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

(Stock Code: 00323)

2021 ANNUAL RESULTS ANNOUNCEMENT

I. IMPORTANT NOTICE

1. This annual report summary 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 the website of Shanghai Stock Exchange and other media designated by the China Securities Regulatory Commission as well as the website of The Stock Exchange of Hong Kong Limited.
2. The board of directors, 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.
3. All directors attended the board meeting.
4. Ernst & Young Hua Ming LLP issued an auditor's report containing a standard unqualified opinion on the annual financial statements of the Company.
5. Profit distribution plan or plan for the capitalization of capital reserve during the reporting period proposed by the Board

The Board suggests 2021 final dividend of RMB0.35 per share (tax included) shall be distributed and retained earnings will be carried forward to the year of 2022. 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

Contact

person and Secretary of the Board of Directors
methods and Joint Company Secretary

Joint Company Secretary

Name	He Hongyun	Rebecca Chiu
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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 of the Company 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

	2021	2020	Increase/decrease compared to previous year (%)	2019
Total assets	91,207.74	80,711.14	13.01	86,322.04
Revenue	113,851.19	81,614.15	39.50	78,262.85
Net profit attributable to owners of the parent	5,332.25	1,982.64	168.95	1,128.15
Net profit excluding non-recurring gains or losses attributable to owners of the parent	5,413.29	1,485.65	264.37	1,635.50
Net assets attributable to owners of the parent	32,752.86	28,386.12	15.38	26,933.16
Net cash flows from operating activities	16,774.48	2,770.51	505.46	7,865.96
Basic earnings per share (RMB/share)	0.692	0.258	168.22	0.147
Diluted earnings per share (RMB/share)	0.692	0.258	168.22	0.147
Return on net assets (weighted average) (%)	17.44	7.17	Increased by 10.27 percentage points	4.09

3.2 Major Accounting Data by Quarter during the Reporting Period

Unit: million RMB

	1st Quarter (Jan-Mar)	2nd Quarter (Apr-Jun)	3rd Quarter (Jul-Sep)	4th Quarter (Oct-Dec)
Revenue	23,885	32,978	28,952	28,036
Net profit attributable to owners of the parent	1,511	3,133	1,883	-1,195
Net profit excluding non-recurring gains or losses attributable to owners of the parent	1,436	3,316	1,936	-1,275
Net cash flows from operating activities	2,194	9,087	-248	5,741

4. Share Capital and Shareholders

4.1 Numbers of Shareholders and Shareholding of the Top Ten Shareholders

Unit: Share

Total number of shareholders as at the end of the reporting period (<i>unit</i>)	170,942
Total number of shareholders as at the end of last month prior to the report date (<i>unit</i>)	172,460

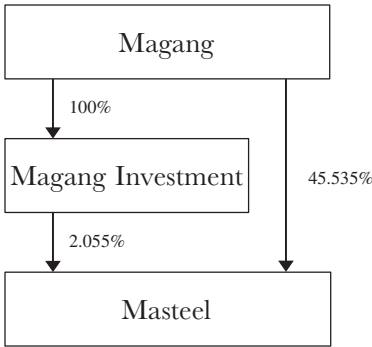
Shareholding of the top ten shareholders

Name of Shareholder (Full Name)	Increase/ Decrease during the reporting period	No. of Shares at the end of the reporting period	Percentage (%)	Pledged or Frozen Situations			Shareholder Number Nature
				No. of Shares under Restricted Condition for Sales	Share Status		
Magang (Group) Holding Company Limited	-	3,506,467,456	45.535	-	None	-	State-owned shareholder
HKSCC Nominees Limited	1,237,500	1,718,328,550	22.314	-	Unknown	Unknown	Unknown
Hong Kong Securities Clearing Company Limited	35,320,432	177,475,432	2.305	-	Unknown	Unknown	Unknown
Magang Group Investment Limited	-	158,282,159	2.055	-	None	-	State-owned shareholder
Central Huijin Investment Ltd.	-2,982,700	139,172,300	1.807	-	Unknown	Unknown	State-owned shareholder
Industrial and Commercial Bank of China Limited - HFT Reform Driven Flexible Configuration Hybrid Securities Investment Fund	Unknown	49,984,400	0.649	-	Unknown	Unknown	Unknown
Zhang Wu	-1,800,000	23,000,000	0.299	-	Unknown	Unknown	Unknown
Beijing Guoxing Real Estate Management Co., Ltd.	Unknown	20,067,507	0.261	-	Unknown	Unknown	Unknown
Agricultural Bank of China Limited- CSI 500 ETF	Unknown	13,393,696	0.174	-	Unknown	Unknown	Unknown
China Construction Bank Corporation - Huashang Golden Age Growth Hybrid Securities Investment Fund	Unknown	11,231,500	0.146	-	Unknown	Unknown	Unknown

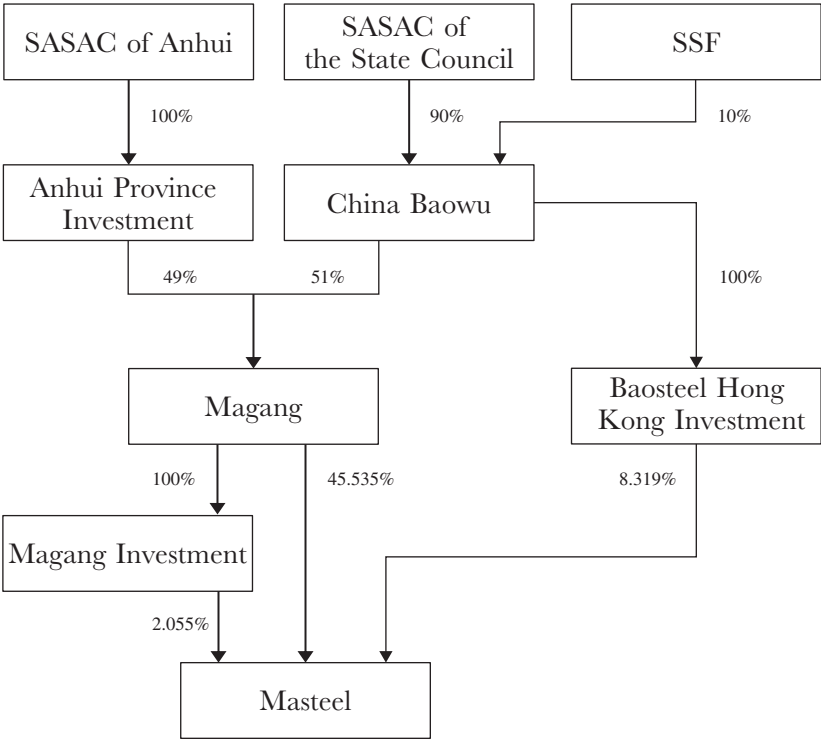
Notes on the above shareholders' As at the end of the reporting period, Magang (Group) Holding Company Limited is the controlling shareholder connected relation or concerted action of Magang Group Investment Limited, and they are persons acting in concert. Magang (Group) Holding Company Limited has no connected relation with any of the other foregoing shareholders, nor is a person acting in concerted action. However, it is not in the knowledge of the Company whether there is any connected relation among other foregoing shareholders and whether they are persons acting in concert.

Note: As at the end of the reporting period, HKSCC Nominees Limited held 1,718,328,550 H Shares of the Company, which were held on behalf of its customers, including 640,600,000 H Shares of the Company held on behalf of Baosteel Hong Kong Investment Company Limited (“**Baosteel Hong Kong Investment**”). As of the issue date of this report, Baosteel Hong Kong Investment held 597,500,000 H Shares of the Company.

