

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



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

**(Stock Code: 00323)**

## **2019 ANNUAL RESULTS ANNOUNCEMENT**

### **I. IMPORTANT NOTICE**

- 1.1 This annual results announcement is abstracted from the full text of that of current year's annual report. To fully understand the business performance, financial position and future development plans of the Company, investors shall carefully read the full Annual Report published on media designated by China Securities Regulatory Commission such as the website of Shanghai Stock Exchange as well as the website of the Stock Exchange of Hong Kong Limited.
- 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 annual report; and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this annual report.
- 1.3 All 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 proposed by the Board

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

## II. BASIC INFORMATION OF THE COMPANY

### 1. Company Profile

Type of shares	Stock exchange for listing of shares	Short name of stock	Stock code
A Shares	The Shanghai Stock Exchange	Magang Stock	600808
H Shares	The Stock Exchange of Hong Kong Limited	Maanshan Iron & Steel	00323
<b>Contact person</b>	<b>Secretary of the board of directors, joint company secretary</b>	<b>Joint company secretary</b>	
Name	He Hongyun	Rebecca Chiu	
Office address	No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC	Room 1204-06, 12/F, The Hong Kong Chinese Bank Building, 61-65 Des Voeux Road Central, Central, Hong Kong	
Telephone	86-555-2888158/2875251	(852) 2155 2649	
Email address	mgfdms@magang.com.cn	rebeccachiu@chiuandco.com	

### 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 products of the Company are steel, which can be roughly divided into three types, i.e. plates, long products and wheels and axles.

- **Plates:** Major products include thin plates and plates of moderate thickness. The thin plates are divided into hot and cold-rolled thin plates, galvanized plates and coilcoating 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 their usages, operation modes, major driving factors of performance did not experience substantial changes.

### 3. Major Accounting Data and Financial Indicators of the Company

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

*Unit: million RMB*

	2019	2018	Increase/decrease compared to previous year (%)	2017
Total assets	<b>86,322.04</b>	76,872.00	12.29	72,191.59
Revenue	<b>78,262.85</b>	81,951.81	-4.50	73,228.03
Net profit attributable to owners of the parent	<b>1,128.15</b>	5,943.29	-81.02	4,128.94
Net profit excluding non- recurring gains or losses attributable to owners of the parent	<b>1,635.50</b>	5,092.36	-67.88	3,969.09
Net assets attributable to owners of the parent	<b>26,933.16</b>	28,173.62	-4.40	23,895.74
Net cash flows from operating activities	<b>7,865.96</b>	13,870.43	-43.29	4,599.82
Basic earnings per share (RMB/share)	<b>0.147</b>	0.772	-80.96	0.536
Diluted earnings per share (RMB/share)	<b>0.147</b>	0.772	-80.96	0.536
Return on net assets (weighted average) (%)	<b>4.09</b>	22.68	Decreased by 18.59 percentage points	18.92

#### 3.2 Major Accounting Data by Quarter during the Reporting Period

*Unit: million RMB*

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

## 4. Share Capital and Shareholders

### 4.1 Numbers of Shareholders and Preferred Shareholders with Voting Rights Restored as well as Shareholding of the Top Ten Shareholders

Unit: Share

Numbers of Shareholder as end of the reporting period (unit)	203,898
Numbers of Shareholder as end of last month prior to the report date (unit)	197,388

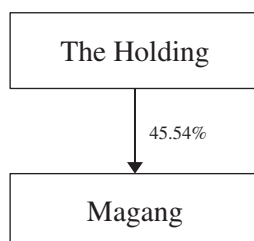
#### Shareholding of the top ten shareholders

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

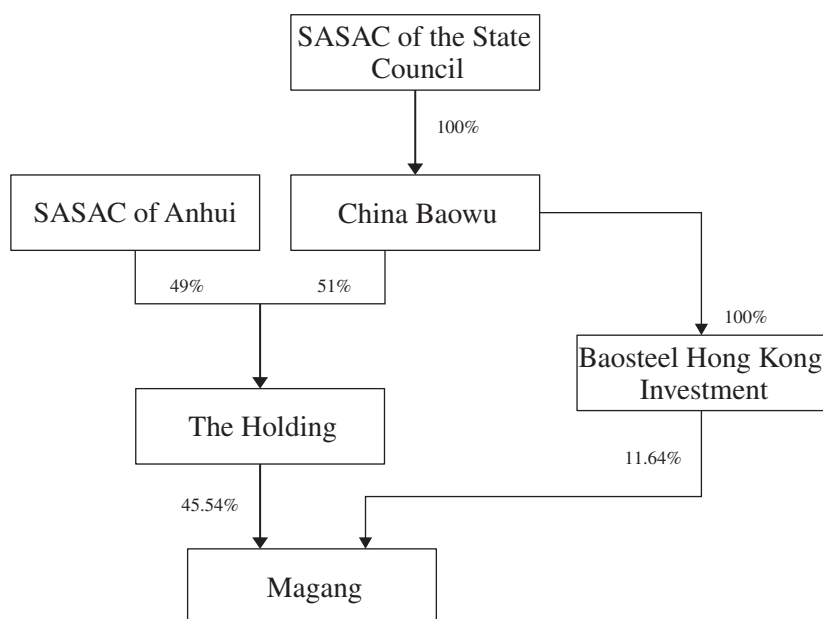
Notes on the above shareholders' affiliated relation or concerted action: At the end of the reporting period, the controlling shareholder of both the Holding and Baosteel Hong Kong Investment Company Limited ("Baosteel Hong Kong Investment") is China Baowu, hence they are persons acting in concerted action. In addition, 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.

