.36**	3,969.09	28.30	1,409.94
Net assets attributable to owners of the parent	**28,173.62**	23,895.74	17.90	19,764.17
Net cash flows from operating activities	**13,870.43**	4,599.82	201.54	4,273.71
Basic earnings per share *(RMB/share)*	**0.772**	0.536	44.03	0.160
Diluted earnings per share *(RMB/share)*	**0.772**	0.536	44.03	0.160
Return on net assets *(weighted average) %*	**22.68**	18.92	increase 3.76 percentage points	6.43

3.2 Major Financial Data by Quarter During the Reporting Period

Unit: million RMB

	1st Quarter (Jan-Mar)	**2nd Quarter (Apr-Jun)**	**3rd Quarter (Jul-Sep)**	**4th Quarter (Oct-Dec)**
Revenue	18,308	21,755	23,054	18,835
Net profit attributable to owners of the parent	1,418	2,011	2,155	359
Net profit excluding non-recurring gains or losses attributable to owners of the parent	1,402	1,655	2,120	–85
Net cash flows from operating activities	633	3,547	3,827	5,863

4. SHARE CAPITAL AND SHAREHOLDER

4.1 Numbers of Shareholders and Holdings of Top Ten Shareholders

Numbers of ordinary shareholders as end of the reporting period (Accounts)	217,650	**Numbers of ordinary shareholders as end of last month (Accounts)**	213,708

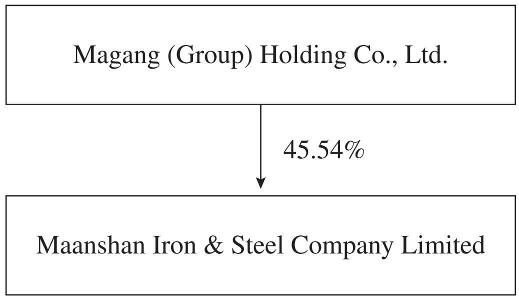
Holdings of top ten shareholders

Unit: Share

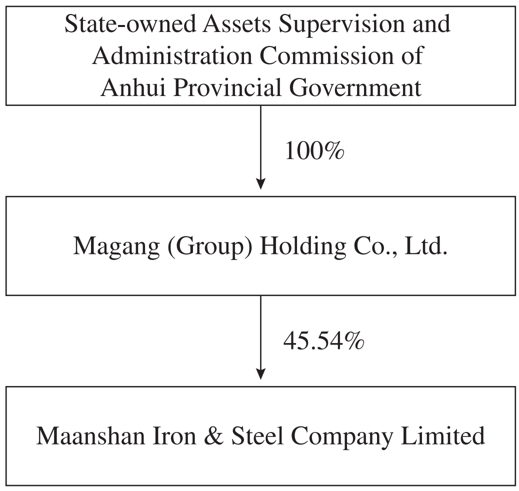
Shareholders' Names (Full Names)	Increase and Decrease Within the Reporting Period	No. of Shares at the End of Period	Percentage *(%)*	No. of Shares under Restricted Condition for Sales	Pledge or Frozen Situations		Shareholder's Nature
					Share Status	No.	
Magang (Group) Holding Co., Limited ("The Holding")	0	3,506,467,456	45.54	0	Nil	0	State-owned shareholder
Hong Kong Securities Clearing Company Limited	2,545,900	1,716,562,800	22.29	0	unknown	unknown	unknown
Central Huijin Investment Ltd.	0	142,155,000	1.85	0	unknown	unknown	State-owned shareholder
Agricultural Bank of China LTD-CSI 500 Trading Open-ended Index Securities Investment Fund	unknown	31,677,149	0.41	0	unknown	unknown	unknown
Beijing Haoqing Fortune Investment and Management Co., Ltd. – Steady Haoqing Value No. 8 Investment Fund	–5,102,600	28,653,912	0.37	0	unknown	unknown	unknown
Li Xiaozhong	–294,500	16,759,455	0.22	0	unknown	unknown	unknown
Sheng Jun	unknown	13,651,722	0.18	0	unknown	unknown	unknown
China Asset Management Company Limited – Social Security Fund Portfolio 422	unknown	9,521,500	0.12	0	unknown	unknown	unknown
CCB-Bosera Yufu CSI300 Index Securities Investment Fund	unknown	8,752,330	0.11	0	unknown	unknown	unknown
Fang Wei	unknown	7,810,000	0.10	0	unknown	unknown	unknown

Notes on the above shareholders' affiliated relation or concerted action	The Holding has no affiliated relation with any of the other foregoing shareholders, nor is it a person acting in concerted action; however, it is not in the knowledge of the Company whether there is any affiliated relation among other foregoing shareholders and whether they are persons acting in concerted action.

4.2 Block Diagram of Property Rights and Controlling Relations between the Company and Controlling Shareholder



4.3 Block Diagram of Property Rights and Controlling Relations between the Company and Actual Controllers



5. MANAGEMENT DISCUSSION AND ANALYSIS

5.1 Business Environment

- ***The steel market***

Looking back on 2018, China's economy maintained a steady and favourable development trend with GDP growing by 6.6% year on year. Economic growth was in a reasonable range and the effect of intensified supply-side structural reforms gradually emerged. The steel industry completed the goal of resolving excess capacity ahead of schedule, and the dilemma of serious overcapacity was effectively alleviated. The efficiency of enterprises improved significantly.

In 2018, following a modest fluctuation in the first quarter, domestic steel prices rose gradually since April and remained stable in December after a sudden fall in November. For the whole year, the price of long products was better than that of plates. According to the China Iron and Steel Association, the average domestic steel price index in 2018 was 114.75 points, representing a year-on-year increase of 7.01 points or 6.5%.

Affected by factors such as the rebound in domestic steel demand and the international trade protection, China's steel exports continued to decline in 2018. Statistics of the China Customs have shown that the annual export volume of steel products amounted to 69.34 million tons, representing a year-on-year decrease of 8.07%. Imported steel was 13.17 million tons, representing a year-on-year decrease of 0.98%. The net export volume of crude steel equivalent was 56.24 million tons, down by 9.48% year on year.

- ***The market of raw materials and fuels***

In 2018, iron ore prices were high at the beginning and end of the year and hovered at a low level in the middle of the year, exhibiting a fluctuation range smaller than that of the previous year. According to statistics of the China Customs, the average CIF price of imported iron ore in 2018 was US$69.46/ton, representing a slight decrease year on year. Coke prices fell first and then rose. After experiencing a volatile decline in the first quarter, coke prices went up all the way in the second and third quarters to reach a new high over the past decade. After remaining high and volatile in the fourth quarter, coke prices fell back but the average price rose sharply from the past year.

5.2 Major Business Performance in the Reporting Period

During the reporting period, the Group produced 18.00 million tons of pig iron, 19.64 million tons of crude steel and 18.70 million tons of steel, which is at the same level as previous year. Principal activities of the Company during the reporting period were as follows:

(1) Continuously improving market operating capabilities. We optimized the channel layout of the marketing system, pushing the center of our services forward with focus on customer needs and actively exploring strategic target markets. For automobile plates, we newly developed six major engine factories, such as SAIC Volkswagen, Dongfeng Commercial Vehicles and GAC New Energy. For coilcoating plates, we produced at full capacity and the products were applied to key national projects including the Xiong'an New Area Project and the Hong Kong-Zhuhai-Macao Bridge. Our high-speed wheels successfully entered Deutsche Bahn and we became the first domestic exporter of high-speed wheels. Our procurement system overcame severe challenges brought about by national environmental policies and increasing safety supervision, achieving safety, quality and efficient and guaranteed supply.

(2) Promoting lean operation of the manufacturing system. We fully implemented the target plan value management, adhering to work mechanisms featuring "routine physical examination, advance warning for guaranteed supply and anomaly countermeasures" for the iron-making system to ensure long-term and stable operation of the blast furnace. We were in the forefront of the industry by the level of the cost of molten iron. For the steel rolling system, with increasing production and enhancing efficiency as the core, we upheld the "Three No Principles" on the quality front. Through continuous work on optimizing processes and improving product quality, we improved order fulfillment and customer satisfaction rates and thus achieved economic operation.

(3) Achieving new breakthroughs in the certification of key products. We completed certification of six types of wheels for the Technical Specification for Interoperability (TSI) applicable to the rail system of the European Union. Our 320 km/h high-speed wheels were loaded on the trains of Deutsche Bahn. Our automobile plates passed the second-party audit of many original automobile equipment manufacturers including SAIC Volkswagen, FAW Group, Geely Automobile, Zotye Automobile and Qoros Auto. In particular, the galvanized CR340LA automobile plate of Maanshan Iron & Steel obtained General Motor's global first-class engineering certification, which greatly enhanced the recognition and brand presence of the Company's galvanized low-alloy high-strength series in the mid– and high-end automobile plate market. Our H beam steel products passed the re-certification review audit for the export certification of JIS in Japan. Our pickling plate products passed the PED supervision audit of the European Union by TUV Hande Certification Company.

(4) Solidly managing equipment and energy. We strengthened capabilities to support the equipment system, continuously improving the overall efficiency evaluation (OEE) of equipment to foster improvement of the ability for precise management and control of equipment functions. The Company's production lines were generally stable and efficient, with KPI indicators meeting or exceeding the target plan value. In the "National Competition of Benchmarking in Energy Conservation and Consumption Reduction for Major Large-scale Energy-consuming Steel Production Equipment", the sintering machine A of the No. 3 Iron Plant won the honorary title of "Champion Furnace" among sintering machines of 300 m^2 or above, the $4^{\#}$ blast furnace of the No. 2 Iron Plant, the blast furnace B of the No. 3 Iron Plant and the $4^{\#}$ converter of the No. 4 Steel Rolling Plan won the honorary title of "Excellent Furnace" respectively.

(5) Strengthening of safety, energy and environmental protection work. The Company continuously carried out special actions for the screening, identification and control of major production safety accident hazards, timely perfecting relevant management systems and technical and operational standards, conducting system-wide screening and inspection, and strengthening the construction of an occupational health and environmental safety system featuring fault-free equipment and risk-free operation. By tapping the potential of benchmarking, the Company achieved new breakthroughs in the energy system in terms of energy conservation and consumption reduction, leading to a continuous improvement in energy consumption indicators. The Company firmly established the rationale of "lucid waters and lush mountains are invaluable assets", conscientiously implementing environmental inspections launched by the central government and various rectification measures for winning the Blue Sky War, formulating the Company's three-year action plan to protect our blue skies and to defend our rivers and soil from pollution, systematically identifying from the root cause and resolving the problem of environmental weak links that restrict the Company's future development process, hence ensuring production safety, occupational health and environmental improvement in the Company and achieving sustainable development.

(6) Scientific promotion of management system construction. In accordance with"planning, control, guidance and service" management philosophy and on the basis of two major quality management system standards, namely the new ISO9001 and IATF16949, the Company continued to enhance the policies and objectives, business management, technological innovation, quality improvement, production and manufacturing, infrastructure, risk control, human resources and other management work to improve the effectiveness and efficiency of the management systems.

(7) Human resources optimization. The company drive forward the reform of the organs, streamlining the institutions and gradually optimizing personnel. Meanwhile, the Company achieved remarkable effort in staff division and placement. The number of administrative staff reduced by 325, or 42% compared with the previous year.

5.3 Analysis of Principal Operation

Analysis of the changes in items of the income statement and statement of cash flows

Unit: RMB

Items	Amount of the current year	Amount of the last year	Change *(%)*
Revenue	81,951,813,488	73,228,029,624	11.91
Cost of sales	69,794,982,119	63,556,258,449	9.82
Selling expenses	959,718,246	865,396,451	10.90
General and administrative expenses	1,379,991,907	1,164,112,101	18.54
Research and development expenses	801,240,784	255,023,306	214.18
Financial expenses	960,457,412	998,780,259	–3.84
Impairment losses	754,443,431	746,374,994	1.08
Credit impairment losses	41,876,945	–	–
Investment gain	1,090,099,779	676,516,349	61.13
(Loss)/gain on the changes in fair value	(10,213,369)	10,145,756	–200.67
Gain/(loss) from disposal of assets	371,280,264	(176,952,368)	–
Operating profit	8,085,297,848	5,649,467,742	43.12
Non-operating expenses	6,472,487	16,625,157	–61.07
Profit before tax	8,238,923,928	5,808,966,563	41.83
Income tax expense	1,180,935,234	736,728,434	60.29
Net profit	7,057,988,694	5,072,238,129	39.15
Net profit attributable to shareholders of the parent	5,943,286,585	4,128,939,861	43.94
Net cash flows from operating activities	13,870,430,106	4,599,822,004	201.54
Net cash flows used in investing activities	(4,011,703,200)	(3,524,328,133)	–
Net cash flows used in financing activities	(6,027,314,622)	(2,376,736,277)	–

- Revenue increased by 11.91% compared with the previous year, mainly due to increase in sales price and sales volume of steel this year.

- Cost of sales increased by 9.82% compared with the previous year, mainly due to increase in purchase price of raw materials and increase in sales volume of steel this year.

- Research and development expenses increased by 214.18% compared with the previous year, mainly due to the Company further increased the investment in scientific research, expanded the types of product development, and accelerated product upgrades.