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 Controllers



III. MANAGEMENT DISCUSSION AND ANALYSIS

1. Steel industry during the reporting period

In 2021, the continued recovery of the national economy in China created a favorable environment for the development of the steel industry. A great number of measures has been advanced in the steel industry in respect of the supply-side structural reform, staggered production during the heating season, the guarantee of iron ore resource supply, operation monitoring and the guarantee of supply and price stability, steel industry regulation and management, the integrated development of industrial Internet and smart manufacturing, thus laying a solid foundation for the sound development of the industry. Amid the adverse effects brought about by drastic fluctuations in the prices of iron ore, coke and other raw materials and fuels, as well as the sharp rise in environmental protection costs, steel enterprises took proactive steps to meet the changes in market, firmly implemented the national industrial policies, and actively maintained the balance between supply and demand. In general, better performance has been achieved in the steel industry.

Wide gyration in steel prices. The average value of the composite steel price index for the Chinese domestic market in 2021 was 143.1 points, with a year-on-year increase of 37.8 points or 35.9%. The price index ranged from a low of 122.2 points to a high of 174.8 points, with an annual price index volatility of 36.7%, the highest in the last five years. Steel prices showed a wide range of fluctuations. The annual average price indexes for long products and plates were at 146.9 and 142.7 points, respectively, representing a year-on-year increase of 37.4 and 39.3 percentage points, or 34.1% and 38.0% respectively.

Generally stable operation in the industry with a dynamic equilibrium of supply and demand. In 2021, China produced 869 million tonnes of pig iron, representing a year-on-year decrease of 4.30%; 1.033 billion tonnes of crude steel, representing a year-on-year decrease of 3.0%; and 1.337 billion tonnes of steel, representing a year-on-year increase of 0.60%. Steel inventories reached a high in early March and then gradually declined, ending the year at the same level as the corresponding period of last year.

Import and export mix was optimized with export tax rebate adjusted by the state. Pulled by demand in the international market, China's steel exports rose rapidly in March and April. With the adjustment of the national policy on the import and export of steel products, the export volume of steel decreased month by month since July. During the year, China exported a cumulative total of 66.895 million tonnes of steel, representing a year-on-year increase of 13.223 million tonnes or 24.6%, and imported a cumulative total of 14.268 million tonnes of steel, representing a year-on-year decrease of 5.963 million tonnes or 29.5%. Since August, steel export prices had been higher than import prices for four consecutive months, indicating that China's steel import and export mix continues to be optimized.

Significant fluctuations in raw material prices. In 2021, the price of imported iron ore fluctuated drastically, peaking at USD233.1 per tonne, and the average customs import price for the year was USD164.3 per tonne, representing a year-on-year increase of 49.3%; the prices of raw materials and fuels such as coking coal, metallurgical coke and steel scrap also rose sharply.

At the same time, the development of China's steel industry has entered a new stage, from incremental development to the optimization of existing capacity, with an obvious increase in strategic reorganization and tactical alliances between enterprises. Faced with the fundamental task of raising the basic capabilities of the industry and upgrading the industrial chain across the board, the steel industry needs to take green development and smart manufacturing as the main themes, and focus on eliminating the three major pain points, i.e. controlling capacity expansion, promoting industrial concentration and ensuring resource security, so as to achieve the transformation of the drivers of growth with structural adjustment, green and low-carbon, and digital empowerment.

2. Major Business Performance during the Reporting Period

In 2021, in the face of the complex and severe situation at home and abroad and various risks and challenges, China coordinated pandemic prevention and control and economic and social development, and achieved a good start to the 14th Five-Year Plan, with GDP growth of 8.1%. In the face of the the rapidly changing in the steel industry, the Company pursued the business strategy of “two fast, two don’ts, three reductions, one increase and one secure” to realize lean and efficient operations and strive to take the lead. The focus of production organization began to shift from creating the ultimate capacity efficiency to focusing on product structure optimization, economic operation and progress of key indicators in the second half of the year, and the production and operation performance was better.

During the reporting period, the Group produced 18.23 million tonnes of pig iron, representing a year-on-year decrease of 1.70%, mainly due to the Company’s overhaul of a 4,000-cubic meter blast furnace from 15 September to 9 December 2021; 20.97 million tonnes of crude steel, which is flat to last year, among which the electric furnace steel production was 1.33 million tonnes, i.e., 6.3% of total crude steel; and 20.45 million tonnes of steel, representing a year-on-year increase of 3.04%, a record high for the Group, mainly due to the Company’s efforts in purchasing extra billet for rolling and improving the capacity utilization of steel rolling lines.

The Group’s revenue amounted to RMB113,851 million and the net profit attributable to shareholders of the parent company amounted to RMB5,332 million, representing a year-on-year increase of 39.50% and 168.95%, respectively, as calculated in accordance with the PRC Accounting Standards for Business Enterprises. Basic earnings per share amounted to RMB0.692, representing a year-on-year increase of 168.22%. As at the end of the reporting period, the Group’s total assets amounted to RMB91,208 million, representing a year-on-year increase of 13.01% and the net assets attributable to owners of the parent amounted to RMB32,753 million, representing a year-on-year increase of 15.38%.

The main work included:

First, new breakthroughs were achieved in strategic transformation. In accordance with strategic positioning and planning requirements, the Company focused on its primary responsibilities and core businesses, with key projects launched hierarchically and accelerated across the board. The Company planned and implemented a group of gap-filling projects in the northern area, represented by the overhaul of blast furnace A, and a group of product and production line planning projects in the southern area, represented by the new special steel project. The projects such as new CCPP generation set, 2E silo, belt roaster, the coke oven in the southern area and the overhaul of blast furnace A were completed and put into production. The construction of the new special steel project officially started and the section steel transformation project was carried out in an orderly manner.

Second, new breakthroughs were achieved in lean operations. By adhering to the goal of “simplicity, extreme, high efficiency, low cost and high quality” and using the “Strive for Excellence Award” incentive mechanism as a driving force, the efficiency of production lines was significantly improved by optimizing the dynamic balance of internal resources and purchasing extra billet for rolling. The daily production record of production lines was broken 172 times and the monthly production record was broken 53 times throughout the year. Significant higher efficiency was achieved by operating in both markets. The Company ensured a safe and stable supply of resources. The market share of key products steadily increased. The annual sales of unique, strategic and leading products amounted to 3.77 million tonnes, representing a year-on-year increase of 32%. 800,000 tonnes of steel were exported, representing a year-on-year increase of 38%. The automobile plates passed the global certification by a Japanese joint venture brand for the first time. A substantial breakthrough was made in the application of the domestically-produced wheels on hi-speed rail, and the domestically-produced D2 wheels for the 350km Fuxing bullet trains were used in 2 trains with 128 pieces in batches. The equipment system and public auxiliary systems provided effective support. The precision management function of 17 production lines achieved the improvement rate of 82%. The Company deepened economical operation of energy systems, and significantly improved the energy utilization efficiency.

Third, new breakthroughs were achieved in the empowerment of green development and smart manufacturing. The Company adhered to the philosophy that green development and smart manufacturing are the core competitiveness, firmly followed the principle that lucid waters and lush mountains are invaluable assets as well as the Yangtze River protection strategy, the Company vigorously promoted the implementation of the “two better and one integration” as well as “ultra-low emission of waste gas, zero emission of waste water, no shipping out of solid wastes, cleanliness, greening, beautifying and culture”, actively promoted the building of a new factory appearance in the southern area, by accelerating the improvement of the factory appearance and the special improvement of logistics and vehicles. By implementing the closed management of Santai West Road, the number of vehicles passing through the area was reduced by 5,764 vehicles. Magang was awarded the Peak Carbon Dioxide Emissions and Carbon Neutrality Research Award of Anhui Province. The Company built the information integration system and successfully launched it, and continued to build the demonstration base for smart manufacturing. The “ALL IN ONE” Smart Factory of the Cold Rolling Plant was recognized as a “smart factory” in Anhui Province.

Fourth, new breakthroughs were achieved in scientific and technological research. Greater efforts were devoted to make innovations in technologies. Nine company-level projects under the principle of “selecting the best candidates to undertake key research projects” were carried out and the construction of Magang R&D Center started. The Company’s R&D investment rate reached 3.96%, representing a year-on-year increase of 1.74 percentage points. The Company developed 1.4 million tonnes of new products, the best level ever. One achievement won the second prize of the National Scientific and Technological Progress Award and 12 achievements won the metallurgical and provincial scientific and technological progress awards. The Company had 456 new granted patents. The building of a well-trained workforce has been accelerated. Two people were selected as Baowu Scientists and one person was included in the eighth batch of Academic and Technological Pacesetters of Anhui Province. The Company engaged 77 chief principals and 16 skilled technicians.