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

**4.2 Block Diagram of Property Rights and Control Relationships between the Company and Controlling Shareholder**



**4.3 Block Diagram of Property Rights and Control Relationships between the Company and Actual Holders**



### III. MANAGEMENT DISCUSSION AND ANALYSIS

#### 1. Business Environment

- ***Steel Market***

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

As for imports and exports, according to China Customs, annual steel export was 64.29 million tons with 7.3% of year-on-year decline; and cumulative steel import was 12.30 million tons with 6.5% of year-on-year decline.

- ***Raw Materials and Fuels Market***

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

#### 2. Major Business Performance during the Reporting Period

The year 2019 was a landmark year in the Company’s history of development. Under the guidance of Anhui Province and China Baowu, the Company joined China Baowu, obtaining a new platform to accelerate high-quality growth. In the year of 2019, the Company adhered to the general tone of steady progress, and thoroughly carried out and implemented the major strategic deployment of Anhui provincial government and China Baowu. Under the background of the global economy staying in a downward period and the growth in China slowing down, the Company actively coped with the sharp change in both supply and demand markets, enhanced its dual engine of “effectiveness and efficiency”, focused on changes and breakthroughs as well as value creation, promoted the premium quality development of iron and steel sector. Although its profit margins were reduced significantly by the influence of the increased productivity in iron and steel sector, the rapid

increase or fluctuation in a higher level of the price of raw materials and fuels such as iron ore, scrap steel and coal, the Company still managed to have a stable and orderly operation. Major business performance:

- (1) Fully promoting the restructuring work with China Baowu for a preliminary synergistic effect. After becoming a member of China Baowu, the Company actively promoted its consolidation and integration with China Baowu, aligned its management with that of China Baowu in an orderly way, and fully launched its cooperation with China Baowu in green development • intelligent manufacturing as well as the 100-Day Action Plan concerning professional consolidation and integration.
- (2) Focusing on premium development of its major iron and steel business and gradually improving business quality. Under the circumstances of the Company's permanent shutdown of two 420-cubic-meter blast furnaces in April 2018 and two 40-tonne converters in October 2018 as well as the overhaul of a 2500-cubic-meter blast furnace from January to February in 2019, the Group, by adopting a flexible production plan and premium manufacturing, managed to produce 18.10 million tones of pig iron, 19.84 million tones of crude steel and 18.77 million tones of steel with a slight year-on-year increase; adhered to the principle of maximizing efficiency and continued to increase the proportion of high value-added products with that of specialty steel being increased by 55.5%; further implemented lean marketing and continuously optimized customer channels, developing 102 new end users and achieving the annual proportion of direct supply of steel plates of 81.1%; accelerated to promote the certification of key products, with highly corrosion-resistant continuous hot-rolled steel sheet products for railway vehicles passing the product certificate of CRCC, 70 grades of auto sheets being certified by various original automobile manufacturers including SAIC Volkswagen and SAIC-GM, and the "wheels for China standard EMU Fuxing bullet train" produced by Magang being awarded the Gold Award for Innovative Products in 2019 World Manufacturing Conference.
- (3) Continuing to deepen reform and management to stimulate development vitality. The Company innovated performance assessment mechanism by establishing an assessment indicator system focusing on EVA and checklist evaluation. To further strengthen the resource integration and business integration, the Company established an ironmaking plant, orderly promoted the integration of rail transit resources; persisted in optimizing human resources, actively implemented the principle of "reducing total volume, adjusting structure, improving quality, enhancing vitality" in accordance with the baseline requirement of an annual average of 8% in the human resources optimization rate, improved supporting policies, carried out process reengineering, promoted flat management, significantly increased the personnel efficiency; stepped up the training of innovative talents, advanced the "1+2+4" talent training program in a systematical way, and conducted "Pilot Program" and "Flying Program".



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



- (7) Actively participating in the critical battle against targeted poverty relief and achieving practical results. The Company continued to promote the all-round and balanced development between enterprises and the society, dispatched poverty relief village working teams to conduct poverty relief by developing industries, improving education and providing assistance by pairs under the support and help of the Holding. The poverty relief work received positive results and won recognition from Anhui Province.

### 3. Analysis of Principal Operation

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

*Unit: RMB*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### 3.1 Analysis of Revenue and Cost of Sales

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

Unit: million RMB

##### Principal operation by industry

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

##### Principal operation by product

Product	Revenue	Cost of sales	Gross margin (%)	Increase/ (decrease) of revenue compared with last year (%)	Increase/ (decrease) of cost of sales compared with last year (%)	Increase/ (decrease) of gross margin compared with last year (%)
Long products	32,712	28,878	11.72	-2.77	3.73	Decreased by 5.53 percentage points
Steel plates	33,590	31,644	5.79	-11.42	-5.70	Decreased by 5.71 percentage points
Wheels and axles	2,867	2,580	10.01	41.02	26.35	Increased by 10.45 percentage points

## Revenue by region

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

During the reporting period, the Group's revenue from principal operation was RMB77,158 million, of which the iron & steel revenue was RMB71,760 million, accounting for 93% of the principal operation revenue.