- Credit impairment loss is RMB41,876,945 this year and it was nil last year. The main reason is the implementation of the new financial instrument accounting policies during this year and the presentation of some accounts changed accordingly.

- Investment gain increased by 61.13% compared with the previous year, mainly due to the income from disposal of subsidiaries and net profit from joint ventures and associates increased compared with the previous year.

- (Loss)/gain on the changes in fair value decreased by 200.67% compared with the previous year, and the main reason is the transfer out of the fair value gain generated from the futures at the end of last year upon settlement.

- Gain from disposal of assets is RMB371,280,264, while it was a loss of RMB176,952,368 in previous year, mainly due to the Company's gain from disposal of certain fixed assets and land, and the recognition of gain from disposal of scrap assets by MaSteel (Hefei) Co., Ltd. ("MaSteel Hefei") increased this year.

- Operating profit, profit before tax, net profit, and net profit attributable to shareholders of the parent increased by 43.12%, 41.83%, 39.15% and 43.94%, respectively, compared with the previous year. These were all mainly due to the increase of gross margin of steel products this year.

- Non-operating expenses decreased by 61.07% compared with the previous year, mainly due to the decrease of the payment for contract indemnity this year.

- Income tax expense increased by 60.29% compared with the previous year, mainly due to the profitability of some subsidiaries increased this year and the Company reversed part of the deferred tax assets.

- Net cash inflows from operating activities is RMB13,870,430,106 which increased by 201.54% compared with the previous year, mainly due to the Company's profitability has increased this year, while the cash inflow from business activities such as customer deposits by MaSteel Group Finance Co., Ltd. ("MaSteel Finance") has increased.

- Net cash outflows used in investing activities is RMB4,011,703,200, while it was net outflow of RMB3,524,328,133 in previous year, mainly due to the cash payments for acquisition and construction of fixed assets, intangible assets and other long-term assets increased compared with the previous year.

- Net cash outflows used in financing activities is RMB6,027,314,622, while it was net outflow of RMB2,376,736,277 in the previous year, mainly due to the payment for medium term bills, short-term financing bills and cash dividends.

During the reporting period, the Company's net cash flow from operating activities was RMB13.87 billion, and net profit was RMB7.06 billion, and the difference of RMB6.81 billion is mainly due to the non-cash factors such as depreciation and amortization, inventory impairment and changes in operating receivables and payables.

1. Analysis of Sales and Cost of Sales

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

Unit: million RMB

Principal operation by industry						
Industry	**Revenue**	**Cost of sales**	**Gross margin** *(%)*	**Increase/ (decrease) of revenue compared with last year** *(%)*	**Increase/ (decrease) of cost of sales compared with last year** *(%)*	**Increase/ (decrease) of gross margin compared with last year** *(%)*
Iron and Steel	76,196	65,528	14.00	9.85	11.14	Decreased 0.99 bps

Principal operation by product

Products	Revenue	Cost of sales	Gross margin (%)	Increase/(decrease) of revenue compared with last year (%)	Increase/(decrease) of cost of sales compared with last year (%)	Increase/(decrease) of gross margin compared with last year (%)
Long products	33,644	27,840	17.25	12.59	11.86	Increased 0.54 bps
Steel plates	37,919	33,557	11.50	6.36	9.95	Decreased 2.89 bps
Wheels and axles	2,033	2,042	–0.44	12.82	25.74	Decreased 10.32 bps

Revenue by region

Regions	Revenue	Cost of sales	Gross margin (%)	Increase/(decrease) of revenue compared with last year (%)	Increase/(decrease) of cost of sales compared with last year (%)	Increase/(decrease) of gross margin compared with last year (%)
Anhui	30,618	26,020	15.02	17.37	13.53	Increased 2.88 bps
Shanghai	12,961	11,104	14.33	10.44	14.09	Decreased 2.74 bps
Jiangsu	12,120	10,371	14.43	6.77	5.52	Increased 1.01 bps
Zhejiang	5,414	4,741	12.43	18.65	19.94	Decreased 0.94 bps
Guangdong	2,387	2,047	14.22	12.33	11.95	Increased 0.29 bps
Other Mainland regions	13,188	11,233	14.83	–8.83	11.36	Increased 2.43 bps
Overseas and Hong Kong	5,264	4,279	18.72	81.52	63.52	Increased 9.10 bps

During the reporting period, the group's revenue from principal operation was RMB80,913 million, wherein the iron & steel revenue was RMB76,196 million, accounting for 94% of the principal operation revenue.

(2) *Analysis of Production and Sales Volumes*

Products	**Production Volume** *('000 tons)*	**Sales Volume** *('000 tons)*	**Inventory** *('000 tons)*	**Year-on-year increase/ (decrease) of production volume** *(%)*	**Year-on-year increase/ (decrease) of sales volume** *(%)*	**Year-on-year increase/ (decrease) of inventory** *(%)*
Long products	9,086	9,099	128	1.66	1.13	–11.11
Steel plates	9,403	9,407	49	–0.75	–0.68	–7.55
Wheels and axles	216	220	5	11.92	17.02	–50

(3) *Analysis of costs*

Unit: million RMB

Cost components	**Amount in 2018**	**% of total costs in 2018** *(%)*	**Amounts in 2017**	**% of total costs in 2017** *(%)*	**Change in proportion of amount in 2018 against amount in 2017** *(%)*
Raw materials	53,081	76.05	48,968	77.05	8.40
Salary	3,735	5.35	3,854	6.06	–3.09
Depreciation and amortization	3,519	5.04	3,520	5.54	0.03
Fuels	3,398	4.87	3,474	5.47	–2.19
Others	6,062	8.69	3,740	5.88	62.09

Other costs increased by 62.09% compared with previous year, mainly due to the increase in maintenance and repairment expenses and other operating expenses.

(4) Analysis of Major Customers and Major Suppliers

The amount of total sales to the top five customers was RMB6,299 million, accounting for 8% of the annual sales of which there was no related parties.

The amount of the total purchase from the top five suppliers was RMB1,164.9 million, accounting for 44% of the annual purchase. Among which, the purchase from the related parties was RMB3,860 million, accounting for 15% of the annual purchases.

Among the major suppliers, the Holding is the controlling shareholder of the Company. Saved as the above, there was no directors or supervisors or their connected persons or any shareholders (to the best knowledge of the board of directors, holding 5% or above of the shares in the Company) having any beneficial interests in the top five suppliers or customers of the Group in 2018.

2. Expenses

During the reporting period, there was no significant change in the Group's selling expenses, general and administration expenses and financial expenses.

3. Research and Development (R&D) Expenditure

R&D expenditure details

Unit: million RMB

Expensed R&D expenditure in 2018	956.91
Capitalized R&D expenditure in 2018	39.32
Total R&D expenditure	996.23
Total R&D expenditure as a portion of revenue *(%)*	1.22
Number of the Company's R&D staff	1,748
Percentage of R&D staff number to the Company's total number of employees *(%)*	7.50
Percentage of capitalized R&D expenditure *(%)*	3.95

5.4 Analysis of Assets and Liabilities

Assets and liabilities

Unit: RMB

Item	Closing balance of 2018	Percentage of closing balance of 2018 in total assets (%)	Closing balance of 2017	Percentage of closing balance of 2017 in total assets (%)	Year-on-year change (%)
Cash and bank balances	9,762,844,718	12.70	4,978,352,093	6.90	96.11
Financial assets held for trading	2,084,414,075	2.71	–	–	–
Financial assets at fair value through profit or loss	–	–	1,546,139,404	2.14	–100.00
Notes and trade receivables	6,091,882,823	7.92	9,341,614,275	12.94	–34.79
Other receivables	147,965,534	0.19	285,228,074	0.40	–48.12
Inventories	11,053,918,748	14.38	11,445,747,808	15.85	–3.42
Financial assets purchased under agreements to resell	2,432,279,109	3.16	1,204,603,000	1.67	101.92
Loans and advances to customers	2,845,298,103	3.70	1,251,315,253	1.73	127.38
Assets classified as held for sale	–	–	73,454,334	0.10	–100.00
Held-to-maturity investments	–	–	305,228,376	0.42	–100.00
Non-current assets due within one year	101,201,184	0.13	–	–	–
Other current assets	3,173,122,975	4.13	916,037,331	1.27	246.40
Available-for-sale financial assets	–	–	1,111,168,160	1.54	–100.00
Non-current portion of held-to-maturity investments	–	–	100,854,230	0.14	–100.00
Long-term equity investments	2,809,063,381	3.65	1,525,225,202	2.11	84.17
Other equity instruments investments	263,122,364	0.34	–	–	–
Property, plant and equipment	31,545,176,835	41.04	33,130,499,862	45.86	–4.79
Construction in progress	1,662,672,077	2.16	1,805,955,609	2.50	–7.93
Deferred tax assets	275,626,734	0.36	478,235,280	0.66	–42.37
Deposits and balances from banks and other financial institutions	900,366,111	1.17	200,000,000	0.28	350.18
Customer deposits	4,915,309,311	6.39	2,947,639,610	4.08	66.75
Repurchase agreements	1,133,772,377	1.47	308,100,956	0.43	267.99
Short-term loans	10,917,293,181	14.20	4,630,303,694	6.41	135.78
Financial liabilities held for trading	8,012,670	0.01	–	–	–
Financial liabilities at fair value through profit or loss	–	–	10,498,810	0.01	–100.00
Notes and trade payable	10,342,007,979	13.45	11,778,382,830	16.32	–12.20
Other payables	3,530,746,914	4.59	2,354,327,866	3.26	49.97
Non-current liabilities due within one year	1,470,868,462	1.91	4,928,758,378	6.83	–70.16
Other current liabilities	1,026,897,260	1.34	3,081,026,301	4.27	–66.67
Long-term loans	3,596,387,552	4.68	6,975,958,634	9.66	–48.45
Long-term payables	–	–	210,000,000	0.29	–100.00
Retained earnings	7,405,577,274	9.63	3,643,443,763	5.05	103.26

- Cash and bank balances increased by 96.11% compared with the previous year, mainly due to the increase of the Company's profit which caused the increase of the operating cash inflows, and the customer deposit of MaSteel Finance increased compared with last year.

- Notes and trade receivables decreased by 34.79% compared with the previous year, mainly due to the the total amount of the previous year's notes receivable was relatively high, and the payment of goods were made in the form of endorsement of bills and the maturity of bills this year.

- Other receivables decreased by 48.12% compared with the previous year, mainly due to the settlement of futures and the futures deposit reduced.

- Financial assets purchased under agreements to resell increased by 101.92% compared with the previous year, mainly due to the increase of reverse purchase of MaSteel Finance this year.

- Loans and advances to customers increased by 127.38% compared with the previous year, mainly due to the increase in notes discounted to MaSteel Finance by external companies.

- Assets classified as held for sale decreased by 100.00% compared with the previous year, mainly due to the fact that assets of MaSteel Hefei Industry Site have been transferred to government this year.

- Other current assets increased by 246.40% compared with the previous year, mainly due to the interbank certificates of deposit purchased by MaSteel Finance was included in this account.

- Long-term equity investments increased by 84.17% compared with the end of the previous year, mainly due to the addition of three associates, including Anhui Magang Chemical & Energy Technology Co., Ltd. ("Magang Chemicals & Energy"), and the investment gain from joint ventures and associates increased this year.

- Deferred tax assets decreased by 42.37% compared with the previous year, mainly due to the Company wrote off part of deferred tax assets.

- Deposits and balances from banks and other financial institutions increased by 350.18% compared with the previous year, mainly due to the MaSteel Finance increased interbank lending funds in this year.

- Customer deposits increased by 66.75% compared with the previous year, mainly due to the increase in cash absorbed by MaSteel Finance in this year from related parties.

- Repurchase agreements increased by 267.99% compared with the previous year, mainly due to the decrease rediscount for notes and bonds in other financial institution this year.

- Short-term loans increased by 135.78% compared with the previous year, mainly due to the increase of shot-term loan of the Company and increase of letter of credit of Ma Steel (Hong Kong) Co., Ltd. ("Masteel Hong Kong").

- Other payables increased by 49.97% compared with the previous year, mainly due to the increase of forteiting business.

- Non-current liabilities due within one year decreased by 70.16% compared with the previous year, mainly due to the repayment of medium-term notes.

- Other current liabilities decreased by 66.67% compared with the previous year, mainly due to the one-year short term notes of RMB3 billion issued last year was repaid this year, and one-year short-term notes of RMB1 billion was issued this year.

- Long-term loan decreased by 48.45% compared with the previous year, mainly due to the long-term loan due within one year were classified into non-current liabilities due within one year.

- Long-term payables are RMB0, while it was RMB210,000,000 at the end of previous year, which is mainly due to the payable was due within one year and was classified into non-current liabilities due within one year.

- Retained earnings increased by 103.26% compared with the previous year, mainly due to profit of the Group increased in this year.

Save for the above changes, changes in financial assets held for trading, financial assets at fair value through profit or loss, held-to-maturity investments, non-current liabilities due within one year, available-for-sale financial assets, other equity investments, financial liabilities held for trading, financial liabilities at fair value through profit or loss are due to the implementation of new accounting standards for financial instruments during the year and the presentation changed accordingly.