Fifth, new breakthroughs were achieved in reform and management. Systematic steps were adopted to advance the professional integration. The management on the procurement of manufactured products, water treatment, smart operation and maintenance, and gas business were outsourced, and the integration of the “management, use, maintenance and repair” businesses was completed for bridge cranes, roll shops and railway lines. The Company actively explored the mode of “one headquarters with multiple bases”. A substantial breakthrough was made in the integrated control of Changjiang Steel. Human resources management was continuously optimised. The per capita steel production reached 1,213 tonnes, and the proportion of management posts decreased from 10.4% to 6.4%. The three-year action plan for the collaborative management change was rapidly advanced, and the number of collaborative suppliers decreased by 14%. The capacity of the system was significantly improved. The Company has been exploring ways to establish an inter-departmental multi-disciplinary working group, and vigorously pursuing the centralized consistent system and horizontal collaboration in order to solve problems quickly and efficiently. The Company has established and improved the incentive mechanism of the “Strive for Excellence Award”. The tenure system and contractual management of the operation and management team was implemented. The Company accelerated the promotion of restricted share incentive to stimulate the enterprising spirit. The Company actively responded to the severe workplace safety situation, pursued the “three managements and three necessities”, strengthened the safety management concept of “violation of rules is a crime”, and consolidated the workplace safety responsibilities of all staff. Special rectification was launched to intensify the efforts to identify and solve potential safety hazards, and continuously enhance the capacity of the safety management system.

Sixth, new breakthroughs were achieved in common development and shared growth. The Company adheres to the principle of sharing the fruits of corporate development with all stakeholders, actively fulfilling its social responsibilities and achieving a win-win situation with all parties. Inheriting the advanced corporate culture from Baowu, the Company carried forward the spirit of “the blossoming city in Jiangnan” in the new era to promote overall improvement in respect of manufacturing standards, environmental quality, staff quality, mental outlook, solidarity and industry-city integration, and expanded the penetration, influence and radiation of Baowu culture in the Anhui region. 235 labor competitions were carried out in seven categories, including the activity of “creating the first class with lean and efficient operations, improving the indicators and creating benefits”, and the “Lean-On-Site Day” activity was promoted on a regular basis. The Company received more than 100,000 entries made in the activity “I offer a plan for the enterprise” on the Magang Jingyitong platform. The Company participated in the 25th National Invention Exhibition and the Appraisal and Selection of China Baowu Excellent Post Innovation Achievement, and won gold and silver awards for many times. The empowerment of its workforce was actively promoted. The Company published lean case studies on a regular basis, steadily advanced the training for all front-line staff, and implemented the management capability systematic improvement project for foremen. In the case of economic benefits growth, the per capita income of employees on the job increased significantly, and the sense of gain was significantly enhanced.

3. Analysis of Principal Operation

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

Unit: RMB

Accounts	Amount of the current year	Amount of the same period of last year	Change (%)
Revenue	113,851,189,379	81,614,151,183	39.50
Cost of sales	98,929,683,370	74,382,338,196	33.00
Selling expenses	300,098,085	262,916,411	14.14
General and administrative expenses	1,388,782,842	1,516,627,132	-8.43
Financial expenses	631,748,011	553,576,584	14.12
R&D expenses	4,506,577,893	1,813,176,837	148.55
Assets impairment losses	1,337,467,241	770,780,451	73.52
Credit impairment losses	-3,489,661	48,276,000	-107.23
gain/(Loss) on changes in fair value	84,773,531	-72,693,896	N/A
Investment income	834,975,866	533,664,650	56.46
Gain from disposal of assets	223,736,352	589,074,956	-62.02
Operating profit	7,367,922,604	2,866,954,813	156.99
Non-operating income	38,728,760	402,577,021	-90.38
Non-operating expenses	390,322,193	188,665,317	106.89
Profit before tax	7,016,329,171	3,080,866,517	127.74
Income tax	1,022,354,526	502,887,410	103.30
Net profit	5,993,974,645	2,577,979,107	132.51
Net profit attributable to owners of the parent	5,332,253,043	1,982,638,821	168.95
Net cash flows from operating activities	16,774,476,432	2,770,514,645	505.46
Net cash flows from investing activities	-10,721,689,492	-6,081,913,170	N/A
Net cash flows from financing activities	-4,900,326,529	-708,738,972	N/A

Revenue increased by 39.50% compared with the previous year, mainly due to the year-on-year increase in steel prices, higher gross profit and higher sales volume of steel products.

Cost of sales increased by 33.00% compared with the previous year, mainly due to the rising prices of raw materials such as iron ore, coal and coke as well as the year-on-year increase in the sales volume of steel.

R&D expenses increased by 148.55% compared with the previous year, mainly due to the Company's further increased investment in scientific research, expanded product development categories and accelerated product upgrading in order to enhance its overall R&D capability and enhance its competitiveness in the high-end product market for the current year.

Asset impairment losses increased by 73.52% compared with the previous year, mainly due to the year-on-year increase in the provision for decline in value of inventories after the Company's calculation based on steel market prices for the current year.

Credit impairment losses were a gain of RMB3 million compared to a loss of RMB48 million in the previous year, mainly due to the reversal of impairment loss on accounts receivable by subsidiaries in the current year compared to the provision in the previous year.

Gain on changes in fair value for the current year was RMB85 million compared with loss on changes in fair value of RMB73 million last year, mainly due to the gain resulting from the change in fair value of forward foreign exchange contracts held by the Company this year.

Investment income increased by 56.46% compared with the previous year, mainly due to the year-on-year increase in profit of associates and joint ventures this year.

Gain on disposal of assets decreased by 62.02% compared with the previous year, mainly due to the completion of the disposal of relevant assets of Hefei Steel in the previous year and the receipt of government compensation for the related land resumption.

Operating profit, profit before tax, net profit and net profit attributable to owners of the parent increased by 156.99%, 127.74%, 132.51% and 168.95%, respectively, as compared with last year, mainly due to the increase in gross profit of steel products of the Company during the year as compared with last year.

Non-operating income decreased by 90.38% compared with the previous year, mainly due to the receipt of two employee relocation grants by the Company in the previous year.

Non-operating expenses increased by 106.89% compared with the previous year, mainly due to the increase in the number of old assets scrapped during the year as compared to the previous year due to the Company's production and operation needs.

Income tax expense increased by 103.30% compared with the previous year, mainly due to the increase in the total profit of the Group and the increase in enterprise income tax provision for the current year.

The change in net cash flow from operating activities was mainly due to the increase in inflow of deposits received by the Finance Company in the current year as compared to the previous year and the increase in cash received from the sale of steel products due to the increase in volume and price of steel products as compared to the previous year.

The change in net cash flow from investing activities was mainly due to the increase in the purchase of financial products such as interbank certificates of deposit, financial management and trusts by the Finance Company in the current year as compared to the previous year.

The change in net cash flow from financing activities was mainly due to the planned reduction in the scale of interest-bearing liabilities and the reduction in gearing ratio in accordance with the Company's business strategy.