(2). *Analysis of Production and Sales Volumes*

*Unit: ten thousand tonnes*

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

(3). *Analysis of Costs*

*Unit: million RMB*

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

#### *(4). Analysis of Major Customers and Major Suppliers*

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

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

### **3.2 Expenses**

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

### **3.3 Research and Development (R&D) Expenses**

#### **R&D expenses details**

*Unit: million RMB*

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



## 4. Analysis of Assets and Liabilities

### 4.1 Assets and Liabilities

Unit: RMB

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## 5. Analysis of Operational Information

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

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

### 5.1 Manufacturing and Sales of Steel Material Based on Processing Techniques

*Unit: million RMB*

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

## 5.2 Manufacturing and Sales of Steel Material Based on Forms of Finished Goods

Unit: million RMB

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

## 5.3 Sales of Steel Material Based on Sales Channels

Unit: 100 million RMB

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

## 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	7,807,702	7,848,045	-0.51
Overseas import	18,558,939	21,032,183	-11.76

## 6. Investment Analysis

### 6.1 General Analysis of External Equity Investments

Unit: million RMB

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

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

## 6.2 Significant Non-Equity Investment

*Unit: million RMB*

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

## 7. Outlook for Future Development

### 7.1 Industry Landscape and Trend

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

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

## **7.2 Corporate Development Strategy**

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

- (1) The Company will follow the general idea for a “better, stronger and bigger” high-quality growth, focus on three types of products of “wheels and axles, steel plates, premium long products”, and highlight the development of rail transit (wheels and axles), automobile plates, home electrical appliances plates, H beams, and premium special steel.
- (2) The Company will implement a strategy of “premium product + scale”, making wheels and axles become the number one in comprehensive competitiveness at home and abroad, the comprehensive competitiveness of steel plates enter the tier 1 in China, H-beam products become the number one in comprehensive competitiveness at home, the Special Steel Company a production base for premium special steel and wire rod, and the Changjiang Steel a production base for important premium construction materials.
- (3) The Company will adhere to the purpose and requirements of the “four principles for intelligent production”, advance big data, AI, IOT, block chain and similar technologies and apply them into intelligent equipment, intelligent plant and intelligent operation to improve the level of intelligent manufacturing.
- (4) The Company will vigorously promote new processes, new technologies, new equipment, and new standards in terms of ultra-low emission, energy saving and environmental protection, enhance green development, integrate into the high-quality steel ecosystem created by China Baowu, and create a green, intelligent and premium urban steel plant demonstration base.

### **7.3 Business Plan**

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

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



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

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

#### **7.4 Potential Risks**

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

#### **IV. SIGNIFICANT EVENTS**

##### **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)**

According to the China Accounting Standards, in 2019, the Company achieved a net profit of RMB794 million. After accruing 10% of the statutory surplus reserve, the profit available for distribution to shareholders at the end of 2019 was RMB3,288 million. The Board suggests 2019 final dividend of RMB0.08 per share (tax included) shall be distributed and retained earnings will be carried forward to the year of 2020. No capital reserve shall be converted to share capital. The resolution shall be approved by the AGM of the Company.

The final dividend of the Company was RMB0.165 per share (tax included) for the year of 2017 and retained earnings were carried forward to the year of 2018. No capital reserve shall be converted to share capital. The 2018 interim dividend and final dividend of the Company were RMB0.05 per share (tax included) and RMB0.31 per share (tax included). Retained earnings were carried forward to the year of 2019 and no capital reserve shall be converted to share capital.

##### **2. Remunerations of the Auditor**

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

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

### **3. Audit Committee**

The Company's Audit Committee held a meeting on 26 March 2020 and reviewed the 2019 annual accounts.

### **4. Purchase, Sales or Redemption of Listed Securities of the Company**

During the reporting period, the Company didn't repurchase any of its listed shares, and the Group didn't purchase or resale any listed share.

### **5. Pre-emptive Rights**

When new shares are offered, the Company is not required under the law of China or the Articles of Association to ask its existing shareholders to buy new shares in the currency of their share holdings first.

### **6. Public Float**

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

### **7. Code on Corporate Governance**

In 2019, the Company has complied with all the requirements of the Code on Corporate Governance as set out in Appendix 14 of the Hong Kong Listing Rules.

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

## V. MATTERS RELATED TO FINANCIAL REPORT

1. **After Auditing, the Company’s Auditor Ernst & Young Hua Ming LLP Issued a Standard Unqualified Audit Opinion on the 2019 Annual Financial Report of the Company**
2. **Analysis and Explanation of the Company on the Reasons for and the Impact of the Changes to Accounting Policies and Accounting Estimates**
  - ***Changes to Accounting Policy***

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

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

- ***Changes to Format of Financial Statements***

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

- 3. During the Reporting Period, There Was No Correction Due to Material Accounting Errors**
- 4. Compared with the Financial Report of Previous Year, the Company Shall Make Specific Explanation about the Changes Happened to the Scope of the Consolidation of Financial Statements.**

On 12 June 2019, Magang Hongfei Power Energy Co., Ltd. (“Magang Hongfei”) was jointly set up by the Company, Anhui Hongfei New Energy Technology Co., Ltd. and Feimazhike, a subsidiary controlled by the Holding after being approved by the 21th meeting of the 9th session of the Board of the Company. The registered capital of Magang Hongfei is RMB100 million with the Company holding 51% of its shares. As of 31 December 2019, the Company has completed investment, and included Magang Hongfei as its controlling subsidiary to the scope of the consolidation.

Saved as the above, compared with the financial report of previous year, the scope of consolidation of the Company’s financial statements did not change.