5.5 Operational Information Analysis of the Industry

Company Information

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

Product type	Production capacity *(ten thousand tonnes)*	Utilisation rate of production capacity *(%)*
Pig iron	1,833	98
Crude steel	2,170	91
Steel production	1,970	95

Steel and Iron Industry Operational Information Analysis

5.5.1 Manufacturing and sales of steel material based on processing techniques

Unit: million RMB

Type based on Processing	Production volume *(tonnes)*		Sales volume *(tonnes)*		Revenue		Cost of sales		Gross margin *(%)*	
	This Year	Last Year	**This Year**	Last Year	**This Year**	Last Year	**This Year**	Last Year	**This Year**	Last Year
Cold-rolled steel	**4,801,070**	4,833,780	**4,800,445**	4,822,887	**23,015**	20,604	**20,879**	18,262	**9.28**	11.37
Hot-rolled steel	**13,687,895**	13,577,833	**13,704,774**	13,645,056	**48,548**	44,928	**40,518**	37,147	**16.54**	17.32
Wheel and axles	**215,567**	192,638	**220,352**	188,808	**2,033**	1,802	**2,042**	1,624	**–0.44**	9.88

5.5.2 Manufacturing and sales based on forms of finished goods

Unit: million RMB

Types based on forms of finished goods	Production volume *(tonnes)*		Sales volume *(tonnes)*		Revenue		Cost of sales		Gross margin *(%)*	
	This Year	Last Year	**This Year**	Last Year	**This Year**	Last Year	**This Year**	Last Year	**This Year**	Last Year
Long Products	**9,086,121**	8,937,750	**9,098,502**	8,996,905	**33,644**	29,881	**27,840**	24,889	**17.25**	16.71
Steel Plates	**9,402,844**	9,473,863	**9,406,717**	9,471,038	**37,919**	35,651	**33,557**	30,520	**11.50**	14.39
Wheels and axles	**215,567**	192,638	**220,352**	188,808	**2,033**	1,802	**2,042**	1,624	**–0.44**	9.88

5.5.3 Performances of steel material sales based on sales channels

Unit: 100 million RMB

Based on sales channels	Revenue		Percentage *(%)* in total revenue	
	This Year	Last Year	**This Year**	Last Year
Offline sales	**702.2**	642.4	**84.84**	87.72
Online sales	**33.8**	30.9	**4.08**	4.22

5.5.4 Supply of iron ore

Supply source of iron ore	Supply volume *(tonnes)*		Increase/ decrease year on year *(%)*
	This Year	Last Year	
Domestic source	**7,848,045**	8,303,087	**–5.48**
Overseas import	**21,032,183**	20,336,050	**3.42**

5.6 Investment analysis

5.6.1 General analysis of external equity investments

Unit: million RMB

Investment amount as at the end of the reporting period of the Company	10,494.24
Changes in investment amount	1,537.23
Investment amount as at the end of previous year of the Company	8,957.01
Increase/decrease in investment amount *(%)*	17.16

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

Unit: million RMB

Name of Investee	Equity Ratio	Main Business	Newly-invested amount during the reporting period
New established companies			
Ma Steel (Shanghai) Commercial Factoring Co., Ltd.	25%	trade receivables financing, trade receivables delivery and clearing, management and collection, sales sub-account management, credit risk guarantee related to factoring	75
Ma Steel (Shanghai) Leasing Co., Ltd.	25%	Financial lease; lease; purchase lease assets; refine and maintenance of the residual value of lease assets; lease transaction consulting and guarantee	75
Magang Chemicals & Energy	45%	Research, development, production, sales of chemical products (excluding hazardous chemicals and easy drug production); production, sales and technical consultation service of coke, metal products, home electrical appliances, mechanical and electrical equipment, device dashboard; engineering design; product evaluation testing	600
Maanshan (Changchun) Iron & Steel Sales Co., Ltd. ("Changchun Sales")	100%	Sale of steel products	10

Name of Investee	Equity Ratio	Main Business	Newly-invested amount during the reporting period
Maanshan (Wuhan) Material Technique Co., Ltd. ("Wuhan Material")	85%	Research and development of automobile, home electrical appliances, engineering and machinery material; production and sales of steel and stamping spare parts; storage and service	32
Maanshan Middle East Company	100%	metallurgy and extended processing of ferrous metals and sale of resulting products, extended processing of iron and steel products	2
Maanshan Metallurgical Power Technology Co., Ltd. ("Meite Metallurgical Power")	100%	Technical consulting, advertising, magazine retailing, exhibition services	0.5
Company with investment changes due to capital increase or equity changes			
Maanshan Masteel Scrap Steel Co., Ltd. ("Masteel Scrap")	45%	Recycling, processing, and distribution of scrap metal	-55
Anhui Masteel K. Wah New Building Materials Co., Ltd. ("New Building Masteel K. Wah")	30%	Production, distribution and transportation of comprehensive slag utilization products and provision of related technical advice and services	–
MG-Valdunes S.A.S ("MG-Valdunes")	100%	Design, manufacturing, processing, maintenance and repair of all products and equipment used in rail transport, urban transport and machinery construction; distribution, import and export of various types of steel products	237
Maanshan (Chongqing) Iron & Steel Sales Co., Ltd.	100%	Distribution of steel materials	–10
Maanshan (Guangzhou) Iron & Steel Sales Co., Ltd.	100%	Distribution of steel materials	–10
Maanshan Iron & Steel Company Limited (Shanghai) Trade Co., Ltd. ("Shanghai Trading")	100%	Distribution of metal materials, building materials, hardware and electric appliances and iron ore; warehousing and business consulting services	–60

Explanation:

- In March 2018, the Company established a wholly-owned subsidiary, Magang Chemicals & Energy by cash of RMB260 million and buildings and land of RMB340 million. In August 2018, the Company signed an agreement with the Holding to increase the registered capital of Magang Chemicals & Energy from RMB600,000,000 to RMB1,333,333,333,33. Save as an injection of RMB1,406,140 into Magang Chemicals & Energy, the Company relinquished the pre-emptive rights from capital injection. The Holding subscribed the new registered capital, totaling RMB733,333,333.33. Upon the completion of the capital injection, the registered capital of the Magang Chemicals & Energy was RMB1.333 billion and the shareholding percentage of the Company in the Magang Chemicals & Energy fell to 45% from 100%.

- In 2018, the Company established a wholly-owned subsidiary, Maanshan Middle East Company, with a registered capital of 4 million dirhams, and completed the first phase of capital contribution of USD300,000 (equivalent to approximately RMB2.04 million).

- In October 2018, the Company established Wuhan Material with a registered capital of RMB250 million and the Company holds 85% of its shares. In 2018, the Company completed the first phase of capital contribution of RMB31.857 million.

- In August 2018, the Company signed an agreement with the Holding to transfer 55% of the shares held by the Company in Masteel Scrap to the Holding. After the transfer, the shareholding percentage of the Company in Masteel Scrap fell to 45% from 100%.

- In August 2018, the Company signed an agreement with the Holding and Leader Investments Company Limited ("Leader Investments") to increase the registered capital of New Building Masteel K. Wah from USD8,389,000 to USD19,574,333. The Company relinquished the pre-emptive rights from capital injection. The Holding and Leader Investments subscribed the registered capital of USD7,829,733 and USD3,355,600, respectively. After the capital injection, the shareholding ratio of the Holding is 40%, and the shareholding ratio of Leader Investment is 30% and the shareholding ratio of the Company in New Building Masteel K. Wah decreased to 30% from 70%.

- In August 2018, the board of directors approved to increase the capital of MG-Valdunes by no more than EUR 70 million. The capital increase of EUR30 million (equivalent to RMB237 million) was completed on 21 November 2018.

- The Company's wholly-owned subsidiary, Maanshan (Chongqing) Iron & Steel Sales Co., Ltd. and Maanshan (Guangzhou) Iron & Steel Sales Co., Ltd. were liquidated and deregistered. Shanghai Trading was transferred to liquidation manager in February 2018.

(1) During the reporting period, the Company had not carried out any significant equity investments.

(2) Significant non-equity investment

Unit: million RMB

Project Name	Budgeted Investment	New Investment	Project Progress
Product quality projects	11,303	1,497	62%
Energy-saving and environment protection projects	5,700	565	37%
Equipment advancement and other modification projects	1,802	416	68%
Other projects	N/A	231	N/A
Total		2,711	

By the end of the reporting period, the progress of the major construction in progress are as follows:

Unit: million RMB

Project name	**Budget of total investment**	**Work progress**
The update of environmental protection and intelligent transformation project of Masteel's raw material factory	1,500	Calling for and receiving tenders for a section of the project
Heavy duty H – beam project	1,196	Pile foundation construction
CCPP comprehensive utilization power generation project for energy saving and emission reduction	1,025	Relocating and demolishing units involved in the project
1# blast furnace overhaul project in the No. 2 Steel Plant	520	Capping the furnace shell and laying carbon bricks
New silo project in the coal coking company	420	Civil construction
New square billet continuous caster and supporting retrofit project in the Special Steel Company	420	Constructing pile foundation in the annealing furnace area and calling for tenders for a section of the continuous casting machine
Combination of purification system of coal coking company (Southern District) project	380	New AS system single machine, linked machine test drive
Auxiliary supporting project for Masteel's long product upgrading	360	Constructing pile foundation in the water treatment area and building a spare parts warehouse
Beam blank continuous caster project in the heavy-duty H beam production lines	330	Constructing equipment foundation
Flue gas desulfurization and denitrification project for 7# and 8# coking furnaces in the Coking Plant	150	Installing steel structures for the absorption tower and constructing electrical control buildings
Total	6,301	

5.7 Analysis of the group's major subsidiaries and investees

5.7.1 Anhui Changjiang Iron and Steel Co., Ltd.

- The Company 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 sales of ferrous metallurgy, screw threaded steel, round steel, section steel, angle steel, deformed steel, wire and rod; as well as the sales and the import and export of iron ore, iron ore fines and scrap steel. Net profit for the reporting period amounted to RMB2,120 million. At the end of the reporting period, its total assets and net assets amounted to RMB11,037 million and RMB5,531 million, respectively.

  In 2018, the principal operation income was RMB15,989 million its principal operation margin was RMB3,612 million and net profit was RMB2,120 million or up 6% year-on-year, mainly due to the increase in production and sales volume and the increase in product gross margin.

5.7.2 MaSteel Finance

- MaSteel Finance 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; guarantee provided; agency business to members of the group, bill acceptance and discounting, loans and finance leasing; engagement in interbank borrowing; assisting members of the group in the collection and payment of transaction amount; approved insurance agency business; entrustment loans for members of the group, internal transfer and bill settlement, design of settlement and liquidation plans, accepting deposits for members of the group. Net profit for the reporting period amounted to RMB269 million. At the end of the reporting period, its total assets and net assets amounted to RMB16,212 million and RMB2,970 million, respectively.

Indicator	**Standard Ratio**	**Actual Ratio for the Year**
Capital adequacy ratio	≥10.5%	25.09%
Liquidity ratio	≥25%	78.55%
Non-performing asset ratio	≤4%	–
Non-preforming loan ratio	≤5%	–
Loan loss reserves adequacy ratio	≥100%	272.22%
Loans from other banks ratio	≤100%	56.14%

5.7.3 Other Major Subsidiaries

- Masteel Hefei has a registered capital of RMB2,500 million, in which the Company holds a direct stake of 71%. It is mainly engaged in metallurgy and extended processing of ferrous metals and sale of resulting products, by-products and semi-finished products; production and sale of coke and coke chemical products and energy, extended processing of iron and steel products, production and sale of metallic products. Net profit for the reporting period amounted to RMB194 million. As at the end of the reporting period, it had total assets amounting to RMB4,746 million and net assets of RMB2,206 million.

- MG-VALDUNES, a wholly owned subsidiary of the Group Company, with a registered capital of EUR110.2 million, is mainly specialized in design, manufacturing, processing, putting into production, repairing and maintaining of all kinds of products and facilities that are applied in railway transportation, urban transportation and mechanical industry; sales, import and export of various shapes of steel products. In the reporting period, the net losses amounted to RMB86 million; at the end of reporting period, the total assets were RMB818 million, and the net assets were RMB439 million.

- The Company's wholly-owned subsidiary Maanshan Iron & Steel (Australia) Proprietary Limited, with a registered capital of AUD21.7379 million. It is mainly engaged in investment and trading. Net loss for the reporting period amounted RMB29 million. As at the end of the reporting period, it had total assets amounting to RMB194 million and net assets of RMB188 million.

- Masteel Hong Kong has a registered capital of HK$350 million. It is mainly engaged in the production, sale and agency of steel products and trading of pig iron. Net profit for the reporting period amounted to RMB55 million. As at the end of the reporting period, it had total assets amounting to RMB4,407 million and net assets of RMB316 million.