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	104,308	90,923	12.83	39.32	32.47	Increased by 4.5 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	46,604	42,555	8.69	36.81	35.13	Increased by 1.41 percentage points
Steel plates	52,260	43,589	16.59	45.41	33.58	Increased by 7.39 percentage points
Wheel and axles	2,155	1,819	15.60	4.83	5.41	Decreased by 0.46 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	46,977	40,771	13.21	24.0	18.7	Increased by 3.90 percentage points
Shanghai	21,548	18,520	14.05	73.0	63.5	Increased by 5.02 percentage points
Jiangsu	18,680	16,184	13.36	51.5	43.8	Increased by 4.63 percentage points
Zhejiang	8,687	7,645	11.99	71.7	65.3	Increased by 3.40 percentage points
Hubei	4,077	3,597	11.77	42.0	37.1	Increased by 3.15 percentage points
Guangdong	2,770	2,401	13.32	34.5	27.3	Increased by 4.87 percentage points
Other regions in China	7,034	6,204	11.80	24.0	18.9	Increased by 3.81 percentage points
Overseas and Hong Kong	4,078	3,608	11.53	23.8	16.3	Increased by 5.64 percentage points

Principal operation by sales pattern						
Sales pattern	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 (%)
Direct supply	64,676	55,622	14.00	75.03	65.85	Increased by 4.77 percentage points
Distributors	36,343	32,341	11.01	3.51	0.09	Increased by 3.04 percentage points

During the reporting period, the Group's revenue from principal operation was RMB111,050 million, of which the iron & steel revenue was RMB104,308 million, accounting for 94% of the principal operation revenue with no significant change in the proportion.

(2) *Analysis of Production and Sales Volumes*

Key products	Unit	Production volume	Sales volume	Inventory volume	Year-on-year increase/ (decrease) of production volume (%)	Year-on-year increase/ (decrease) of sales volume (%)	Year-on-year increase/ (decrease) of inventory volume (%)
Long products	ten thousand tonnes	1,011.9	1,017.5	10.0	-2.03	-1.61	-35.90
Steel plates	ten thousand tonnes	1,012.2	1,013.6	4.1	8.70	8.92	-25.45
Wheel and axles	ten thousand tonnes	21.0	21.0	1.7	-1.87	1.45	-

(3) *Analysis of Costs*

Unit: million RMB

Cost components	Amount in 2021	Percentage of total costs in 2021 (%)	Amounts in 2020	Percentage of total costs in 2020 (%)	Change in amount in 2021 against amount in 2020 (%)
Raw materials and fuels	83,303	84.20	59,520	80.02	39.96
Salary	4,020	4.06	3,436	4.62	17.00
Depreciation and amortization	2,527	2.56	2,813	3.78	-10.17
Fuels and power	4,913	4.97	3,796	5.10	29.43
Others	4,167	4.21	4,817	6.48	-13.49

(4) Analysis of Major Customers and Major Suppliers

During the reporting period, the largest customer was Anhui Magang Chemicals & Energy Technology Co., Ltd., with sales of RMB1,758 million, accounting for 1.54% of total annual sales. Sales to the top five customers amounted to RMB6,478 million, accounting for 5.69% of total annual sales, less than 30%; among the sales to the top five customers, sales to related party amounted to RMB1,758 million, accounting for 1.54% of total annual sales. The largest supplier was Ouye Lianjin, with purchases of RMB9,557 million, accounting for 10.06% of the total annual purchases. The purchases by the top five suppliers amounted to RMB33,419 million, accounting for 35.20% of the total annual purchases; among the purchases by the top five suppliers, purchases by related parties amounted to RMB21.5 billion, accounting for 22.64% of the total annual purchases.

Among the major customers, Magang is the controlling shareholder of Chemical Energy Company. Among the major suppliers, Baosteel Resources International Company Limited and Ouye Lianjin are controlling subsidiaries of Baowu Group and Anhui Masteel Mining Resources Co., Ltd. is a controlling subsidiary of Magang. 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 2021.

3.2 Expenses

During the reporting period, the Group's selling expense increased by 14.14% year on year, administrative expenses decreased by 8.43% year on year, and finance costs increased by 14.12% year on year. The changes are insignificant. R&D expenses increased by 148.55% year on year. For the main reasons, please refer to the section headed "Analysis of the change in accounts of the income statement and statement of cash flows" in the above.

3.3 Research and Development (R&D) Expenses

R&D expenses details

Unit: RMB100 million

Spent R&D expenses in 2021	45.07
Capitalized R&D expenses in 2021	–
Total R&D expenses	45.07
Total R&D expenses as a portion of revenue (%)	3.96
Number of the Company's R&D staff	2,244
Percentage of R&D staff number to the Company's total number of employees (%)	11.52
Percentage of capitalized R&D expenses (%)	–

4. Analysis of Assets and Liabilities

4.1 Assets and Liabilities

Unit: RMB

Project Name	Closing balance of 2021	Percentage of closing balance of 2021 in total assets (%)	Closing balance of 2020	Percentage of closing balance of 2020 in total assets (%)	Year-on-year change (%)
Cash and bank balances	6,667,853,614	7.31	5,346,108,774	6.62	24.72
Notes receivables	466,956,969	0.51	–	–	N/A
Financial assets					
held for trading	5,732,467,255	6.29	2,028,957,057	2.51	182.53
Financing receivables	4,795,905,782	5.26	7,072,160,166	8.76	-32.19
Prepayments	1,534,440,838	1.68	755,340,403	0.94	103.15
Inventories	12,463,004,529	13.66	10,900,294,231	13.51	14.34
Financial assets					
purchased under resale agreements	784,602,397	0.86	1,346,725,440	1.67	-41.74
Long term equity					
investments	5,158,883,895	5.66	3,694,172,463	4.58	39.65
Property, plant and					
equipment	28,605,250,896	31.36	29,564,588,450	36.63	-3.24
Construction in progress	10,999,333,300	12.06	6,980,279,959	8.65	57.58
Customer deposits	9,253,057,291	10.15	6,620,132,197	8.20	39.77
Repurchase agreements	925,465,952	1.01	198,480,944	0.25	366.27
Short-term loans	8,952,209,045	9.82	12,584,935,187	15.59	-28.87
Trade payables	10,437,709,731	11.44	7,612,476,174	9.43	37.11
Contract liabilities	5,741,241,284	6.29	4,377,105,559	5.42	31.17
Taxes payable	1,073,613,979	1.18	569,759,727	0.71	88.43
Non-current liabilities					
due within one year	1,358,293,333	1.49	2,572,092,845	3.19	-47.19
Long-term loans	5,452,250,052	5.98	3,536,364,338	4.38	54.18
Retained earnings	11,661,535,210	12.79	7,374,557,923	9.14	58.13

Financial assets held for trading increased by 182.53% compared with the end of the previous year, mainly due to a larger increase in the amount of interbank certificates of deposit purchased by the Finance Company this year compared with the previous year.

Notes receivable amounted to RMB467 million, compared with nil at the end of the previous year, mainly due to the inclusion of notes with recourse in this account this year.

Financing receivables decreased by 32.19% compared with the end of the previous year, mainly due to the increase in the amount of endorsement of notes transfer, resulting in the decrease of notes held by the Company compared with the end of previous year.

Prepayments increased by 103.15% compared with the end of the previous year, mainly due to the increase in prepayments for coal and coke goods made by the Company at the end of this year.

Financial assets purchased under resale agreements decreased by 41.74% compared with the end of the previous year, mainly due to the decrease of bonds reverse repurchase business of Finance Company this year.

Long-term equity investments increased by 39.65% compared with the end of the previous year, mainly due to the new investments in Baowu Water and Ouye Industrial Products, the change of Masteel Gas from the cost method to the equity method of accounting and the increase in investment income from associates and joint ventures during the year.

Construction in progress increased by 57.58% compared with the end of the previous year, mainly due to the increase of investments in projects, such as the environmental protection upgrade and transformations with smart technologies for the raw material yards of the headquarters, the 7-meter coke oven system project of the coking plant, the smart manufacturing project during the year.

Customer deposits increased by 39.77% compared with the end of the previous year, mainly due to the decrease of cash and bank balances of the Group and its member units absorbed by the Finance Company this year.

Repurchase agreements increased by 366.27% compared with the end of the previous year, mainly due to the increase in the amount of funds pledged by the Finance Company to other financial institutions this year.

Accounts payable increased by 37.11% compared with the end of the previous year, mainly due to the increase in payments for purchases as a result of the increase in the prices of bulk raw materials and fuels this year.

Contract liabilities increased by 31.17% compared with the end of the previous year, mainly due to the increase in prepayments for steel materials made by customers as a result of the increase in steel prices this year.