# CONSOLIDATED AND COMPANY'S STATEMENTS OF FINANCIAL POSITION

As at 31 December 2019

Renminbi Yuan

	Notes	31 December 2019 Group	31 December 2018 Group	31 December 2019 Company	31 December 2018 Company
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and bank balances		9,517,313,695	9,762,844,718	3,187,001,428	5,993,538,669
Financial assets held for trading		2,126,112,194	2,084,414,075	3,573,580	–
Trade receivables	4	1,092,930,122	1,121,768,976	3,154,416,565	2,460,866,900
Financing receivables	5	11,098,699,421	4,970,113,847	9,796,502,361	4,692,435,408
Prepayments	6	981,443,575	712,340,548	693,109,995	997,856,384
Other receivables		156,291,851	147,965,534	94,415,995	63,844,132
Inventories		10,947,850,219	11,053,918,748	6,633,161,943	7,108,599,357
Financial assets purchased under agreements to resell		2,369,966,754	2,432,279,109	–	–
Loans and advances to customers		4,256,415,190	2,845,298,103	–	–
Non-current assets due within one year		–	101,201,184	–	–
Other current assets		3,975,034,798	3,173,122,975	354,016,165	272,152,842
<b>Total current assets</b>		<b>46,522,057,819</b>	<b>38,405,267,817</b>	<b>23,916,198,032</b>	<b>21,589,293,692</b>
<b>NON-CURRENT ASSETS</b>					
Long-term equity investments		3,546,219,668	2,809,063,381	11,477,691,872	10,146,271,956
Other equity instruments investments		278,576,509	263,122,364	275,508,859	263,122,364
Investment properties		64,697,688	55,804,755	64,570,817	55,593,723
Property, plant and equipment		30,045,743,674	31,545,176,835	22,357,559,485	23,828,190,594
Construction in progress		3,259,704,984	1,662,672,077	2,770,963,397	1,382,508,379
Right-of-use assets		418,879,903	–	368,857,495	–
Intangible assets		1,973,126,962	1,855,265,330	1,088,324,048	987,387,010
Deferred tax assets		213,036,331	275,626,734	125,314,560	192,801,687
<b>Total non-current assets</b>		<b>39,799,985,719</b>	<b>38,466,731,476</b>	<b>38,528,790,533</b>	<b>36,855,875,713</b>
<b>TOTAL ASSETS</b>		<b>86,322,043,538</b>	<b>76,871,999,293</b>	<b>62,444,988,565</b>	<b>58,445,169,405</b>



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

As at 31 December 2019

Renminbi Yuan

	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Notes	Group	Group	Company	Company
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Deposits and balances from banks and other financial institutions	400,031,889	900,366,111	-	-
Customer deposits	10,964,896,002	4,915,309,311	-	-
Repurchase agreements	1,386,580,448	1,133,772,377	-	-
Short-term loans	12,880,053,159	10,917,293,181	10,776,844,475	6,570,000,000
Financial liabilities held for trading	2,258,750	8,012,670	2,258,750	8,012,670
Notes payable	7 7,313,729,148	2,638,271,437	5,085,093,096	1,022,148,850
Trade payables	8 6,130,327,006	7,703,736,542	7,478,411,251	10,288,909,379
Contract liabilities	3,765,254,551	3,572,594,400	2,455,027,803	2,382,469,502
Payroll and employee benefits payable	691,976,938	563,642,908	540,612,797	428,093,317
Taxes payable	547,209,418	1,325,517,987	232,319,349	479,009,037
Other payables	4,294,496,279	3,530,746,914	3,793,893,919	2,967,729,141
Non-current liabilities due within one year	1,677,068,898	1,470,868,462	3,612,706,920	1,345,513,152
Accrued liabilities	22,664,675	29,997,521	-	-
Other current liabilities	-	1,026,897,260	-	1,026,897,260
<b>Total current liabilities</b>	<b>50,076,547,161</b>	<b>39,737,027,081</b>	<b>33,977,168,360</b>	<b>26,518,782,308</b>
<b>NON-CURRENT LIABILITIES</b>				
Long-term loans	3,468,200,000	3,596,387,552	4,098,200,000	6,296,387,552
Lease liabilities	411,432,835	-	363,877,690	-
Long-term employee benefits payable	101,327,703	157,371,474	71,919,779	130,803,630
Deferred revenue	1,402,283,687	1,364,795,555	736,754,692	721,934,242
Deferred tax liabilities	21,500,325	24,066,311	-	-
<b>Total non-current liabilities</b>	<b>5,404,744,550</b>	<b>5,142,620,892</b>	<b>5,270,752,161</b>	<b>7,149,125,424</b>
<b>Total liabilities</b>	<b>55,481,291,711</b>	<b>44,879,647,973</b>	<b>39,247,920,521</b>	<b>33,667,907,732</b>

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

*As at 31 December 2019*

*Renminbi Yuan*

	31 December 2019 Group	31 December 2018 Group	31 December 2019 Company	31 December 2018 Company
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	7,700,681,186	7,700,681,186	7,700,681,186	7,700,681,186
Capital reserve	8,353,499,761	8,352,287,192	8,358,017,477	8,358,017,477
Other comprehensive income	(99,760,804)	(112,702,163)	22,196,339	12,906,467
Special reserve	35,484,176	31,037,123	13,711,365	9,496,082
Surplus reserve	4,651,252,494	4,571,901,256	3,814,465,907	3,735,114,669
General reserve	325,786,322	224,841,404	-	-
Retained earnings	5,966,218,930	7,405,577,274	3,287,995,770	4,961,045,792
<b>Equity attributable to owners of the parent</b>	<b>26,933,162,065</b>	28,173,623,272		
Non-controlling interests	3,907,589,762	3,818,728,048		
<b>Total shareholders' equity</b>	<b>30,840,751,827</b>	31,992,351,320	<b>23,197,068,044</b>	24,777,261,673
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>86,322,043,538</b>	76,871,999,293	<b>62,444,988,565</b>	58,445,169,405