5.7.4 Major Investees

- Henan Jinma Energy Co., Ltd., has a registered capital of RMB 535.421 million and the Company directly holds 26.89% of its equity. It's main business include coke, coal tar, crude benzene, ammonium sulfate, coke oven gas production and sales; coke oven gas power generation, heat production. The net profit for the reporting period was approximately RMB852 million. At the end of the reporting period, the total assets were RMB4,075 million and the net assets were RMB2,378 million.

- Shenglong Chemical Co., Ltd. has a registered capital of RMB568.8 million and the Company directly holds 31.99% of its equity. It's main business include coke, ammonium sulfate, coal coke chemical products (excluding other dangerous chemicals) production and sales; mechanical equipment maintenance, processing (excluding special equipment). The net profit for the reporting period was approximately RMB921 million. At the end of the reporting period, the total assets were RMB3,078 million and the net assets were RMB2,290 million.

- Maanshan BOC-Ma Steel Gases Company Limited has a registered capital of RMB468 million and the Company directly holds 50% equity, it's main business include produce, sell air or liquid form of air products, and engage in preparation for other industrial gas products. In the reporting period, the net profits amounted to RMB167 million. At the end of reporting period, the total assets were at RMB621 million million, and the net assets were RMB536 million.

6. DISCUSSION AND ANALYSIS ON THE COMPANY'S FUTURE DEVELOPMENT

6.1 Industry landscape and trend

The steel industry has completed the five-year goal of resolving excess capacity ahead of schedule and the market environment has undergone significant changes. However, there are still some problems in the steel production capacity structure. Examples are the continued impulse to increase production capacity in violation of laws driven by interests, the need to stay on guard against the resurgence of substandard steel and the lingering pressure from the rapid release of capacity from compliant companies. The cost pressure caused by the rising prices of raw materials and fuels and the surge in environmental protection operating costs is increasing. Some enterprises are still not up to social expectations in terms of energy conservation and environmental protection levels and ultra-low emission requirements. Enterprises are faced with relatively prominent issues of limited credit as well as difficult and costly financing. There is still a certain gap with foreign countries in terms of independent product innovation capability and some key core technology breakthroughs. The quality stability and consistency of some high-end products still need to be improved.

6.2 Corporate development strategy

Sticking to core status of steel industry, the Company will pursue high-quality development, carry out innovation-driven strategy, enhance lean operation, combine product upgrading and service innovation, focus on brand strategy and low cost strategy, reinforce product, optimize structure,establish brand, create a steel and iron material service provider with unique characteristics,enhance overall business, environment, employee and social performance, and develop the Company with a brand of "good benefit, eco-friendliness, employee morale, customer trust and social respect.

6.3 Business plan

In 2019, the group plans to produce pig iron of 17.72 million tons, crude steel of 19.92 million tons and steel of 18.2 million tons (of which the Company plans to produce pig iron of 14.33 million tons, crude steel of 15.48 million tons and steel of 14.45 million tons),and it was increased by 1.70%, 1.18% and 1.05% respectively compared with the production in 2018.

6.4 Potential risks

(1) The risk of a weakening demand-side. In 2019, GDP is expected to increase by 6%-6.5%, down from that of last year. Under the influence of factors such as weakening real estate sales and a complex trade environment, demand for steel used in machinery, automobiles and home appliances will slow down, and demand for steel nationwide is likely to weaken year on year. In this regard, the Company will continue to focus on the principal business. Through business and resource integration, we will promote professional and collaborative developments, embracing changes and breakthroughs and gathering forces to create value, striving to enhance comprehensive competitiveness.

(2) The risk of an expanding supply-side. In the new year, on one hand, there are uncertainties including production restrictions in the heating season and environmental policies on the supply side of steel products. On the other hand, as the efficiency of enterprises in the industry improves, new production capacity, resurging "substandard steel" and the impulse to recover resolved capacity still exist. These factors will bring a relatively big uncertainty and pressure to the balance of the steel market supply and the production and operation of enterprises. In this regard, while continuously adhering to production on sales prospects, the Company will enhance production flexibility through flexible organization of production, and strive to eliminate the negative impact of influencing factors by focusing on the "three products" and fully implementing the EVI model centering on core products.

7. SIGNIFICANT EVENTS

7.1 Plan or Proposal of Profit Distribution for Ordinary Shares, Plan or Proposal of Transferring Capital Reserve to Share Capital for the Past Three Years (including the reporting period)

In 2018, the Company has distributed an interim dividend of RMB0.05 per share (tax included). According to the Chinese Accounting Standards, the Company achieved a net profit of RMB4,719 million in 2018. After deducting surplus reserve by 10%, the profit available for distribution to shareholders at the end of 2018 was RMB4,961 million. The Board suggests a final dividend of RMB0.31 per share (tax included) shall be distributed for the year of 2018 and retained earnings will be carried forward to the year of 2019. The distribution plan is going to be submitted to the Annual General Meeting for approval.

In 2016, no profit distribution was made; the final dividend for 2017 was RMB0.165 (tax included), and the retained earnings was carried forward to the year of 2018. No capital reserve was transferred to share capital.

7.2 Remunerations of the Auditor

During the year, Ernst & Young Hua Ming LLP was appointed as the auditor of the Company, who has completed the annual financial audit and relevant internal control audit and has issued relevant audit report. The remuneration for Ernst & Young Hua Ming LLP amounted to RMB5.385 million (tax excluded), among which, the annual audit fee amounted to RMB4.80 million (including an internal control audit fee of RMB0.60 million) and the fee for interim agreed-upon procedures of RMB0.585 million. The audit fee and agreed-upon procedures fee were already inclusive of disbursements incurred by the auditor. Meal and accommodation expenses incurred by auditor while performing professional services for the Company were borne by the Company.

Ernst & Young Hua Ming LLP performed agreed-upon procedures on the assessment of new accounting standards with a fee of RMB0.5 million.

In addition, Ernst & Young Tax and Advisory Co., Ltd. provided Hong Kong tax declaration services to the Group with a fee of HK$43 thousands, which was not an audit service.

7.3 Audit Committee

The Audit Committee of the board of directors held six meetings in 2018. The committee duly performed its duties of reviewing and monitoring the finance and internal control of the Group. It reviewed the Company's 2017 annual accounts, the first quarterly accounts, the interim accounts and the third quarterly accounts of 2018. It reviewed the summary report presented by the external accounting firm as a result of a 2017 auditing on the Company and made an independent opinion on the Company's engagement of auditors, connected transactions and external guarantees. The Company's 2018 annual accounts were reviewed by the Audit Committee.

7.4 Purchase, Sales 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 Group or its subsidiaries purchase or resale any of the listed stocks.

7.5 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 currencies before the Company issues new shares.

7.6 Public Float

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, as at the date of this announcement, the Company has fulfilled the publicfloat requirement as prescribed by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

7.7 Report of the Supervisory Committee

The Supervisory Committee is of the view that the Company's operations were in compliance with the laws. The Company's financial situation, application of fund raising (if applicable), associate transactions and acquisitions, and disposal of assets did not harm the interests of either the Company or the shareholders. The Supervisory Committee reviewed the Board's assessment report on the Company's internal control in 2018, and the formation and execution of the Company's internal control system. The Supervisory Committee is of the view that the Company has formed a comparatively sound internal control system and can execute the system effectively. The Company's assessment report on internal control reflected the Company's formation and execution of the internal control system truthfully and objectively.

7.8 Code on corporate governance practices

In 2018, 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.

All of the Directors of the Company have confirmed in written that they have complied with the requirements under the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Rules Governing the Listing of Securities of the Hong Kong Stock Exchange.

8. MATTERS RELATING TO FINANCIAL REPORT

8.1 Auditor's Opinion

Financial Report: Audited
Auditor's Opinion: Unqualified

8.2 Analysis and Explanation of the Company on the Reasons for and the Impact of the Changes to Accounting Policies and Accounting Estimates

- ***Changes in accounting policies relating to revenue***

  In 2017, the Ministry of Finance promulgated the revised "Accounting Standards for Business Enterprises No. 14 – Revenues". The New Standards on Revenues has established a new model for recognising revenues generated from contracts with customers. After calculation, the application of the New Standards on Revenues has no significant impact on the revenue, net profit and shareholders' equity of the Group and the Company. Therefore, the Group and the Company have not made any adjustment to the financial statements.

- ***Changes in accounting policies relating to financial instruments***

  In 2017, the Ministry of Finance promulgated the revised "Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments", "Accounting Standards for Business Enterprises No. 23 – Transfer of Financial Assets", "Accounting Standards for Business Enterprises No. 24 – Hedging" and "Accounting Standards for Business Enterprises No. 37 – Presentation of Financial Instruments" (the "New Standards on Financial Instruments"). The New Standards on Financial Instruments have changed the way by which financial instruments are classified and measured.

On the first implementation date of the New Standards, the Group conducted an evaluation of results of the classification and measurement of its financial instruments as at 31 December 2017 in accordance with provisions of the standards on financial instruments before and after the revision, and made adjustment to results of the classification and measurement of its financial instruments as at 1 January 2018. Based on the evaluation, such changes in accounting policies led to an increase of RMB6,385,966 and RMB4,154,774 in total and net assets of the Group, respectively, at the beginning of the period (among which, other comprehensive income attributable to owner of the parent increased by RMB32,360,498 and retained earnings attributable to owners of the parent decreased by RMB20,317,968). The Company's total assets at the beginning of the period increased by RMB36,653,752 and net assets increased by RMB27,490,314 (among which, other comprehensive income increased by RMB27,490,314).

- ***Format of financial statements***

  In accordance with the "Notice of the Ministry of Finance on Revising and Issuing the Format of Financial Statements for General Enterprises in 2018" (Cai Hui [2018] No.15), the Group presents notes receivable and accounts receivable collectively under the item of notes and trade receivables, interests receivable, dividends receivable and other receivables collectively under the item of other receivables, and fixed assets and disposal of fixed assets collectively under the item of fixed assets. The Group presents notes payable and trade payable collectively under the item of notes and trade payable, interests payable, dividends payable and other payables collectively under the item of other payables, long-term payables and special payables collectively under the item of long-term payables. The Group separately presents the item of R&D expenses on top of the item of financial expenses in the income statement, and changes the costs incurred in the research and development process to expenditure and presents it under R&D expenses. The Group has restated the comparative balance sheet and income statement accordingly. Such change in accounting policies has no impact on the consolidated and company net profit and shareholders' equity.

- ***Changes in presentation of cash received from government grant on assets***

  According to the "Interpretation of 2018 Financial Statements Format for General Enterprises", cash received from government grant on assets shall be disclosed as cashflow from operating activities which was previously in cashflow from investing activities. The Group retrospectively adjusted the comparative figures by reducing the net cashflow from investing activities and correspondingly increasing the net cashflow from operating activities by the same amount in the Group and the Company's statement of cashflows, with no impact on the net changes of cash and cash equivalents.

8.3 Analysis and Explanation of the Company on the Reasons for and the Impact of the Correction to Significant Accounting Errors

Not applicable.

8.4 Change of consolidated scope as compared with that of the report of last year. Specific instructions to be given by the Company.

- ***Status of newly-established subsidiaries***

Name of company	Time of establishment	Registered capital	Shareholding percentage *(%)*
Maanshan Middle East Company	January 2018	4 million dirhams	100
Meite Metallurgical Power	March 2018	RMB500,000	100
Magang Chemicals & Energy	March 2018	RMB600 million	100
Changchun Sales	August 2018	RMB10 million	100
Wuhan Material	October 2018	RMB250 million	85

The above subsidiaries have been included in the scope of consolidation of the Group since the date of its establishment.

- ***Disposal of subsidiaries***

  (1) On 27 February 2018, the Group received the "Letter of Handover and Takeover of Maanshan Iron & Steel Company Limited (Shanghai) Trade Co., Ltd." ([2017] Ma Gang Po Guan Zi No.1) issued by the bankruptcy and liquidation administrator. It was stated in the letter that Shanghai Trading should properly hand over all the accounting books, documents and files, seals, licenses and other related materials of the enterprise according to the requirements of the administrator. Therefore, the Group cannot exercise any control over the company since 27 February 2018 and has no longer included the company in the scope of consolidation.

  (2) In accordance with the resolutions approved by shareholders at the general meeting on 21 November 2018, the Holding purchased 55% equity of Masteel Scrap, a subsidiary held by the Company. On 31 December 2018, the Holding increased its capital to acquire 55% equity of Magang Chemicals & Energy, a subsidiary of the Company. On 15 December 2018, the Holding increased its capital to acquire 40% equity of New Building Masteel K. Wah, a subsidiary of the Company. The Company has lost control of the above three companies upon the completion of the transactions and no longer included them in the scope of consolidation since the transaction completion dates.

- ***Changes in the scope of consolidation due to other factors***

  During the reporting period, Maanshan (Chongqing) Iron & Steel Sales Co., Ltd. and Maanshan (Guangzhou) Iron & Steel Sales Co., Ltd. were deregistered.