Taxes payable increased by 88.43% compared with the end of the previous year, mainly due to the increase in unpaid value added tax and value added tax surcharge at the end of this year compared with the end of the previous year.

Non-current liabilities due within one year decreased by 47.19% compared with the end of the previous year, mainly due to the repayment of long-term loans due within one year during the year.

Short-term borrowings decreased by 28.87% and long-term borrowings increased by 54.18% compared with the end of the previous year, mainly due to the planned reduction in the scale of interest-bearing liabilities and simultaneous optimization of the financing structure of long-term and short-term borrowings.

Retained earnings increased by 58.13% compared with the end of the previous year, mainly due to the Company's profits for the current year.

5. Analysis of Operational Information

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

Product type	Production capacity <i>(ten thousand tonnes)</i>	Utilization rate of production capacity <i>(%)</i>
Pig iron	1,775	102.70
Crude steel	2,140	97.99
Steel products	2,050	99.76

5.1 Manufacturing and Sales of Steel Products Based on Processing Techniques

Unit: million RMB

Types	Production volume <i>(tonnes)</i>		Sales volume <i>(tonnes)</i>		Revenue		Cost of sales		Gross margin <i>(%)</i>	
	This Year	Last Year	This Year	Last Year	This Year	Last Year	This Year	Last Year	This Year	Last Year
Cold-rolled steel	5,376,855	4,505,303	5,380,043	4,512,677	31,249	20,504	25,953	19,492	16.95	4.94
Hot-rolled steel	14,863,782	15,136,165	14,931,102	15,134,075	67,615	49,500	60,191	44,632	10.98	9.83
Wheel and axles	210,390	213,667	210,235	206,884	2,155	2,056	1,819	1,726	15.60	16.07

5.2 Manufacturing and Sales of Steel Products Based on Forms of Finished Goods

Unit: million RMB

Types	Production volume <i>(tonnes)</i>		Sales volume <i>(tonnes)</i>		Revenue		Cost of sales		Gross margin <i>(%)</i>	
	This Year	Last Year	This Year	Last Year	This Year	Last Year	This Year	Last Year	This Year	Last Year
Long products	10,118,679	10,329,257	10,175,291	10,340,973	46,604	34,065	42,555	31,493	8.69	7.55
Steel plates	10,121,958	9,312,211	10,135,854	9,305,779	52,260	35,939	43,589	32,631	16.59	9.21
Wheel and axles	210,390	213,667	210,235	206,884	2,155	2,056	1,819	1,726	15.60	16.07

5.3 Sales of Steel Products Based on Sales Channels

Unit: RMB100 million

Based on sales channels	Revenue		Percentage in total revenue (%)	
	This Year	Last Year	This Year	Last Year
Offline sales	960.2	689.7	84.34	84.51
Online sales	50.4	34.4	4.43	4.21

5.4 Supply of Iron Ore

Unit: RMB100 million

Supply source of iron ore	Supply volume (tonnes)		Expense amount	
	This Year	Last Year	This Year	Last Year
Domestic source	6,597,340	7,012,172	83.87	64.12
Overseas import	20,610,573	20,420,675	244.83	140.25
Total	27,207,913	27,432,847	328.70	204.37

5.5 Supply of Scrap Steel

Unit: RMB100 million

Supply source of scrap steel	Supply volume (tonnes)		Expense amount	
	This Year	Last Year	This Year	Last Year
Domestic procurement	2,760,015	2,675,733	88.56	73.83

6. Investment Analysis

6.1 General Analysis of External Equity Investments

Unit: million RMB

The Company's investment amount as at the end of the reporting period	14,115.94
Changes in investment amount	1,755.92
The Company's investment amount as at the end of the previous year	12,360.02
Increase/decrease in investment amount (%)	14.21

During the reporting period, the Company did not carry out any significant equity investments.

6.2 Significant Non-equity Investment

Unit: million RMB

Project Name	Budgeted Investment	New Investment during the Reporting Period	Project Progress
Product quality projects	18,340	2,759	25%
Energy-saving and environment protection projects	8,781	1,887	58%
Modification	4,980	1,533	52%
Other projects	N/A	870	N/A
Total	/	7,049	/

7. Outlook for Future Development

7.1 Industry Landscape and Trend

Looking ahead to 2022, the Covid-19 pandemic is still ongoing. The world economic recovery lacks drive, and commodity prices remain high and are prone to fluctuation. All of these are making our external environment increasingly volatile, grave and uncertain. In pursuing economic development, China is under the triple pressures of demand contraction, supply shocks and weakening expectations. In the face of the new downward pressure, China will pursue supply-side structural reform as the main task, coordinate epidemic prevention and control with economic and social development, ensure both development and security, continue to ensure security in six key areas and stability on six key fronts, continue to improve people's lives, intensify efforts to maintain stable macroeconomic performance, and keep major economic indicators within an appropriate range.

At the policy level, the Central Economic Work Conference stressed that “we must make economic stability our top priority and pursue progress while ensuring stability”, “proactively introduce pro-stability policies in all aspects, and these policies should produce effects early on”, “cross- and counter-cyclical adjustments with macro policies should be organically integrated”, “make proactive investments in infrastructure as appropriate”, and “boost the core competitiveness of manufacturing”. The CPC Central Committee issued the Working Guidance for Carbon Dioxide Peaking and Carbon Neutrality in Full and Faithful Implementation of the New Development Philosophy. The National Development and Reform Commission and the Ministry of Industry and Information Technology issued the Implementation Plan for Boosting Industrial Economy and Promoting High-Quality Industrial Development. In accordance with the requirements of high-quality development, the steel industry has diligently acted on the requirements of dual-controls over energy intensity and total energy consumption, steadily promoted the carbon peaking and carbon neutrality, deepened reform, strengthened management, continuously improved the quality of operation, further enhanced its ability and resilience to cope with challenges, and maintained a stronger foundation for the healthy development of the industry. As a result, the business environment of the steel industry will continue to be optimized this year.

From the perspective of market demand, the real estate industry is under downward pressure due to policy factors such as “no speculation in housing” and “three red lines”, and the demand for steel in the housing construction sector has temporarily dropped significantly, resulting in a decline in the overall consumption of steel in China. At the same time, China will continue to pursue a proactive fiscal policy and a prudent monetary policy, and the trend of sustained economic recovery and development will not change. Proactive investments will be made in infrastructure as appropriate. As a result, investment in infrastructure facilities will rebound markedly. Guided by the policy of accelerating the construction of a manufacturing powerhouse, the manufacturing industry will maintain a prosperous trend and provide effective support for the overall stability of steel demand. Overall, the demand for steel in the industries such as energy, machinery, automobiles, shipbuilding, home appliances, railways, bicycles and motorbikes is expected to maintain growth, while the demand for steel in the industries such as construction, container, hardware products and steel-wood furniture will decline. According to the forecast of the Metallurgical Planning Institute, China’s total steel demand will remain stable or decline slightly in 2022.

7.2 Corporate Development Strategy

The Company will thoroughly implement the important remarks made by General Secretary Xi Jinping during his visit to China Baowu Magang Group, adhering to the principle of making economic stability its top priority and pursuing progress while ensuring stability, and consolidating stability with progress. In particular, the Company will focus on “two increases, one control and three improvements”(兩增一控三提高), maintain the policy of “aiming at higher standards, striving to take the lead, being lean and efficient and strive for excellence”, prioritize capability upgrading to withstand market fluctuations, aim at winning more customers to ensure its business performance, firmly secure the top position among the Baowu family, and be guided by the reinforcement of business thinking and the pursuit of ultimate efficiency, so as to accelerate the implementation of the strategic planning projects under the 14th Five-Year Plan, speed up the improvement of key indicators including ROE, and make further progress in high-quality development.