## CONSOLIDATED AND COMPANY'S INCOME STATEMENT

For the year ended 31 December 2019

Renminbi Yuan

	Notes	2019 Group	2018 Group	2019 Company	2018 Company
<b>Revenue</b>	10	<b>78,262,846,004</b>	81,951,813,488	<b>64,351,035,109</b>	67,232,862,477
Less: Cost of sales	10	<b>71,315,481,915</b>	69,794,982,119	<b>60,672,829,845</b>	60,301,176,864
Taxes and surcharges		<b>580,515,703</b>	810,322,306	<b>434,407,490</b>	594,037,306
Selling expenses		<b>949,844,233</b>	959,718,246	<b>396,816,540</b>	431,922,944
General and administrative expenses		<b>2,378,932,727</b>	1,379,991,907	<b>1,921,159,099</b>	977,633,833
R&D expenses		<b>846,472,355</b>	801,240,784	<b>704,163,255</b>	733,213,870
Financial expenses	11	<b>784,811,228</b>	960,457,412	<b>684,401,816</b>	839,073,012
including: interest expense		<b>788,151,024</b>	879,897,330	<b>713,486,648</b>	760,470,881
interest income		<b>79,269,218</b>	54,228,185	<b>78,303,360</b>	69,756,208
Add: Other income		<b>117,373,339</b>	185,350,836	<b>85,785,078</b>	125,182,466
Investment income		<b>815,067,777</b>	1,090,099,779	<b>1,444,663,878</b>	1,783,607,075
including: share of profits of associates and joint ventures		<b>575,520,895</b>	657,410,287	<b>560,233,499</b>	654,348,579
gain from derecognition of financial assets measured at amortized cost		<b>67,796,079</b>	57,877,322	-	-
Gain/(loss) on the changes in fair value		<b>9,598,445</b>	(10,213,369)	<b>6,945,620</b>	(10,976,670)
Credit impairment losses		<b>(15,592,865)</b>	(41,876,945)	<b>25,141,942</b>	(4,004,617)
Assets Impairment losses		<b>(424,598,573)</b>	(754,443,431)	<b>(862,906,925)</b>	(694,051,720)
(Loss)/gain from disposal of assets	12	<b>(77,058,351)</b>	371,280,264	<b>251,573,164</b>	267,685,982
Operating profit		<b>1,831,577,615</b>	8,085,297,848	<b>488,459,821</b>	4,823,247,164
Add: Non-operating income	13	<b>469,913,966</b>	160,098,567	<b>370,221,091</b>	158,250,867
Less: Non-operating expenses	14	<b>3,735,871</b>	6,472,487	<b>778,025</b>	3,043,411
Profit before tax		<b>2,297,755,710</b>	8,238,923,928	<b>857,902,887</b>	4,978,454,620
Less: Income tax expenses	15	<b>583,837,841</b>	1,180,935,234	<b>64,390,503</b>	259,515,465
Net profit		<b>1,713,917,869</b>	7,057,988,694	<b>793,512,384</b>	4,718,939,155

**CONSOLIDATED AND COMPANY'S INCOME STATEMENT (CONTINUED)***For the year ended 31 December 2019**Renminbi Yuan*

	2019 Group	2018 Group	2019 Company	2018 Company
<b>Categorized by operation continuity</b>				
Net profit from continuing operations	<u>1,713,917,869</u>	<u>7,057,988,694</u>	<u>793,512,384</u>	<u>4,718,939,155</u>
<b>Categorized by ownership</b>				
Net profit attributable to owners of the parent	<u>1,128,148,980</u>	<u>5,943,286,585</u>		
Net profit attributable to non-controlling interests	<u>585,768,889</u>	<u>1,114,702,109</u>		
Other comprehensive income, net of tax	12,941,359	(20,906,601)	9,289,872	(14,583,847)
Other comprehensive income attributable to owners of the parent, net of tax	12,941,359	(20,906,601)		
Other comprehensive income that will not be reclassified to profit or loss:				
Changes in fair value of other equity investments	9,340,609	(11,838,378)	9,289,872	(11,838,378)
Other comprehensive income that may be reclassified to profit or loss:				
Other comprehensive income using the equity method that may be reclassified to profit or loss	3,600,750	(9,068,223)	-	(2,745,469)
Exchange differences on translation of foreign operations	-	(2,745,469)	-	(2,745,469)
	<u>3,600,750</u>	<u>(6,322,754)</u>	<u>-</u>	<u>-</u>
Other comprehensive income attributable to non-controlling interests, net of tax	-	-		
<b>Total comprehensive income</b>	<u>1,726,859,228</u>	<u>7,037,082,093</u>	<u>802,802,256</u>	<u>4,704,355,308</u>

## CONSOLIDATED AND COMPANY'S INCOME STATEMENT (CONTINUED)

For the year ended 31 December 2019

Renminbi Yuan

	<i>Notes</i>	<b>2019</b>	2018	<b>2019</b>	2018
		<b>Group</b>	Group	<b>Company</b>	Company
Attributable to:					
Owners of the parent		<u><b>1,141,090,339</b></u>	<u>5,922,379,984</u>		
Non-controlling interests		<u><b>585,768,889</b></u>	<u>1,114,702,109</u>		
<b>EARNINGS PER SHARE:</b>					
Basic earnings per share (cent/share)	16	<u><b>14.65 cents</b></u>	<u>77.18 cents</u>		
Diluted earnings per share (cent/share)	16	<u><b>14.65 cents</b></u>	<u>77.18 cents</u>		