CONSOLIDATED AND COMPANY'S STATEMENTS OF FINANCIAL POSITION

As at 31 December 2018

Renminbi Yuan

ASSETS	*Notes*	**31 December 2018 Group**	31 December 2017 Group	**31 December 2018 Company**	31 December 2017 Company
CURRENT ASSETS					
Cash and bank balances		**9,762,844,718**	4,978,352,093	**5,993,538,669**	4,169,232,422
Financial assets held for trading		**2,084,414,075**	–	**–**	–
Financial assets at fair value through profit or loss		**–**	1,546,139,404	**–**	62,721,800
Notes and trade receivable	*4*	**6,091,882,823**	9,341,614,275	**7,153,302,308**	10,170,482,595
Prepayments	*5*	**712,340,548**	750,818,831	**997,856,384**	600,539,572
Other receivables		**147,965,534**	285,228,074	**63,844,132**	188,725,018
Inventories		**11,053,918,748**	11,445,747,808	**7,108,599,357**	7,740,789,448
Financial assets purchased under agreements to resell		**2,432,279,109**	1,204,603,000	**–**	–
Loans and advances to customers		**2,845,298,103**	1,251,315,253	**–**	–
Assets classified as held for sale		**–**	73,454,334	**–**	–
Held-to-maturity investments		**–**	305,228,376	**–**	–
Non-current assets due within one year		**101,201,184**	–	**–**	–
Other current assets		**3,173,122,975**	916,037,331	**272,152,842**	294,632,327
Total current assets		**38,405,267,817**	32,098,538,779	**21,589,293,692**	23,227,123,182
NON-CURRENT ASSETS					
Available-for-sale financial investments		**–**	1,111,168,160	**–**	126,722,160
Held-to-maturity investments		**–**	100,854,230	**–**	–
Long-term equity investments		**2,809,063,381**	1,525,225,202	**10,146,271,956**	8,830,290,112
Other equity instruments investments		**263,122,364**	–	**263,122,364**	–
Investment properties		**55,804,755**	57,508,684	**55,593,723**	71,554,652
Property, plant and equipment		**31,545,176,835**	33,130,499,862	**23,828,190,594**	25,089,628,791
Construction in progress		**1,662,672,077**	1,805,955,609	**1,382,508,379**	1,356,492,361
Intangible assets		**1,855,265,330**	1,883,604,173	**987,387,010**	904,435,151
Deferred tax assets		**275,626,734**	478,235,280	**192,801,687**	438,445,874
Total non-current assets		**38,466,731,476**	40,093,051,200	**36,855,875,713**	36,817,569,101
TOTAL ASSETS		**76,871,999,293**	72,191,589,979	**58,445,169,405**	60,044,692,283

CONSOLIDATED AND COMPANY'S STATEMENTS OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2018
Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	*Notes*	**31 December 2018 Group**	31 December 2017 Group	**31 December 2018 Company**	31 December 2017 Company
CURRENT LIABILITIES					
Deposits and balances from banks and other financial institutions		**900,366,111**	200,000,000	**–**	–
Customer deposits		**4,915,309,311**	2,947,639,610	**–**	–
Repurchase agreements		**1,133,772,377**	308,100,956	**–**	–
Short-term loans		**10,917,293,181**	4,630,303,694	**6,570,000,000**	3,226,709,122
Financial liabilities held for trading		**8,012,670**	–	**8,012,670**	–
Financial liabilities at fair value through profit or loss		**–**	10,498,810	**–**	10,498,810
Notes and trade payable	*6*	**10,342,007,979**	11,778,382,830	**11,311,058,229**	10,050,245,456
Advances from customers		**3,572,594,400**	3,842,903,332	**2,382,469,502**	2,626,167,696
Payroll and employee benefits payable		**563,642,908**	654,822,505	**428,093,317**	502,689,195
Taxes payable		**1,325,517,987**	1,342,836,597	**479,009,037**	795,312,565
Other payables		**3,530,746,914**	2,354,327,866	**2,967,729,141**	1,871,957,462
Non-current liabilities due within one year		**1,470,868,462**	4,928,758,378	**1,345,513,152**	5,928,758,378
Contingent liabilities		**29,997,521**	38,537,369	**–**	–
Other current liabilities		**1,026,897,260**	3,081,026,301	**1,026,897,260**	3,081,026,301
Total current liabilities		**39,737,027,081**	36,118,138,248	**26,518,782,308**	28,093,364,985
NON-CURRENT LIABILITIES					
Long-term loans		**3,596,387,552**	6,975,958,634	**6,296,387,552**	9,461,264,824
Long-term payables		**–**	210,000,000	**–**	–
Long-term employee benefits payable		**157,371,474**	160,896,586	**130,803,630**	132,641,692
Deferred revenue		**1,364,795,555**	1,462,490,533	**721,934,242**	730,152,350
Deferred tax liabilities		**24,066,311**	26,841,665	**–**	–
Total non-current liabilities		**5,142,620,892**	8,836,187,418	**7,149,125,424**	10,324,058,866
Total liabilities		**44,879,647,973**	44,954,325,666	**33,667,907,732**	38,417,423,851
SHAREHOLDERS' EQUITY					
Share capital		**7,700,681,186**	7,700,681,186	**7,700,681,186**	7,700,681,186
Capital reserve		**8,352,287,192**	8,352,287,192	**8,358,017,477**	8,358,017,477
Other comprehensive income		**(112,702,163)**	(124,156,060)	**12,906,467**	–
Special reserve		**31,037,123**	31,929,722	**9,496,082**	7,637,529
Surplus reserve		**4,571,901,256**	4,100,007,341	**3,735,114,669**	3,249,950,725
General reserve		**224,841,404**	191,546,668	**–**	–
Retained earning		**7,405,577,274**	3,643,443,763	**4,961,045,792**	2,310,981,515
Equity attributable to owners of the parent		**28,173,623,272**	23,895,739,812		
Non-controlling interests		**3,818,728,048**	3,341,524,501		
Total shareholders' equity		**31,992,351,320**	27,237,264,313	**24,777,261,673**	21,627,268,432
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**76,871,999,293**	72,191,589,979	**58,445,169,405**	60,044,692,283

CONSOLIDATED AND COMPANY'S INCOME STATEMENT

For year ended 31 December 2018

Renminbi Yuan

	Notes	**2018 Group**	2017 Group	**2018 Company**	2017 Company
Revenue	*8*	**81,951,813,488**	73,228,029,624	**67,232,862,477**	59,882,440,515
Less: Cost of sales	*8*	**69,794,982,119**	63,556,258,449	**60,301,176,864**	54,607,086,565
Taxes and surcharges		**810,322,306**	741,194,307	**594,037,306**	542,554,260
Selling expenses		**959,718,246**	865,396,451	**431,922,944**	380,917,612
General and administrative expenses		**1,379,991,907**	1,164,112,101	**977,633,833**	862,549,824
R&D expenses		**801,240,784**	255,023,306	**733,213,870**	198,057,245
Financial expenses	*9*	**960,457,412**	998,780,259	**839,073,012**	1,011,342,956
including: interest expense		**879,897,330**	920,767,866	**760,470,881**	950,564,300
interest income		**54,228,185**	34,412,987	**69,756,208**	50,531,829
Impairment losses		**754,443,431**	746,374,994	**694,051,720**	531,569,167
Credit impairment losses		**41,876,945**	–	**4,006,617**	–
Add: Other income		**185,350,836**	238,868,248	**125,182,466**	172,071,814
Investment income		**1,090,099,779**	676,516,349	**1,783,607,075**	605,252,360
including: share of profits of associates and joint ventures		**657,410,287**	490,410,552	**654,348,579**	490,410,552
(Loss)/gain on the changes in fair value		**(10,213,369)**	10,145,756	**(10,976,670)**	8,914,844
Gain/(loss) from disposal of non-current assets		**371,280,264**	(176,952,368)	**267,685,982**	(176,806,918)
Operating profit		**8,085,297,848**	5,649,467,742	**4,823,247,164**	2,357,794,986
Add: Non-operating income	*10*	**160,098,567**	176,123,978	**158,250,867**	170,961,545
Less: Non-operating expenses	*11*	**6,472,487**	16,625,157	**3,043,411**	11,344,053
Profit before tax		**8,238,923,928**	5,808,966,563	**4,978,454,620**	2,517,412,478
Less: Income tax expense	*12*	**1,180,935,234**	736,728,434	**259,515,465**	(176,637,134)
Net profit		**7,057,988,694**	5,072,238,129	**4,718,939,155**	2,694,049,612
Categorized by operation continuity					
Net profit from continuing operation		**7,057,988,694**	5,072,238,129	**4,718,939,155**	2,694,049,612

CONSOLIDATED AND COMPANY'S INCOME STATEMENT (CONTINUED)

For year ended 31 December 2018
Renminbi Yuan

	Notes	**2018 Group**	2017 Group	**2018 Company**	2017 Company
Categorized by ownership:					
Net profit attribute to owners of the parent		**5,943,286,585**	4,128,939,861		
Net profit attribute to non-controlling interests		**1,114,702,109**	943,298,268		
Other comprehensive income, net of tax:		**(20,906,601)**	(6,520,394)	**(14,583,847)**	–
Other comprehensive income attributable to owners of the parent, net of tax		**(20,906,601)**	(4,892,606)		
Other comprehensive income that may not be reclassified to profit or loss:		**(11,838,378)**	–	**(11,838,378)**	–
Changes in fair value of other equity instruments investments		**(11,838,378)**	–	**(11,838,378)**	–
Other comprehensive income that will be reclassified to profit or loss:		**(9,068,223)**	(4,892,606)	**(2,745,469)**	–
Fair value changes of available-for-sale financial assets		**–**	(4,066,577)	**–**	–
Other comprehensive income that can be reclassified to profit or loss in equity method		**(2,745,469)**	–	**(2,745,469)**	–
Exchange differences on translation of foreign operations		**(6,322,754)**	(826,029)	**–**	–
Other comprehensive income attributable to non-controlling interests, net of tax		**–**	(1,627,788)		
Total comprehensive income		**7,037,082,093**	5,065,717,735	**4,704,355,308**	2,694,049,612
Attributable to:					
Owners of the parent		**5,922,379,984**	4,124,047,255		
Non-controlling interests		**1,114,702,109**	941,670,480		
EARNINGS PER SHARE:					
Basic earnings per share *(cent/share)*	*13*	**77.18 cents**	53.62 cents		
Diluted earnings per share *(cent/share)*	*13*	**77.18 cents**	53.62 cents		

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

Renminbi Yuan

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

For the year ended 31 December 2017

Renminbi Yuan

	Attributable to owners of the parent									
	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	General reserve	Retained earnings	Sub-total	Non-controlling interests	Total shareholders' equity
1. Balance at the beginning of the year	7,700,681,186	8,348,726,741	(119,263,454)	27,969,571	3,843,231,617	153,394,916	(190,568,622)	19,764,171,955	2,316,334,486	22,080,506,441
2. Increase/(decrease) during the year										
1) Total comprehensive income	–	–	(4,892,606)	–	–	–	4,128,939,861	4,124,047,255	941,670,480	5,065,717,735
2) Capital contribution and withdrawal										
(i) Capital contribution	–	–	–	–	–	–	–	–	92,940,000	92,940,000
(ii) Business combination	–	–	–	–	–	–	–	–	65,815,493	65,815,493
(iii) Disposal of a subsidiary	–	–	–	–	–	–	–	–	(884,349)	(884,349)
(iv) Purchase of non-controlling interests of subsidiaries	–	3,560,451	–	–	–	–	–	3,560,451	(47,397,069)	(43,836,618)
3) Profits appropriation										
(i) Transfer to surplus reserve	–	–	–	–	256,775,724	–	(256,775,724)	–	–	–
(ii) Transfer to general risk reserve	–	–	–	–	–	38,151,752	(38,151,752)	–	–	–
(iii) Distribution to shareholders	–	–	–	–	–	–	–	–	(28,271,220)	(28,271,220)
4) Special reserve										
(i) Additions	–	–	–	100,875,054	–	–	–	100,875,054	10,722,668	111,597,722
(ii) Utilisation	–	–	–	(100,725,325)	–	–	–	(100,725,325)	(9,405,988)	(110,131,313)
(iii) Changes in the share of associates and joint ventures' special reserve, net	–	–	–	3,810,422	–	–	–	3,810,422	–	3,810,422
3. Balance at the end of the year	7,700,681,186	8,352,287,192	(124,156,060)	31,929,722	4,100,007,341	191,546,668	3,643,443,763	23,895,739,812	3,341,524,501	27,237,264,313

CONSOLIDATED STATEMENT OF CASH FLOWS

For year ended 31 December 2018

Renminbi Yuan

		2018	2017
1.	Cash flows from operating activities		
	Cash received from sale of goods and rendering of services	**88,099,085,582**	79,503,561,455
	Tax refunds received	**89,627,633**	6,383,594
	Net decrease in loans and advances to customers	**–**	317,273,741
	Net increase in repurchase agreements of financial assets	**825,671,421**	–
	Net increase in customer deposits	**2,668,035,812**	–
	Cash received for interest charges, fees and commissions	**155,169,236**	98,018,856
	Cash received relating to other operating activities	**352,495,095**	420,810,266
	Sub-total of cash inflows	**92,190,084,779**	80,346,047,912
	Cash paid for purchase of goods and services	**(65,851,612,316)**	(66,036,305,432)
	Net increase in deposits in central bank and other financial institution	**(272,649,256)**	(215,975,537)
	Net increase in financial assets purchased under agreements to resell	**(1,228,499,181)**	(974,556,000)
	Net increase in loans and advances to customers	**(1,639,933,298)**	–
	Net decrease in repurchase agreements of financial assets	**–**	(288,464,742)
	Net decrease in customer deposits and deposits from banks and other financial institutions	**–**	(560,585,411)
	Cash paid to or on behalf of employees	**(4,812,499,475)**	(4,257,177,760)
	Taxes and surcharges paid	**(3,999,110,989)**	(2,405,202,516)
	Cash paid for interest charges, fees and commissions	**(72,592,692)**	(54,025,121)
	Cash paid relating to other operating activities	**(442,757,466)**	(953,933,389)
	Sub-total of cash outflows	**(78,319,654,673)**	(75,746,225,908)
	Net cash flows from operating activities	**13,870,430,106**	4,599,822,004