7.3 Business Plan

In 2022, the Group plans to produce 18.53 million tonnes of pig iron, 20.97 million tonnes of crude steel and 20.9 million tonnes of steel, and to fully complete the transformation of ultra-low emission to become a Grade A enterprise in environmental protection. Accordingly, the Company will adopt the following key measures:

(1) *Highlighting the red line awareness to build an intrinsically safe enterprise*

The Company will implement the safety management concept of “violation of rules is a crime”, resolutely eliminate habitual violations, and resolutely investigate and deal with unsafe behaviours, thereby firmly reversing the passive situation of its workplace safety. The Company will enforce the workplace safety responsibility system for all staff, strengthen the control and assessment of the workplace safety process to further enhance the capability of the safety system. The Company will improve the real name system and blacklist management, strengthen the safety management under the “management, use, maintenance and repair” model, and continue to deepen the construction of safe and standardized construction sites to ensure that the key areas are safe and controllable. The Company will strengthen the training of managerial staff in the ability to perform their duties in a safe manner, and establish a system of points for staff safety violations to enhance the safety literacy of all staff. The Company will accelerate the dirty, dangerous and difficult positions to be unmanned and replaced by robots, and continuously improve the level of intrinsic safety.

(2) *Highlighting the empowerment by science and technology to promote green, low carbon and high-quality development*

First, boosting green development. The Company will implement the “higher than standards, better than urban districts and integrated into cities” and “ultra-low emission of waste gas, zero emission of waste water, no shipping out of solid wastes, cleanliness, greening, beautifying and culture”, and strive to continuously lead the green development. The Company will accelerate the upgrading to achieve ultra-low emissions, apply an ultra-low emissions Grade A enterprise and create the AAA-level scenic spots, deepen energy efficiency benchmarking, optimize the energy structure, and significantly increase green power generation.

Second, making great efforts to upgrade the quality of its sophisticated products. The Company will apply for the title of national high-tech enterprise and the Quality Award of Anhui Provincial Government. The Company will implement the three-year action plan for profitability improvement of new products, which will focus on the research and development and market development of products such as hat shape steel, 450 MPa H-beam for railway vehicles. The Company will continue to research on the solution to the bottleneck of technologies, actively foster “specialized, sophisticated, new and unique” single champion products for wheels, and achieve mass production and supply of high-speed railway wheel and axle products. The Company will accelerate the construction of R&D centers. The Company will vigorously promote the policy of “selecting the best candidates to undertake key research projects”.

Third, promoting the empowerment by digital and smart technologies. Focusing on the “cross-industry, cross-base, and cross-space” integration and deepening the “four principles for intelligent production” to ensure that the Smart Index remains at its ranking. The Industrial Brain — Smart Steel-making project is being implemented with great care. The Company will accelerate the Phase II construction of the intelligent control centers of Long Products Division and Changjiang Steel as well as the special steel intelligent control center to achieve full coverage of centralized intelligent control of key production lines and processes.

(3) *Highlighting ultimate efficiency to continuously improve its lean manufacturing capabilities*

First, raising main technical and economic indicators across the board. The Company will improve the benchmarking system and deepen the benchmarking process across the board. The improvement rate of main technical and economic indicators will be improved by over 80%.

Second, pursuing ultimate efficiency of key production lines. The Company will improve the linkage mechanism and early warning system of the pre-iron-making system, optimize the coal blending and ore blending structure, and continue to promote the long-term stability and economic operation of the blast furnace at a high level. The Company will dynamically balance post-steel making resources, improve the operational efficiency of advantageous units and key production lines on the basis of stability and balance, and the production of the cold rolling plant will strive to exceed 6 million tonnes, the production of the special steel company will exceed 1.2 million tonnes and the production of heavy H-beam will exceed 800,000 tonnes in 2022.

Third, improving the ability to seize the market opportunity. The Company will strengthen market research to create a safe, stable, efficient and sustainable supply chain, with the cumulative procurement cost of bulk raw materials and fuels better than the industry average. In addition, the Company will deepen product structure adjustment, strengthen marketing model innovation, fully utilize the function of SBU promotion team to create greater value for customers with differentiated products and services, enhance market control and influence in regional and segment markets, and support sales prices to outperform the market.

(4) *Highlighting transformation and upgrade to optimize and adjust the product industry layout*

First, quickening the implementation of key projects. The Company will strengthen the control of project process and strictly control the scale of fixed assets investment, so that the B blast furnace overhaul, the coke oven off-site overhaul, the C sintering machine and the No. 2 continuous caster for the section steel transformation will be put into production within the year, and the first phase of the new special steel project will be basically completed.

Second, optimizing the management and control mode of “one headquarters with multiple bases”. The Company will optimize and improve the “centralized + local” integrated operation and control of the headquarters and flat management of multiple bases to promote business synergy, management synergy and resource sharing among bases and maximize overall benefits.

Third, promoting the opening up of the territory to achieve substantive results. The Company will actively integrate into the second “bow and arrow” spatial layout of “along the corridor” of China Baowu, and strive to expand the Company’s strategic development space.

(5) *Highlighting reform and breakthrough to enhance the internal momentum for high-quality development*

First, improving the distribution and medium and long-term incentive mechanism. The Company will accelerate the switch of the remuneration system, explore and implement differentiated payrolls with profitability as the main guide. The Company will continue to improve the market-based incentive and constraint mechanism, and deepen the tenure system and contract-based management of the management team. The Company will also promote the implementation of the restricted share incentive scheme and explore and implement the mock operation of the new special steel.

Second, continuously improving personnel efficiency. Persist to the principle of transferring jobs without layoffs, based on post optimization, the Company will promote the determination of the number of employees in alignment with the benchmarking, promote the factory-managed operation area model in the main process units, accelerate the outsourcing of “operation, inspection, maintenance and calibration”, the regional operations of large-scale jobs and the auxiliary businesses of “management, use, maintenance and repair”, and strengthen performance-based management and shared employment, The steel production per capita will be promoted to increase by more than 13%. The Company will deepen the change of professional collaboration and promote the efficiency improvement of collaborators by no less than 8% in the same circumstances.

Third, focusing on improving the management of funds. The Company will further strengthen the control of “Accounts Receivable and Inventory”, keep the growth rate of the total of “Accounts Receivable and Inventory” lower than that of sales revenue, and the turnover rate of “Accounts Receivable and Inventory” should be higher than the industry average. The Company will make every effort to increase operating cash flow, revitalize stock assets, optimize and adjust its financing structure, and drive our gearing ratio down. Enhancing its risk prevention and control capabilities. The Company will effectively carry out contingency planning and process control, firmly ensure that no major risks will occur, and build a “moat” for risk prevention and control.

(6) *Highlighting the commitment to a people-centered approach to promote all-round co-creation and sharing*

The Company will improve the ability and quality of its staff, and intensify trainings for all staff to build a team of high-quality staff with high motivation and dedication, who can apply intelligent control, inspect and repair, abide by relevant regulations and are good at innovation. The Company will promote job innovation and value creation, improve the job innovation system, and further stimulate the passion and creativity of all staff. The Company will raise the level of “three possesses” of workers further promote the “three best” practical projects to create better production and living conditions for all staff. The Company will prudently perform the social responsibility of enterprises and unswervingly implement targeted assistance to help rural revitalization.

7.4 Potential Risks

Based on the latest domestic and international situation, the main risks that the Company may face include pandemic prevention and control risks, safety management risks, environmental protection risks, demand risks in the long-term material market due to real estate regulation and the risk of significant fluctuations in the prices of bulk raw materials and fuels. The implementation of the Company's measures responding to the risks depends on many factors such as market and policy, and subject to certain uncertainties, which should be paid special attention on by investors.

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)

In accordance with PRC Accounting Standards for Business Enterprises, the Company's net profit amounted to RMB4,389 million for the year 2021 and the profit available for distribution to shareholders at the end of 2021 amounted to RMB7,050 million. Comprehensively considering the revenue of the Company and future sustainable development as well as improving reward to shareholders, the Board suggests 2021 final dividend of RMB0.35 per share (tax included) shall be distributed and retained earnings will be carried forward to the year of 2022. No capital reserve shall be converted to share capital. The resolution shall be considered and approved by the AGM of the Company.