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

Renminbi Yuan

**2019**

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2019

Renminbi Yuan

**2018**

	Attributable to owners of the parent							Non-controlling interests	Total shareholders' equity	
	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	General reserve	Retained earnings			Sub-total
1. Balance at the end of previous year	7,700,681,186	8,352,287,192	(124,156,060)	31,929,722	4,100,007,341	191,546,668	3,643,443,763	23,895,739,812	3,341,524,501	27,237,264,313
1) Changes in accounting policies	-	-	32,360,498	-	-	-	(20,317,968)	12,042,530	(7,887,756)	4,154,774
2. Balance at the beginning of the year	7,700,681,186	8,352,287,192	(91,795,562)	31,929,722	4,100,007,341	191,546,668	3,623,125,795	23,907,782,342	3,333,636,745	27,241,419,087
3. Increase/(decrease) during the year										
1) Total comprehensive income	-	-	(20,906,601)	-	-	-	5,943,286,585	5,922,379,984	1,114,702,109	7,037,082,093
2) Shareholders' contributions and reduction in capital										
(i) Capital contributions by shareholders	-	-	-	-	-	-	-	-	5,625,000	5,625,000
(ii) Disposal of subsidiaries	-	-	-	-	-	-	-	-	(33,622,763)	(33,622,763)
3) Profits appropriation										
(i) Transfer to surplus reserve	-	-	-	-	471,893,915	-	(471,893,915)	-	-	-
(ii) Transfer to general reserve	-	-	-	-	-	33,294,736	(33,294,736)	-	-	-
(iii) Distribution to shareholders	-	-	-	-	-	-	(1,655,646,455)	(1,655,646,455)	(599,962,724)	(2,255,609,179)
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



# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

Renminbi Yuan

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

## CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2019

Renminbi Yuan

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

## **NOTES TO FINANCIAL STATEMENTS**

*As at 31 December 2019*

*Renminbi Yuan*

### **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 financial statements are prepared on a going concern basis.

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

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

#### **1.2 Statement of compliance with the CAS**

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

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2019

Renminbi Yuan

### 1.3 Changes in accounting policies

#### *New Leases Standard*

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

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

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

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2019

Renminbi Yuan

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

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

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

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2019

Renminbi Yuan

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

### Consolidated balance sheet

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

### Company balance sheet

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

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

### Consolidated balance sheet

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

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2019

Renminbi Yuan

### Consolidated income statement

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

### Company balance sheet

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

### Company income statement

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

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



## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2019

Renminbi Yuan

### *Changes in Financial Statements Format*

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

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2019

Renminbi Yuan

The main impacts of retrospective adjustments caused by the above changes in accounting policies are as follows:

### The Group

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

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)***As at 31 December 2019**Renminbi Yuan***The Company**

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

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2019

Renminbi Yuan

### 2. SCOPE OF CONSOLIDATION

As of 31 December 2019, the Company established the following subsidiary, and has included it in the scope of consolidation since then.

	Date of establishment	Registered capital	Percentage of equity	Investment form	Capital paid as of the year end
Masteel Hongfei Electricity Power Co.,Ltd. (Note)	June 2019	RMB100,000,000	51%	Cash	RMB51,000,000

*Note:* On 12 June 2019, upon the approval by the 21st meeting of the 9th Board of Directors of the Company, the Company established Masteel Hongfei Electricity Power Co., Ltd. (“Masteel Hongfei”) together with Anhui Hongfei New Energy Technology Co., Ltd. and Feimazhike Automation and Information Technology Co., Ltd., which is a subsidiary of the Holding. The registered capital of Masteel Hongfei is RMB100 million and the Company holds 51% of its equity interest. As of 31 December 2019, the Company has completed capital injection and included it in the scope of consolidation.

### 3. OPERATING SEGMENT INFORMATION

#### Operating segments

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

- Production and sale of iron and steel products and related by-products: the Company and its subsidiaries except for Masteel Finance
- Financial service: Masteel Finance

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

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2019

Renminbi Yuan

### Other information

#### *Product and service information*

External principal operating income

	2019	2018
Sale of steel products	<b>69,168,676,112</b>	74,107,142,467
Sale of steel billets and pig iron	<b>2,590,852,101</b>	2,088,810,111
Sale of coke by-products	<b>43,710,671</b>	933,738,098
Others	<b>5,355,010,744</b>	3,783,555,349
	<b><u>77,158,249,628</u></b>	<b><u>80,913,246,025</u></b>

#### *Geographical information*

External principal operating income

	2019	2018
Mainland China	<b>72,555,885,543</b>	75,648,970,094
Overseas and Hong Kong	<b>4,602,364,085</b>	5,264,275,931
	<b><u>77,158,249,628</u></b>	<b><u>80,913,246,025</u></b>

Non-current assets

	31 December 2019	31 December 2018
Mainland China	<b>39,090,556,947</b>	37,608,891,886
Overseas and Hong Kong	<b>217,815,932</b>	319,090,492
	<b><u>39,308,372,879</u></b>	<b><u>37,927,982,378</u></b>

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2019

Renminbi Yuan

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

### *Major customer information*

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

## 4. TRADE RECEIVABLES

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

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

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

In 2019, there were no trade receivables that had been written off (2018: Nil).