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For year ended 31 December 2018

Renminbi Yuan

	2018	2017
2. Cash flows from investing activities		
Cash received from disposal of investments	**55,669,149,428**	44,940,710,247
Cash received from investment income	**336,315,552**	139,070,391
Net cash from acquisition of subsidiaries and other operating units	**–**	115,777,566
Proceeds from disposal of items of property, plant and equipment, intangible assets and other non-current assets	**303,112,930**	13,103,681
Net cash from disposal of a subsidiary and other operating units	**–**	4,854,450
Cash received relating to other investing activities	**131,408,596**	–
Sub-total of cash inflows	**56,439,986,506**	45,213,516,335
Purchases of property, plant and equipment, intangible assets and other non-current assets	**(2,572,133,839)**	(1,484,519,774)
Cash paid for investments	**(57,685,087,518)**	(47,106,067,177)
Purchases of non-controlling interests	**–**	(43,836,618)
Cash paid relating to other investing activities	**(194,468,349)**	(103,420,899)
Sub-total of cash outflows	**(60,451,689,706)**	(48,737,844,468)
Net cash flows used in investing activities	**(4,011,703,200)**	(3,524,328,133)

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For year ended 31 December 2018

Renminbi Yuan

		2018	2017
3.	Cash flows from financing activities		
	Cash received from borrowings	**16,920,506,859**	12,648,723,311
	Cash received from issuing bond	**1,000,000,000**	3,000,000,000
	Cash received from investors	**5,625,000**	92,940,000
	Including: capital injection from a subsidiary's non-controlling interests	**5,625,000**	92,940,000
	Cash received relating to other financing activities	**–**	210,000,000
	Sub-total of cash inflows	**17,926,131,859**	15,951,663,311
	Repayment of borrowings	**(20,778,250,231)**	(17,371,993,271)
	Cash paid for distribution of dividends or profits and for interest expenses	**(3,175,196,250)**	(956,406,317)
	Including: dividends paid to non-controlling interests by subsidiaries	**(602,443,934)**	(27,934,184)
	Sub-total of cash outflows	**(23,953,446,481)**	(18,328,399,588)
	Net cash flows used in financing activities	**(6,027,314,622)**	(2,376,736,277)
4.	Effect of foreign exchange rate changes on cash and cash equivalents	**162,261,477**	(82,387,266)
5.	Net increase/(decrease) in cash and cash equivalents	**3,993,673,761**	(1,383,629,672)
	Add: cash and cash equivalents at the beginning of the year	**2,940,502,015**	4,324,131,687
6.	Cash and cash equivalents at the end of the year	**6,934,175,776**	2,940,502,015

1. SIGNIFICANT ACCOUNTING POLICIES

1.1 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 consolidated financial statements are prepared on going concern basis.

As of 31 December 2018, the net current liabilities of the Group amounted to RMB1,331,759,264. The directors of the Company have considered the availability of funding sources, including but not limited to an unused banking facilities of RMB22.9 billion as at 31 December 2018 and the expected cash inflows from the operating activities in the year 2019. The board of directors of the Company believes that the Group has sufficient resources to continue as a going concern for not less than 12 months after the end of reporting period. Therefore, the board of directors of the Company continues to prepare the Group’s financial statements for the year ended 31 Decembe 2018 on a going concern basis.

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

1.2 Statement of compliance with the CAS

The financial statements have been prepared in accordance with the CAS, and presented truly and completely the financial position of the Company and the Group as of 31 December 2018, and the results of their operations and their cash flows for the year then ended.

1.3 Changes in accounting policies

In 2017, the Ministry of Finance has promulgated the revised “Accounting Standard for Business Enterprises No. 14 – Revenue” (“New Revenue Standard”), “Accounting Standard for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments”, “Accounting Standard for Business Enterprises No. 23 – Transfer of Financial Assets”, “Accounting Standard for Business Enterprises No. 24 – Hedging” and “Accounting Standard for Business Enterprises No. 37 – Presentation of Financial Instruments” (collectively as “ New Financial Instruments Standards”). The Group has adopted the above revised accounting standards from 1 January 2018, and according to the transitional requirements, the comparative information is not restated. The difference generated from the initial adoption would retrospectively adjust the opening balance of retained earnings or other comprehensive income as at 1 January 2018.

New Revenue Standard

The New Revenue Standard establishes a new model to account for revenue arising from contracts with customers. The revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard requires entities to exercise judgment and estimation, taking into consideration of the contract costs, performance obligations, variable considerations, principal versus agent. The Group measured the cumulative effect for the uncompleted contracts as at 1 January 2018 under the New Revenue Standard, and for the contract change occurred before 1 January 2018, the Group identified fulfilled and outstanding performance obligations, determine the consideration of the transaction, and the allocation of the consideration between the fulfilled and outstanding performance obligations according to the final arrangement of the contract change. Based on the assessment on uncompleted sales contracts as at 1 January 2018, the Group believed that the impact by adopting the New Revenue Standard on the Group's financial statements was insignificant which was mainly due to the revenue recognition upon the transfer of risks and rewards coincided with the fulfilment of performance obligations for sales contract for the Group, and also the Group's sales contracts generally include one performance obligation. The assessment results showed that the adoption of the New Revenue Standard did not have significant impact on the Group's and the Company's revenue, net profit and shareholders' equity. Therefore, the Group and the Company did not adjust the financial statements upon initial adoption.

New Financial Instruments Standards

New Financial Instruments Standards changed the classification and measurement for financial instruments and designated 3 categories of the financial assets: financial assets measured at amortized cost, fair value through other comprehensive income, or fair value through profit or loss. The classification is based on the Group's business model for managing the asset and the instruments' contractual cash flows characteristic. Equity investments are measured at fair value through profit or loss, but entity can choose irrevocably at initial recognition at fair value through other comprehensive income.

The adoption of the New Financial Instruments Standards required the change from "incurred loss approach" to a "forward-looking expected credit loss ("ECL") approach" for the impairment of financial assets measured at amortised cost, debt instrument investment measured at fair value through other comprehensive income, loan commitment and financial guarantee.

The new hedge accounting method strengthened the connection between the entity risk management and its financial statements, enlarged the scope of hedging instrument and hedged item, removed the revisit effectiveness test, and defined the rebalancing mechanism and hedging cost.

The Group has chosen to measure part of its equity instruments at fair value through other comprehensive income and present them as other equity instruments investments.

Changes in Financial Statements Format

According to the Circular of the Ministry of Finance on Revising and Issuing the Format of the Financial Statements of General Enterprises for 2018 (Caikuai [2018] No. 15), the Group combined "notes receivable" and "trade receivable" as "notes and trade receivable", and combined "interest receivable", "dividends receivable" and "other receivables" as "other receivables", combined "fixed assets" and "disposal on fixed assets" as "fixed assets", combined "notes payable" and "trade payable" as "notes and trade payable", combined "interest payable", "dividends payable" and "other payables" as "other payables", and combined "long-term payables" and "special payables" together as "long-term payables". The Group inserted "Research and Development expenses" above the item of "financial expenses" in the income statement which accounts for expensed expenditure occurred during the course of research and development. The Group retrospectively represented the comparative balance sheet and the income statement. The change of accounting policy did not have an impact on the Group's and Company's net profit and shareholders' equity.

Changes in presentation of cash received from government grant on assets

According to the "Interpretation of 2018 Financial Statements Format for General Enterprises", cash received from government grant on assets shall be disclosed as cashflow from operating activities which was previously in cashflow from investing activities. The Group retrospectively adjusted the comparative figures by reducing the net cashflow from investing activities and correspondingly increasing the net cashflow from operating activities by the same amount in the Group and the Company's statement of cashflows, with no impact on the net changes of cash and cash equivalents.

The main impact on the operating financial statement caused by the retrospective adjustment due to the above changes in accounting policies is as follows:

The Group

Category	Carrying amount under the original standard 31 December 2017	The influence of the New Financial Instruments Standards	Other changes in financial statement format	Carrying amount under the new standard 1 January 2018
ASSETS				
Financial assets held for trading	–	1,546,139,404	–	1,546,139,404
Financial assets at fair value through profit or loss	1,546,139,404	(1,546,139,404)	–	–
Notes receivable	8,375,166,683	–	(8,375,166,683)	–
Trade receivable	966,447,592	–	(966,447,592)	–
Notes and trade receivable	–	(9,861,282)	9,341,614,275	9,331,752,993
Interest receivable	6,390,787	–	(6,390,787)	–
Other receivables	278,837,287	(15,693,097)	6,390,787	269,534,977
Financial assets purchased under agreements to resell	1,204,603,000	(6,523)	–	1,204,596,477
Loans and advances to customers	1,251,315,253	(2,735,732)	–	1,248,579,521
Held-to-maturity investments	406,082,606	(406,082,606)	–	–
Assets classified as held for sale	1,111,168,160	(1,111,168,160)	–	–
Debt instruments investments	–	1,390,341,405	–	1,390,341,405
Other equity instruments investments	–	163,375,912	–	163,375,912
Deferred tax assets	478,235,280	(1,783,951)	–	476,451,329
LIABILITIES				
Financial liabilities held for trading	–	10,498,810	–	10,498,810
Financial liabilities at fair value through profit or loss	10,498,810	(10,498,810)	–	–
Notes payable	4,809,848,470	–	(4,809,848,470)	–
Trade payable	6,968,534,360	–	(6,968,534,360)	–
Notes and trade payable	–	–	11,778,382,830	11,778,382,830
Interest payable	121,108,052	–	(121,108,052)	–
Dividend payable	9,050,620	–	(9,050,620)	–
Other payable	2,224,169,194	–	130,158,672	2,354,327,866
Contingent liabilities	38,537,369	(203,555)	–	38,333,814
Deferred tax liabilities	26,841,665	9,163,438	–	36,005,103
SHAREHOLDERS' EQUITY				
Other comprehensive income	(124,156,060)	32,360,498	–	(91,795,562)
Retained earning	3,643,443,763	(20,317,968)	–	3,623,125,795
Equity attributable to owners of the parent	23,895,739,812	12,042,530	–	23,907,782,342
Non-controlling interests	3,341,524,501	(7,887,756)	–	3,333,636,745
Total shareholders' equity	27,237,264,313	4,154,774	–	27,241,419,087

	The Amount incurred in the previous year under the original standard	Other changes in financial statement format	The Amount incurred in the previous year under the new standard
Cash received relating to other investing activities	109,905,601	(109,905,601)	–
Cash received relating to other operating activities	310,904,665	109,905,601	420,810,266

The Company

Category	Carrying amount under the original standard 31 December 2017	The influence of the New Financial Instruments Standards	Other changes in financial statement format	Carrying amount under the new standard 1 January 2018
ASSETS				
Financial assets held for trading	–	62,721,800	–	62,721,800
Financial assets at fair value through profit or loss	62,721,800	(62,721,800)	–	–
Notes receivable	8,065,941,428	–	(8,065,941,428)	–
Trade receivable	2,104,541,167	–	(2,104,541,167)	–
Notes and trade receivable	–	–	10,170,482,595	10,170,482,595
Other receivables	188,725,018	–	–	188,725,018
Assets classified as held for sale	126,722,160	(126,722,160)	–	–
Other equity instruments investments	–	163,375,912	–	163,375,912
LIABILITIES				
Financial liabilities held for trading	–	10,498,810	–	10,498,810
Financial liabilities at fair value through profit or loss	10,498,810	(10,498,810)	–	–
Notes payable	4,077,260,000	–	(4,077,260,000)	–
Trade payable	5,972,985,456	–	(5,972,985,456)	–
Notes and trade payable	–	–	10,050,245,456	10,050,245,456
Interest payable	96,579,964	–	(96,579,964)	–
Dividend payable	6,569,410	–	(6,569,410)	–
Other payable	1,768,808,088	–	103,149,374	1,871,957,462
Deferred tax liabilities	–	9,163,438	–	9,163,438
SHAREHOLDERS' EQUITY				
Other comprehensive income	–	27,490,314	–	27,490,314

	The Amount incurred in the previous year under the original standard	Other changes in financial statement format	The Amount incurred in the previous year under the new standard
Cash received relating to other investing activities	84,797,525	(84,797,525)	–
Cash received relating to other operating activities	137,141,707	84,797,525	221,939,232

2. SCOPE OF FINANCIAL STATEMENT CONSOLIDATION

2.1 Change in the scope of consolidation

2.1.1 Newly established subsidiary

As of 31 December 2018, the Company established the following subsidiary, and included it in the scope of consolidation since then.