The 2019 final dividend of the Company was RMB0.08 per share (tax inclusive). Retained earnings were carried forward to the year of 2020 and no capital reserve shall be converted to share capital. The 2020 final dividend of the Company was RMB0.13 per share (tax inclusive). Retained earnings were carried forward to the year of 2021 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 auditor of the Company and had issued an auditor's report on the financial statements prepared under the PRC Accounting Standards and internal control audit report. The remuneration for Ernst & Young Hua Ming LLP amounted to RMB3.26 million (tax inclusive), including annual audit fee of RMB2.76 million (including internal control audit fee of RMB550,000) and the fees for agreed upon procedures on interim financial statements of RMB500,000. The aforementioned audit fees, agreed-upon procedures fees and other professional services were already inclusive of disbursements incurred by the auditor. In addition, the Company provided the auditors of Ernst & Young Hua Ming LLP with working meals and transportation within the plants while they were working in the Company, and they were responsible for other accommodation and transportation.

In addition, Ernst & Young Tax Services Limited provided profit tax reporting services in Hong Kong for the Company with services fee of HK\$50,000 (tax exclusive), which was a non-audit service. The service does not fall within the scope of the audit.

3. Audit Committee

The Company's Audit Committee held a meeting on 22 March 2022 and reviewed the 2021 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 2021, 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 an auditor's report containing a standard unqualified opinion on the 2021 Annual Financial Report of the Company**
- 2. Significant changes to the accounting policy and accounting estimates**

As stated in the fifth batch of the Q&A of Implementation of Chinese Accounting Standards for Business Enterprises ("Q&A of Implementation") in 2021 issued by the Accounting Department of Ministry of Finance on 1 November 2021, under general circumstances, before the control of the goods or services is transferred to the customer, the transportation activities incurred for the purpose of the fulfillment of the contracts with customers do not constitute a single performance obligation, and accordingly the relevant transportation expenses shall be treated as contract performance costs, and be amortized and included in the current profit and loss on the same basis as the recognition of revenue from goods or services. Such contract performance costs shall be carried forward to "principal cost of sales" or "other cost of sales" upon recognition of revenue from goods or services, and included in the income statement under "cost of sales".

The Company started to implement Q&A of Implementation from 1 January 2021, treat the relevant transportation expenses as contract performance costs, include them in the income statement under “cost of sales” and make retrospective adjustment to the corresponding period of the previous year. The detail impacts are set out as follows(Unit: RMB):

	Consolidated income statements			Income statements		
	Cost of sales increased	Selling expenses decreased	Profit movement	Cost of sales increased	Selling expenses decreased	Profit movement
2021	765,668,673	765,668,673	-	328,838,980	328,838,980	-
2020	747,093,921	747,093,921	-	275,953,025	275,953,025	-

Saved as the above, compared with the financial report of the previous year, the accounting policy and accounting estimates of the Company did not change.

- 3. During the reporting period, there was no correction due to material accounting errors**
- 4. Compared with the financial report of the previous year, the Company shall make specific explanation about the changes to the scope of the consolidation of financial statements.**

During the reporting period, according to the strategic deployment of the Company, a corporate reduction was made to Anhui Ma Steel Rust-proof Materials Technology Co., Ltd. and Maanshan (Changchun) Iron and Steel Sales Co., Ltd.. At the end of the reporting period, these companies were liquidated and no longer consolidated. In order to focus on the steel industry, the Company transferred 100% equity interests in Maanshan Iron & Steel (Hefei) Limited Industrial Water Supply Co., Ltd, Anhui Jiangbei Iron and Steel Material Quality Monitoring and Testing Co., Ltd and 51% equity interests in Anhui Magang Gas Technology Co., Ltd., which were no longer consolidated from the date of the transfer of equity interests. Ma Steel (Hefei) Steel Plates Co., Ltd. was absorbed and merged by Ma Steel (Hefei) Iron & Steel Co., Ltd. and was no longer consolidated.

Saved as the above, compared with the financial report of the 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 2021
Renminbi Yuan

	31 December 2021	31 December 2020	31 December 2021	31 December 2020
<i>Notes</i>	Group	Group	Company	Company
Assets				
Current Assets				
Cash and bank balances	6,667,853,614	5,346,108,774	2,580,562,187	2,296,089,258
Financial assets held for trading	5,732,467,255	2,028,957,057	–	11,640,010
Notes receivable	466,956,969	–	670,651,738	–
Trade receivables	4 1,107,071,353	1,043,606,041	2,370,751,287	2,355,816,934
Financing receivables	5 4,795,905,782	7,072,160,166	2,178,463,701	4,959,472,316
Prepayments	6 1,534,440,838	755,340,403	860,597,030	349,980,035
Other receivables	310,005,481	426,386,362	260,814,759	371,032,767
Inventories	12,463,004,529	10,900,294,231	8,376,609,561	7,272,793,836
Financial assets purchased under agreements to resell	784,602,397	1,346,725,440	–	–
Loans and advances to customers	4,726,693,965	4,636,066,439	–	–
Other current assets	4,669,834,825	3,981,226,262	1,236,749,828	359,808,604
Total current assets	43,258,837,008	37,536,871,175	18,535,200,091	17,976,633,760
Non-current Assets				
Long-term receivables	11,142,621	–	–	–
Long-term equity investments	5,158,883,895	3,694,172,463	13,247,074,179	11,761,010,351
Other equity instruments investments	641,943,339	390,798,231	550,164,412	304,681,987
Investment properties	60,811,604	62,504,615	60,811,604	62,504,615
Property, plant and equipment	28,605,250,896	29,564,588,450	20,624,876,783	22,530,651,256
Construction in progress	10,999,333,300	6,980,279,959	10,187,178,312	5,554,453,327
Right-of-use assets	568,919,288	394,472,380	551,147,382	348,919,252
Intangible assets	1,727,329,824	1,881,124,406	1,085,272,031	1,123,273,009
Deferred tax assets	171,800,693	202,888,795	85,734,913	104,388,391
Other non-current assets	3,490,550	3,441,308	–	–
Total non-current assets	47,948,906,010	43,174,270,607	46,392,259,616	41,789,882,188
Total Assets	91,207,743,018	80,711,141,782	64,927,459,707	59,766,515,948

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

As at 31 December 2021

Renminbi Yuan

	31 December 2021	31 December 2020	31 December 2021	31 December 2020
<i>Notes</i>	Group	Group	Company	Company
Liabilities and Shareholders' Equity				
Current Liabilities				
Customer deposits	9,253,057,291	6,620,132,197	–	–
Repurchase agreements	925,465,952	198,480,944	–	–
Short-term loans	8,952,209,045	12,584,935,187	9,812,742,107	12,518,307,366
Financial liabilities held for trading	31,663,498	95,968,940	31,663,498	95,968,940
Notes payable	7 3,953,458,712	3,297,446,207	397,205,795	692,285,784
Trade payables	8 10,437,709,731	7,612,476,174	9,662,660,374	7,591,202,079
Contract liabilities	5,741,241,284	4,377,105,559	4,313,631,584	2,953,248,445
Payroll and employee benefits payable	349,524,741	549,348,136	240,906,555	325,256,459
Taxes payable	1,073,613,979	569,759,727	805,680,949	285,290,128
Other payables	3,954,899,554	4,123,490,248	3,808,000,336	3,726,054,061
Non-current liabilities due within one year	1,358,293,333	2,572,092,845	1,357,008,967	2,849,362,390
Accrued liabilities	37,618,128	26,968,253	–	–
Other current liabilities	746,361,366	569,023,723	560,772,106	383,922,298
Total current liabilities	46,815,116,614	43,197,228,140	30,990,272,271	31,420,897,950
Non-current Liabilities				
Long-term loans	5,452,250,052	3,536,364,338	5,452,250,052	3,536,364,338
Lease liabilities	571,979,597	394,983,673	554,191,729	350,464,514
Long-term employee benefits payable	28,537,508	79,496,046	2,499,619	52,563,465
Deferred revenue	911,424,466	872,949,281	763,616,571	720,633,372
Deferred tax liabilities	17,251,303	18,934,339	–	–
Total non-current liabilities	6,981,442,926	4,902,727,677	6,772,557,971	4,660,025,689
Total liabilities	53,796,559,540	48,099,955,817	37,762,830,242	36,080,923,639