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

As of 31 December 2019 and 2018, the Group had no assets or liabilities deriving from transferring trade receivables in which the Group is continuingly involved.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2019

Renminbi Yuan

### 5. FINANCING RECEIVABLES

	<b>31 December 2019</b>	31 December 2018
Bank acceptance notes	<b>11,097,821,345</b>	4,970,113,847
Commercial acceptance notes	<b>878,076</b>	–
	<b><u>11,098,699,421</u></b>	<b><u>4,970,113,847</u></b>

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

The undue notes discounted or endorsed were as follows :

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

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

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



## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2019

Renminbi Yuan

### 6. PREPAYMENTS

An ageing analysis of the prepayments is as follows:

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

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

### 7. NOTES PAYABLE

	31 December 2019	31 December 2018
Bank acceptance notes	<b><u>7,313,729,148</u></b>	<b><u>2,638,271,437</u></b>

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

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2019

Renminbi Yuan

### 8. TRADE PAYABLES

The trade payables are interest-free and are normally settled within three months.

The ageing analysis of trade payables, based on the invoice date, is as follows:

	<b>31 December 2019</b>	31 December 2018
Within one year	<b>5,994,021,801</b>	7,551,105,922
One to two years	<b>114,525,131</b>	39,150,817
Two to three years	<b>10,584,079</b>	22,709,232
Over three years	<b>11,195,995</b>	90,770,571
	<b><u>6,130,327,006</u></b>	<b><u>7,703,736,542</u></b>

### 9. DIVIDENDS

According to the “2018 Annual Profit Distribution Plan” approved by the Company’s 2018 Annual General Meeting on 12 June 2019, the Company would distribute dividends to all shareholders at RMB0.31 per share (tax included) (2018: RMB0.215 per share), for 7,780,681,186 shares amounting to RMB2,387,211,168 (2018: RMB1,655,646,455). The dividends had been paid in 2019 and was included in the financial statements.

On 30 March 2020, the 30th meeting of the 9th board of the Company approved the 2019 final cash dividend of RMB0.08 (tax included) per share to shareholders, for 7,700,681,186 shares amounting to RMB616,054,495. The profit distribution plan will be submitted for approval in the annual shareholders’ meeting of the Company. Before the approval of the 2019 final dividend, the dividend will not be the liabilities of the Company and therefore was not included in the current year’s financial statements.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2019

Renminbi Yuan

### 10. REVENUE AND COST OF SALES

	2019		2018	
	Revenue	Cost of sales	Revenue	Cost of sales
Principal operating income	<b>77,158,249,628</b>	<b>70,327,320,806</b>	80,913,246,025	68,957,076,057
Other operating income	<b>1,104,596,376</b>	<b>988,161,109</b>	1,038,567,463	837,906,062
	<b><u>78,262,846,004</u></b>	<b><u>71,315,481,915</u></b>	<b><u>81,951,813,488</u></b>	<b><u>69,794,982,119</u></b>

Revenue is presented as follows:

	2019	2018
Revenue from contracts with customers	<b>78,021,403,864</b>	81,791,852,460
Rental income	<b>3,847,825</b>	11,182,578
Interest income	<b>237,594,315</b>	148,778,450
	<b><u>78,262,846,004</u></b>	<b><u>81,951,813,488</u></b>

Timing of revenue recognition from contracts with customers :

	2019	2018
At a point in time		
Sale of steel products	<b>71,759,528,213</b>	76,195,952,578
Sale of other products	<b>5,995,406,150</b>	5,341,091,143
Over time		
Processing	<b>160,134,559</b>	133,062,594
Agency commission	<b>22,590,195</b>	69,777,068
Packaging services	<b>53,978,920</b>	49,322,771
Others	<b>29,765,827</b>	2,646,306
	<b><u>78,021,403,864</u></b>	<b><u>81,791,852,460</u></b>

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2019

Renminbi Yuan

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

	2019	2018
Revenue	<u><b>3,543,085,084</b></u>	<u><b>3,800,847,781</b></u>

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

	2019	2018
Within one year	<u><b>3,765,254,551</b></u>	<u><b>3,572,594,400</b></u>

*Note:* For sales of products, the Group satisfies a performance obligation when customer obtained the control of the relevant products, and for provide of services, the Group satisfies a performance obligation based on performance progress over the contract period. The maturity on contract payment of the Group is 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 variable consideration based on the expected or the most probable value. However, the sales price including variable considerations should not exceed the amount accumulatively recognized which is not likely to be significantly reversed when the uncertainty disappears.

## 11. FINANCIAL EXPENSES

	2019	2018
Interest expenses ( <i>Note</i> )	<b>788,151,024</b>	879,897,330
Less: interest income	<b>79,269,218</b>	54,228,185
Less: capitalized interest	–	–
Exchange loss	<b>42,953,057</b>	99,590,860
Others	<b>32,976,365</b>	35,197,407
	<u><b>784,811,228</b></u>	<u><b>960,457,412</b></u>

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

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2019

Renminbi Yuan

### 12. (LOSS)/GAIN FROM DISPOSAL OF ASSETS

	2019	2018
(Loss)/gain on disposal of fixed assets	(77,442,073)	247,721,113
Gain on disposal of intangible assets	<u>383,722</u>	<u>123,559,151</u>
	<u>(77,058,351)</u>	<u>371,280,264</u>