	Date of establishment	Registered capital	Percentage of equity	Investment form	Capital paid as of the period end
Maanshan Meite Metallurgical Power Technology Co., Ltd. ("Meite Metallurgical Power")	March 2018	RMB500,000	100%	Cash	RMB500,000
Magang Chemicals & Energy	March 2018	RMB600,000,000	100%	Cash and non-cash assets	RMB600,000,000
Ma Steel Middle East General Industrial ("Ma Steel Middle East")	January 2018	AED4,000,000	100%	Cash	RMB2,041,200
Changchun Sales	August 2018	RMB10,000,000	100%	Cash	RMB10,000,000
Wuhan Material	October 2018	RMB250,000,000	85%	Cash	RMB31,875,000

2.1.2 Disposal of subsidiaries

(1) The bankruptcy of Shanghai Trading

	Place of registration	Business nature	The equity interests ratio that the Group holds	Total voting right ratio that the Group holds	Reason for not being a subsidiary any longer
Masteel Shanghai Trading	Shanghai, PRC	Trading	100	100	*Note*

Note: On 7 September 2017, Shanghai Baoan District People's Court issued civil ruling ([2017] No. Hu 0113Po2-1) accepted the bankruptcy application of Shanghai Trading, a subsidiary of the Group, and designated Beijing Yingke (Shanghai) Law Firm as the bankruptcy liquidation manager. On 27 February 2018, the Group received the takeover notice of Shanghai Trading issued by the bankruptcy liquidation manager ([2017] Masteel Bankruptcy Takeover No.1 indicating that Shanghai Trading was properly handed over in all relevant materials such as property books, documents and files, seals and certificates of the enterprise in accordance with the requirements of the liquidation manager. Therefore, the Group lost control of Shanghai Trading since 27 February 2018 and no longer include it into the consolidation scope thereafter.

The financial information of Shanghai Trading at the disposal date is as follows:

	Carrying amount as at 27 February 2018	Carrying amount as at 31 December 2017
Current assets	**521,926**	521,926
Non-current assets	**–**	–
Current liabilities	**(174,145,988)**	(174,145,988)
Non-current liablities	**–**	–
	(173,624,062)	(173,624,062)
Non-controlling interests	**–**	–
Disposal gains	**173,624,062**	
Consideration	**–**	

	From 1 January 2018 27 February 2018
Revenue	**–**
Cost of sales	**–**
Net profit	**–**

(2) *Disposal of MaSteel Scrap*

	Place of registration	**Business nature**	**The equity interests ratio that the Group holds**	**Total voting right ratio that the Group holds**	**Reason for not being a subsidiary any longer**
Masteel Scrap	Anhui, PRC	Trading	100	100	*Note*

Note: On 15 August 2018, the Company signed Equity Transfer Agreement with the Holding. According to the agreement, the Company sold its 55% equity interest of Masteel Scrap to the Holding at a consideration of RMB178,381,854, which was based on the valuation result of Beijing Tianjian Xingye Assets valuation Co., Ltd. (valuation date: 28 February 2018).

As at 31 December 2018, the Holding paid the consideration in full amount to the Company, completed the equity transfer formalities and modified the Articles of Association of Masteel Scrap. Therefore, in the opinions of the Company's directors, the Company has lost control of Masteel Scrap Steel Company since 31 December, 2018 and will not include Masteel Scrap Steel Company in the scope of consolidation.

According to the agreement, the profit and loss during the transitional period from the base date of assets evaluation to the equity transfer date are owned and undertaken by the Company. According to the audit report issued by Zhongxinghua Certified Public Accountants LLP, the net profit of Masteel Scrap of from 1 March 2018 to 31 December, 2018 was RMB58,016,792, which has been approved by the former shareholder of Masteel Scrap to be distributed to the Company in the form of profit distribution. The Company has confirmed that the investment income generated from the profit and loss in the transitional period is RMB58,016,792.

The financial information of Masteel Scrap at the disposal date is as follows:

	Carrying amount as at 31 December 2018	Carrying amount as at 31 December 2017
Current assets	**839,017,248**	648,440,177
Non-current assets	**24,356,317**	26,331,508
Current liabilities	**(552,989,017)**	(447,305,086)
Non-current liablities	**–**	–
	310,384,494	227,466,599
Non-controlling interests	**–**	–
Fair value of the remained share *(Note)*	**145,948,789**	
Disposal gains *(Note)*	**13,946,149**	
Consideration *(Note)*	**178,381,854**	

	From 1 January 2018 to 31 December 2018
Revenue	**6,830,296,951**
Cost of sales	**6,591,981,007**
Net profit	**140,934,688**

Note: At the date of loss control, the book value of net assets of Masteel Scrap was RMB310,384,494, and the gain generated from above equity transfer transaction was RMB7,670,382. The fair value for the remained 45% equity held by the Company on the date of loss of control was RMB145,948,789. The investment gain from the re-measurement of fair value of the remained equity was RMB6,275,767.

After loss of control of Masteel Scrap, the Company held the remained 45% equity of Masteel Scrap and had significant influence on it. Therefore, on the day of control loss, the Company accounted the remained 45% equity of Masteel Scrap at RMB145,948,789 as the long-term equity investment of associates.

(3) Disposal of Magang Chemicals & Energy

	Place of registration	Business nature	The equity interests ratio that the Group holds	Total voting right ratio that the Group holds	Reason for not being a subsidiary any longer
Magang Chemicals & Energy	Anhui, PRC	Manufacturing	100	100	*Note*

Note On 15 August 2018, the Company signed the Capital Increase Agreement with the wholly-owned subsidiary, Magang Chemicals & Energy and the Holding. According to the agreement, Magang Chemicals & Energy would increase its registered capital from RMB600,000,000 to RMB1,333,333,333. The Holding subscribed all new registered capital of Magang Chemicals & Energy, namely RMB733,333,333 in total, and the Company relinquished the pre-emption right for this capital injection. After the capital injection, the Holding and the Company respectively has held 55% and 45% of the equity interests of Magang Chemicals & Energy.

The evaluated value of Magang Chemicals & Energy before capital increase by Beijing Tianjian Assets Appraisal Co., Ltd. was RMB598,593,860 (the base date of assets evaluation is 30 June 2018). The Company supplemented RMB1,406,140 to Magang Chemicals & Energy and then the fair value of the equity of Masteel Chemical & Energy Company was changed to RMB600,000,000, which is used as the pricing benchmark for capital increase.

On 31 December 2018, the Holding paid the capital of RMB733,333,333 in full amount to Magang Chemicals & Energy, completed the equity transfer formalities and modified the Articles of Association of Masteel Chemical & Energy. Therefore, in the opinions of the Company's directors, the Company has lost control of Magang Chemicals & Energy since 31 December 2018 and did not include Magang Chemicals & Energy in the scope of consolidation.

According to the agreement, the profit and loss of Magang Chemicals & Energy in the transitional period from the base date of assets evaluation to the transaction completion date are owned and undertaken by the Company. According to the audit report issued by Zhongxinghua Certified Public Accountants LLP, the net profit of Magang Chemicals & Energy from 1 July 2018 to 31 December 2018 was RMB79,686,077, which has been approved by the former shareholder of Masteel Chemical Energy Company to be distributed to the Company in the form of profit distribution. The Company has confirmed that the investment gain generated from the profit and loss in the transitional period is RMB79,686,077.

The financial information of Magang Chemicals & Energy at the disposal date is as follows:

	Carrying amount as at 31 December 2018	Carrying amount as at 30 March 2018 (the date of establishment)
Current assets	**80,596,517**	–
Non-current assets	**574,829,336**	–
Current liabilities	**(54,019,713)**	–
Non-current liablities	**–**	–
	601,406,140	–
Non-controlling interests	**–**	–
Fair value of the remained share *(Note)*	**600,000,000**	
Disposal gain/(loss) *(Note)*	**(1,406,140)**	
Consideration *(Note)*	**–**	

	30 March 2018 (the date of establishment) to 31 December 2018
Revenue	**1,191,257,853**
Cost of sales	**1,049,742,568**
Net profit	**79,686,077**

Note: As the date of loss control, the book value of net assets of Magang Chemicals & Energy was RMB601,406,140, and the investment loss generated from above transaction was RMB773,377. The fair value for the remained 45% equity held by the Company on the date of loss control was RMB600,000,000. The investment loss from the re-measurement of fair value for the remained equity was RMB632,763.

After the loss of control of Magang Chemicals & Energy, the Company held remained 45% equity of Magang Chemicals & Energy and had significant influence on it. Therefore, at the date of loss control, the Company accounted the remained 45% equity of Magang Chemicals & Energy at RMB600,000,000 as the long-term equity investment of associates.

(4) Disposal of New Building Masteel K. Wah

	Place of registration	**Business nature**	**The equity interests ratio that the Group holds**	**Total voting right ratio that the Group holds**	**Reason for not being a subsidiary any longer**
New Building Masteel K. Wah	Anhui, PRC	Manufacturing	70	70	*Note*

Note: On 15 August, 2018, the Company signed the Capital Increase Agreement with the subsidiary, New Building Masteel K. Wah, the Holding and the minority shareholder of New Building Masteel K. Wah, "Leader Investment". According to the agreement, New Building MaSteel K. Wah increased its registered capital from USD 8,389,000 to USD 19,574,333. The Group subscribed the new registered capital of New Building Masteel K. Wah amounting to USD 7,829,733. Leader Investment subscribed the new registered capital of New Building MaSteel K. Wah amounting to USD 3,355,600. The Company relinquished the pre-emption right for this capital increase. After the capital increase, the Holding, Leader Investment and the Company held 40%, 30% and 30% of the equity interests of New Building Masteel K. Wah, respectively.

The evaluated value of New Building Masteel K. Wah from Pan-China Assets Appraisal Co., Ltd. was RMB213,883,634 (the base date of assets evaluation is 31 December 2017) before capital increase, which was the pricing benchmark for capital increase.

On 15 December 2018, the Holding and Leader Investment paid the increased capital to New Building Masteel K. Wah, completed the equity transfer formalities and modified the Articles of Association of New Building Masteel K. Wah. Therefore, in the opinions of the Company's directors, the Company has lost control of New Building Masteel K. Wah since 15 December 2018 and will not include New Building Masteel K. Wah in the scope of consolidation.

According to the agreement, the profit and loss of New Building Masteel K. Wah in the transitional period from the base date of assets evaluation to the capital increase date are owned and undertaken by the Company. According to the audit report issued by Zhongxinghua Certified Public Accountants LLP, the net profit of New Building Masteel K. Wah from 1 January 2018 to 15 December 2018 was RMB98,540,868, which have been approved by the former shareholder of New Building Masteel K. Wah to be distributed to the Company and Leader Investment in the form of profit distribution. The Company has confirmed that the investment gain generated from the profit and loss in the transitional period according to the shareholding ratio before capital increase is RMB68,978,608.

The financial information of New Building Masteel K. Wah at the disposal date is as follows:

	Carrying amount as at 15 December 2018	Carrying amount as at 31 December 2017
Current assets	**361,731,715**	238,731,296
Non-current assets	**88,032,048**	74,175,318
Current liabilities	**(337,687,883)**	(102,830,732)
Non-current liablities	**–**	–
	112,075,880	210,075,882
Non-controlling interests	**33,622,763**	63,022,765
Fair value of the remained share *(Note)*	**81,118,544**	
Disposal gain *(Note)*	**2,665,427**	
Consideration *(Note)*	**–**	

	From 1 January 2018 to 15 December 2018
Revenue	**1,049,124,781**
Cost of sales	**887,463,419**
Net profit	**98,540,868**

Note: At the date of loss control, the book value of net assets of New Building Masteel K. Wah was RMB112,075,880, and the investment income generated from above capital increase and equity dilution was RMB1,523,101. The fair value for the remained 30% equity interests held by the Company on the date of loss control was RMB81,118,544. The gains from the re-measurement of fair value for the remaining equity interests was RMB1,142,326.

After loss of control of New Building Masteel K. Wah, the Company held the remained 30% equity of New Building Masteel K. Wah and had significant influence on it. Therefore, at the date of loss control, the Company accounted the 30% equity interests of New Buliding Masteel K. Wah at RMB81,118,544 in the long-term equity investment of associates.

2.1.3 Changes of consolidation scope caused by other reasons

In 2018, the changes of consolidation scope caused by other reasons is as follows

Names of subsidiaries	Changes of consolidation scope
Masteel (Chongqing) Iron and Steel Sales Co., Ltd.	Deregistration
Masteel (Guangzhou) Iron and Steel Sales Co., Ltd.	Deregistration

3. OPERATING SEGMENT INFORMATION

Operating segment

The Group divides the operation services into two operating segments which are determined based on the internal organization structure, management requirements and internal reporting system:

- Production and sale of iron and steel products and related by-products: the Company and subsidiaries except for MaSteel Finance.

- Financial service: MaSteel Finance.