### 13. NON-OPERATING INCOME

	2019	2018	Included in 2019 non-recurring gains and losses
Government grants not related to the ordinary course of business	462,733,716	154,659,733	462,733,716
Others	<u>7,180,250</u>	<u>5,438,834</u>	<u>7,180,250</u>
	<u>469,913,966</u>	<u>160,098,567</u>	<u>469,913,966</u>

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

	2019	2018
Employees stabilization allowance	179,977,500	–
Compensation for settlement of employees	175,955,283	154,659,733
Grants for reduction of overcapacity	95,885,000	–
Compensation for “Three Supplies and Property Management”(“三供一業”)	10,705,600	–
Others	<u>210,333</u>	–
	<u>462,733,716</u>	<u>154,659,733</u>

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2019

Renminbi Yuan

### 14. NON-OPERATING EXPENSES

	2019	2018	Included in 2019 non-recurring gains and losses
Charity donation	<b>609,449</b>	1,130,050	609,449
Penalty expenditure	<b>864,215</b>	1,567,787	864,215
Compensation for sales	<b>1,103,530</b>	1,561,587	1,103,530
Others	<b>1,158,677</b>	2,213,063	1,158,677
	<b><u>3,735,871</u></b>	<b><u>6,472,487</u></b>	<b><u>3,735,871</u></b>

### 15. INCOME TAX EXPENSES

	2019	2018
Mainland China current income tax expense	<b>504,353,061</b>	949,175,391
Hong Kong current income tax expense	<b>8,519,080</b>	9,399,676
Overseas current income tax expense	<b>14,054,819</b>	29,528,238
Deferred tax expense	<b>56,910,881</b>	192,831,929
	<b><u>583,837,841</u></b>	<b><u>1,180,935,234</u></b>

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2019

Renminbi Yuan

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

	2019	2018
Profit before tax	2,297,755,710	8,238,923,928
Tax at the applicable tax rate of 25% (Note)	574,438,928	2,059,730,982
Effect of different tax rates of some subsidiaries	(6,325,547)	(12,950,204)
Non-deductible expenses	24,823,810	122,878,020
Other tax preference	(132,030,610)	(112,104,563)
Income not subject to tax	(9,677,236)	(73,555,483)
Unrecognized deductible temporary difference and tax losses	300,068,716	365,585,000
Utilised previous years' tax losses	(25,572,453)	(1,004,295,946)
Share of profit and loss of joint ventures and associates	<u>(141,887,767)</u>	<u>(164,352,572)</u>
Tax charge at the Group's effective rate	<u><b>583,837,841</b></u>	<u><b>1,180,935,234</b></u>
The Group's effective rate	<b>25%</b>	14%

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

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2019

Renminbi Yuan

### 16. EARNINGS PER SHARE

	<b>2019</b> <i>cent/share</i>	2018 <i>cent/share</i>
Basic earnings per share		
Continuing operations	<u><b>14.65</b></u>	<u>77.18</u>
Diluted earnings per share		
Continuing operations	<u><b>14.65</b></u>	<u>77.18</u>

Basic earnings per share shall be calculated by dividing profit attributable to owners of the parent (the numerator) by the weighted average number of ordinary shares in issue (the denominator). During the year of 2019 and 2018, the Company did not have any dilutive items that should adjust the basic earnings per share.

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

	<b>2019</b>	2018
Earnings		
Profit attributable to owners of the parent		
Continuing operations	<u><b>1,128,148,980</b></u>	<u>5,943,286,585</u>
Number of shares		
Weighted average number of ordinary shares in issue during the year	<u><b>7,700,681,186</b></u>	<u>7,700,681,186</u>



## **NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

*As at 31 December 2019*

*Renminbi Yuan*

### **17. 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 overseas listed companies. The income tax difference between the results of the previously expired preferential rate and the applicable rate should be treated in accordance with the relevant provisions of the “People’s Republic of China Administration of Tax Collection Law”.

The Company was one of the nine companies mentioned above and used a 15% preferential tax rate in the previous period. After understanding the above information, the Company and the tax authorities issued a comprehensive communication and according to the tax authorities, the applicable corporate income tax rate in 2007 was 33%, which was adjusted from the original 15%. The Company had not been recovered prior period income tax differences.

Based on the comprehensive communication between the Company and the tax authorities, the director of the Company believed that it is uncertain whether the tax authorities will recover the difference between the previous period’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 2019, the Group and the Company did not have significant pending litigation.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

*As at 31 December 2019*

*Renminbi Yuan*

### 18. EVENTS AFTER THE BALANCE SHEET DATE

On 30 March 2020, the 30th meeting of the 9th board of the Company approved the 2019 final cash dividend of RMB0.08 (tax included) per share to shareholders. The profit distribution plan will be submitted for approval in the annual shareholders' meeting.

Since the outbreak of novel coronavirus (COVID-19) continues to spread throughout China and to countries across the world in January 2020, the epidemic preventive measures has been going on through the country. The Group will implement the relevant measures and strengthen the support for the prevention and control of the epidemic. The Group will monitor the developments of COVID-19 situation closely, assess and react actively to its impacts on the financial position and operating results of the Group. Up to the date of the announcement, the assessment is still in progress.

Apart from above, as of the date of the announcement, the Group had no other significant events after the balance sheet date that need to be disclosed.

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

30 March 2020  
Maanshan City, Anhui Province, the PRC

*As at the date of this announcement, the directors of the Company include executive directors Ding Yi, Wang Qiangmin, Ren Tianbao and Zhang Wenyang; non-executive director Qian Haifan; and independent non-executive directors Zhang Chunxia, Zhu Shaofang and Wang Xianzhu.*