The Group did not consider financial service as individual reportable segments, as MaSteel Finance mainly offers financial service to internal companies. Therefore, the Group focuses on the production and sale of iron and steel products and by-products, and it is unnecessary for the Group to disclose more detailed information.

Other information

Product and service information

External principal operating income

	2018	2017
Sale of steel products	**74,107,142,467**	67,328,791,716
Sale of steel billets and pig iron	**2,088,810,111**	2,031,982,992
Sale of coke by-products	**933,738,098**	824,520,152
Others	**3,783,555,349**	2,030,659,794
	80,913,246,025	72,215,954,654

Geographical information

External principal operating income

	2018	2017
The PRC	**75,648,970,094**	67,815,626,883
Overseas	**5,264,275,931**	4,400,327,771
	80,913,246,025	72,215,954,654

Non-current assets

	31 December 2018	31 December 2017
The PRC	**37,608,891,886**	38,072,610,336
Overseas	**319,090,492**	330,183,194
	37,927,982,378	38,402,793,530

The non-current asset information above is based on the locations of assets and excludes financial assets and deferred tax assets.

Major customer information

The Group has not placed reliance on any single external customer which accounted for 10% or more of its revenue.

4. NOTES AND TRADE RECEIVABLE

	31 December 2018	31 December 2017
Notes receivable	**4,970,113,847**	8,375,166,683
Trade receivable	**1,121,768,976**	966,447,592
	6,091,882,823	9,341,614,275

Notes receivable

	31 December 2018	31 December 2017
Bank acceptance notes	**4,970,113,847**	8,369,466,683
Commercial acceptance notes	**–**	5,700,000
	4,970,113,847	8,375,166,683

As of 31 December 2018, there were no pledged notes receivable (31 December 2017: Nil) for bank loans.

As of 31 December 2018, the undue notes discounted or endorsed were as follows:

	31 December 2018		31 December 2017	
	Derecognised	**Not derecognised**	Derecognised	Not derecognised
Bank acceptance notes	**7,398,304,418**	**159,713,509**	4,778,024,515	53,676,353

As of 31 December 2018 and 2017, there were no trade receivables transferred from notes receivable because of the drawers' inability to pay.

Trade receivable

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

The aging of trade receivables is analysed below:

	31 December 2018	31 December 2017
Within one year	**1,090,345,962**	915,981,378
One to two years	**31,834,919**	50,266,296
Two to three years	**26,792,202**	8,034,401
Over three years	**45,506,589**	39,838,727
	1,194,479,672	1,014,120,802
Less: Provisions for bad debts	**72,710,696**	47,673,210
	1,121,768,976	966,447,592

In 2018, provision for bad debts was RMB21,483,181 (2017: RMB30,468,944), recovery or reversal of provision for bad debts was RMB944,761 (2017: RMB3,632,383), and the decrease due to disposal of subsidiaries was RMB5,376,915.

In 2018, there were no trade receivables that had been written off (2017: Nil).

The Group derecognized notes receivable discounted to financial institutions amounting to RMB119,530,190 (2017: RMB8,988,510), and recognized discount expense amounting to RMB2,083,991 (2017:RMB158,079) as financial expenses.

As of 31 December 2018 and 2017, there were no trade receivables that were derecognized due to the transfer of financial assets.

As of 31 December 2018 and 2017, the Group had no assets or liabilities deriving from transferring trade receivables in which the Group is continuingly involved.

5. PREPAYMENTS

Aging analysis of the prepayments is as follows:

	31 December 2018		31 December 2017	
	Book value	**Ratio** *(%)*	Book value	Ratio *(%)*
Within one year	**696,694,164**	**98**	729,997,738	97
One to two years	**5,422,942**	**1**	6,785,513	1
Two to three years	**385,515**	**–**	2,301,075	–
Over three years	**9,837,927**	**1**	11,734,505	2
	712,340,548	**100**	750,818,831	100

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

6. NOTES AND TRADE PAYABLE

	31 December 2018	31 December 2017
Notes payable	**2,638,271,437**	4,809,848,470
Trade payable	**7,703,736,542**	6,968,534,360
	10,342,007,979	11,778,382,830

Notes payable

	31 December 2018	31 December 2017
Bank acceptance notes	**2,638,271,437**	4,724,648,470
Commercial acceptance notes	**–**	85,200,000
	2,638,271,437	4,809,848,470

As of 31 December 2018 and 31 December 2017, the aging of the Group's notes payable was all within six months, and there were no overdue notes.

Trade payable

The accounts payable are interest-free and are normally settled within three months.

The aging analysis of accounts payable, based on invoice date, is as follows:

	31 December 2018	31 December 2017
Within one year	**7,551,105,922**	6,681,492,997
One to two years	**39,150,817**	167,589,414
Two to three years	**22,709,232**	32,970,687
Over three years	**90,770,571**	86,481,262
	7,703,736,542	6,968,534,360

7. DIVIDENDS

According to the "2017 Annual Profit Distribution Plan" approved by the Company's 2017 Annual General Meeting on 28 June 2018, the Company would distribute dividends to all shareholders at RMB0.165 (tax included) (2017: nil) per share, for 7,780,681,186 shares amounting to RMB1,270,612,396 (2017: nil). The dividends were distributed in 2018 and included in the financial statements of this year.

According to the "2018 Interim Profit Distribution Plan" approved by the Company's 2018 Second Interim Shareholders' Meeting on 21 November 2018, the Company would distribute cash dividends to all shareholders at RMB0.05 (including tax) (2017: nil) per share, for 7,700, 681,186 shares amounting to RMB385,034,059 (2017: nil). The dividends were distributed in 2018 and included in the financial statements of this year.

According to the board resolutions on 21 Mar 2019, the Board of Directors proposed that the Company will distribute 2018 final cash dividend to all shareholders at RMB0.31 (tax included) per share, for 7,700,681,186 shares issued amounting as RMB2,387,211,168. Above proposal shall be implemented after the approval in the Annual General Meeting. Before the approval by the Annual General Meeting, the liabilities of the Company will not be recognised, and thus has not been reflected in the financial statements of the year.

8. REVENUE AND COST OF SALES

	2018		2017	
	Revenue	**Cost of sales**	Revenue	Cost of sales
Principal operating income	**80,913,246,025**	**68,957,076,057**	72,215,954,654	62,587,000,733
Other operating income	**1,038,567,463**	**837,906,062**	1,012,074,970	969,257,716
	81,951,813,488	**69,794,982,119**	73,228,029,624	63,556,258,449

Revenue is presented as follows:

	2018	2017
Sale of products	**81,537,043,721**	72,877,928,972
Rendering service	**265,991,317**	249,735,948
Rental income	**11,182,578**	9,543,934
Others	**137,595,872**	90,820,770
	81,951,813,488	73,228,029,624

Timing of revenue recognition

	2018	2017
Recognise at a point in time		
Sales of steel products	**76,195,952,578**	69,360,774,708
Sales of other products	**5,341,091,143**	3,517,154,264
Recognise over time		
Financial services	**148,778,450**	100,364,704
Processing	**133,062,594**	115,571,937
Agency commission	**69,777,068**	69,077,914
Packaging services	**49,322,771**	38,142,836
Lease income	**11,182,578**	9,543,934
Others	**2,646,306**	17,399,327
	81,951,813,488	73,228,029,624

Note: For sales of goods, the Group satisfies a performance obligation when (or as) the customer obtains control of the goods. For provision of service, the Group satisfies a performance obligation based on performance progress over the contract period. The maturity on contract payment of the Group is 30 to 90 days, without existence of significant financing component. The contracts between the Group and its certain customers containing sales rebate arrangements (future price reductions based on cumulative sales volumes), which forms a variable consideration. The Group determines the best estimate of the variable consideration based on the expected value or the best estimate value. However, the sales price including variable considerations should not exceed the amount accumulatively recognized which is not likely to be significantly reversed when the uncertainty disappears.

9. FINANCIAL EXPENSES

	2018	2017
Interest expenses *(note)*	**879,897,330**	920,767,866
Less: interest income	**54,228,185**	34,412,987
Less: capitalised interest	**–**	1,775,312
Exchange loss	**99,590,860**	78,865,050
Others	**35,197,407**	35,335,642
	960,457,412	998,780,259

Note: The Group's interest expenses included interest on bank loans, other loans, MTN (Medium-term Note) and short-term commercial paper. The capitalised amount of borrowing costs had been recorded in construction in progress.

Interest income is as follows:

	2018	2017
Bank deposit	**54,228,185**	34,412,987

In 2018, the above interest income did not include interests generated from financial assets impairment（2017: Nil）.

10. NON-OPERATING INCOME

	2018	2017	**Included in non-recurring gains and losses in 2018**
Government grants *(Note)*	**154,659,733**	170,645,383	154,659,733
Others	**5,438,834**	5,478,595	5,438,834
	160,098,567	176,123,978	160,098,567

Note: The government grants were the subsidy the received by the Company for the resettlement of employees for the resolvement of overcapacity.

11. NON-OPERATING EXPENSES

	2018	2017	**Included in non-recurring gains and losses in 2018**
Public relief donation	**1,130,050**	596,400	1,130,050
Penalty expenditure	**1,567,787**	631,235	1,567,787
Compensation for trade	**1,561,587**	9,131,792	1,561,587
Others	**2,213,063**	6,265,730	2,213,063
	6,472,487	16,625,157	6,472,487

12. INCOME TAX EXPENSE

	2018	2017
Mainland China current income tax expense	**949,175,391**	860,352,278
Hong Kong current income tax expense	**9,399,676**	2,265,713
Overseas current income tax expense	**29,528,238**	13,963,275
Deferred tax expense/(gain)	**192,831,929**	(139,852,832)
	1,180,935,234	736,728,434

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

	2018	2017
Profit before tax	**8,238,923,928**	5,808,966,563
Tax at the applicable tax rate of 25% *(i)*	**2,059,730,982**	1,452,241,641
Effect of different tax rates of subsidiaries	**(12,950,204)**	(10,931,869)
Non-deductible expenses	**122,878,020**	42,408,877
Other tax preference	**(112,104,563)**	(26,710,447)
Income not subject to tax	**(73,555,483)**	(5,358,145)
Unrecognised deductible temporality difference and tax losses	**365,585,000**	95,388,262
Utilized previous years' tax losses	**(1,004,295,946)**	(648,260,532)
Recognizsed tax loss in prior year	**–**	(39,446,715)
Share of profit or loss of joint ventures and associates	**(164,352,572)**	(122,602,638)
Tax charge at the Group's effective rate	**1,180,935,234**	736,728,434
The Group's effective rate	**14%**	13%

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

13. EARNINGS PER SHARE

	2018	2017
	cent/share	*cent/share*
Basic earnings per share		
Continuing operations	**77.18**	53.62
Dilute earnings per share		
Continuing operations	**77.18**	53.62

Basic earnings per share shall be calculated by dividing profit attributable to owners of the parent (the numerator) by the weighted average number of ordinary shares in issue (the denominator) during the year. In 2017 and 2018, the Company did not have any dilutive items that should adjust the basic earnings per share.

The calculations of the basic and diluted earnings per share amounts are based on:

	2018	2017
Earnings		
Profit attributable to owners of the parent		
Continuing operations	**5,943,286,585**	4,128,939,861
Number of shares		
Weighted average number of ordinary shares in issue during the year	**7,700,681,186**	7,700,681,186

14. CONTINGENT EVENTS

Difference of corporate income tax

The State Administration of Taxation issued "The notice of income tax collection and management on Shanghai Petrochemical Company Limited and other eight companies listed overseas corporation" (Guo Shui Han [2007] No. 664) in June 2007, with stated claims that the relevant local tax bureaus must correct immediately the expired tax incentives of the nine Hong Kong listed companies. The income tax difference between the results of the previously expired preferential rate and the applicable rate should be treated in accordance with the relevant provisions of the "People's Republic of China Administration of Tax Collection Law".

The Company is 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 is adjusted from the original 15%. The Company has not been recovered prior year income tax differences.

Based on the comprehensive communication between the Company and the tax authorities, it is uncertain whether the tax authorities will recover the difference between the previous year's income tax at this stage, and the final result of this matter cannot be estimated reliably. Therefore, the financial statements have not made any provision or adjustments related to the income tax differences.

Pending litigation

As of 31 December 2018, the Group and the Company did not have significant pending litigation.

15. EVENTS AFTER THE BALANCE SHEET DATE

On 21 March 2019, with the approval from the nineteenth meeting of the ninth session of the Board of Directors of the Company, a 2018 final cash dividend of RMB0.31 (tax included) with an amount of RMB2,387,211,168 is recommended to be distributed to shareholders. The dividend distribution proposal is still subject to approval of the shareholders at the 2018 Annual General Meeting of the Company.

By order of the Board
Ding Yi
Chairman
Maanshan Iron & Steel Company Limited

21 March 2019
Maanshan City, Anhui Province, the PRC

As at the date of this announcement, the directors of the Company include:
Executive Directors: Ding Yi, Qian Haifan, Zhang Wenyang
Non-executive Directors: Ren Tianbao
Independent Non-executive Directors: Zhang Chunxia, Zhu Shaofang, Wang Xianzhu