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

As at 31 December 2021

Renminbi Yuan

	31 December 2021 Group	31 December 2020 Group	31 December 2021 Company	31 December 2020 Company
Shareholders' Equity				
Share capital	7,700,681,186	7,700,681,186	7,700,681,186	7,700,681,186
Capital reserve	8,344,594,034	8,361,457,903	8,349,111,750	8,365,975,619
Other comprehensive income	12,271,369	(23,151,783)	193,384,920	98,879,489
Special reserve	45,427,634	37,295,614	19,760,287	15,187,813
Surplus reserve	4,688,014,995	4,687,127,180	3,851,228,408	3,850,340,593
General reserve	300,334,506	248,156,969	-	-
Retained earnings	<u>11,661,535,210</u>	<u>7,374,557,923</u>	<u>7,050,462,914</u>	<u>3,654,527,609</u>
Equity attributable to owners of the parent	32,752,858,934	28,386,124,992		
Non-controlling interests	<u>4,658,324,544</u>	<u>4,225,060,973</u>		
Total shareholders' equity	<u>37,411,183,478</u>	<u>32,611,185,965</u>	<u>27,164,629,465</u>	<u>23,685,592,309</u>
Total Liabilities and Shareholders' Equity	<u>91,207,743,018</u>	<u>80,711,141,782</u>	<u>64,927,459,707</u>	<u>59,766,515,948</u>

CONSOLIDATED AND COMPANY'S INCOME STATEMENT

For the year ended 31 December 2021

Renminbi Yuan

		2021	2020	2021	2020
	<i>Notes</i>	Group	Group	Company	Company
Revenue	<i>10</i>	113,851,189,379	81,614,151,183	96,485,934,101	67,533,031,667
Less: Cost of sales	<i>10</i>	98,929,683,370	74,382,338,196	86,596,575,649	63,344,222,383
Taxes and surcharges		660,957,131	536,530,335	472,847,673	403,060,560
Selling expenses		300,098,085	262,916,411	162,595,706	117,528,952
General and administrative expenses		1,388,782,842	1,516,627,132	914,165,262	1,032,409,616
R&D expenses		4,506,577,893	1,813,176,837	3,632,395,008	1,371,832,597
Financial expenses	<i>11</i>	631,748,011	553,576,584	579,872,331	576,954,674
including: interest expense		653,603,557	643,235,325	627,508,438	650,709,978
interest income		29,644,120	43,291,465	20,005,992	42,626,196
Add: Other income		125,072,388	86,979,866	74,113,704	51,083,735
Investment income		834,975,866	533,664,650	1,345,439,824	1,139,971,118
including: share of profits of associates and joint ventures		690,501,616	414,021,154	684,410,285	408,543,532
Gain/(Loss) on the changes in fair value		84,773,531	(72,693,896)	64,505,812	(95,102,260)
Credit impairment reverse/(losses)		3,489,661	(48,276,000)	(4,636,098)	(15,348,363)
Assets Impairment losses		(1,337,467,241)	(770,780,451)	(876,811,914)	(912,541,490)
Gain from disposal of assets	<i>12</i>	223,736,352	589,074,956	266,988,309	28,035,749
Operating profit		7,367,922,604	2,866,954,813	4,997,082,109	883,121,374
Add: Non-operating income	<i>13</i>	38,728,760	402,577,021	25,923,311	255,694,956
Less: Non-operating expenses	<i>14</i>	390,322,193	188,665,317	335,808,748	124,990,190
Profit before tax		7,016,329,171	3,080,866,517	4,687,196,672	1,013,826,140
Less: Income tax expenses	<i>15</i>	1,022,354,526	502,887,410	298,163,148	(4,634,880)
Net profit		<u>5,993,974,645</u>	<u>2,577,979,107</u>	<u>4,389,033,524</u>	<u>1,018,461,020</u>

CONSOLIDATED AND COMPANY'S INCOME STATEMENT (CONTINUED)*For the year ended 31 December 2021**Renminbi Yuan*

	<i>Notes</i>	2021 Group	2020 Group	2021 Company	2020 Company
Categorized by operation continuity					
Net profit from continuing operations		<u>5,993,974,645</u>	<u>2,577,979,107</u>	<u>4,389,033,524</u>	<u>1,018,461,020</u>
Categorized by ownership					
Net profit attributable to owners of the parent		<u>5,332,253,043</u>	<u>1,982,638,821</u>		
Net profit attributable to non-controlling interests		<u>661,721,602</u>	<u>595,340,286</u>		
Other comprehensive income, net of tax		44,301,302	76,609,021	103,383,581	76,683,150
Other comprehensive income attributable to owners of the parent, net of tax		44,301,302	76,609,021	-	-
Other comprehensive income that will not be reclassified to profit or loss: Changes in fair value of other equity investments		107,116,903	76,755,689	102,450,290	76,683,150
		107,116,903	76,755,689	102,450,290	76,683,150
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		(62,815,601)	(146,668)	933,291	-
		933,291	-	933,291	-
Net increase in fair value of other debt investments		470,700	-	-	-
Exchange differences on translation of foreign operations		<u>(64,219,592)</u>	<u>(146,668)</u>	<u>-</u>	<u>-</u>
Other comprehensive income attributable to non-controlling interests, net of tax		<u>-</u>	<u>-</u>		
Total comprehensive income		<u>6,038,275,947</u>	<u>2,654,588,128</u>	<u>4,492,417,105</u>	<u>1,095,144,170</u>

CONSOLIDATED AND COMPANY'S INCOME STATEMENT (CONTINUED)*For the year ended 31 December 2021**Renminbi Yuan*

	<i>Notes</i>	2021 Group	2020 Group	2021 Company	2020 Company
Attributable to:					
Owners of the parent		<u>5,376,554,345</u>	<u>2,059,247,842</u>		
Non-controlling interests		<u>661,721,602</u>	<u>595,340,286</u>		
EARNINGS PER SHARE:					
Basic earnings per share <i>(cent/share)</i>	<i>16</i>	<u>69.24 cents</u>	<u>25.75 cents</u>		
Diluted earnings per share <i>(cent/share)</i>	<i>16</i>	<u>69.24 cents</u>	<u>25.75 cents</u>		

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021
Renminbi Yuan

2021

	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 beginning of the year	7,700,681,186	8,361,457,903	(23,151,783)	37,295,614	4,687,127,180	248,156,969	7,374,557,923	28,386,124,992	4,225,060,973	32,611,185,965
2. Increase/(decrease) during the year										
1) Total comprehensive income	-	-	44,301,302	-	-	-	5,332,253,043	5,376,554,345	661,721,602	6,038,275,947
2) Shareholders' contributions and reduction in capital										
(i) Capital contributions by shareholders	-	-	-	-	-	-	-	-	6,435,000	6,435,000
(ii) Changes in the share of other equity of associates and joint ventures	-	(16,863,869)	-	-	-	-	-	(16,863,869)	-	(16,863,869)
3) Profits appropriation										
(i) Transfer to surplus reserve	-	-	-	-	-	52,177,537	(52,177,537)	-	-	-
(ii) Transfer to general reserve	-	-	-	-	-	-	(1,001,088,554)	(1,001,088,554)	(236,624,809)	(1,237,713,363)
(iii) Distribution to shareholders	-	-	-	-	-	-	-	-	-	-
4) Other comprehensive income carried forward to retained earnings	-	-	(8,878,150)	-	887,815	-	7,990,335	-	-	-
5) Special reserve										
(i) Additions	-	-	-	68,456,848	-	-	-	68,456,848	13,357,705	81,814,553
(ii) Utilisation	-	-	-	(59,848,488)	-	-	-	(59,848,488)	(11,625,927)	(71,474,415)
(iii) Changes in the share of associates and joint ventures' special reserve, net	-	-	-	(476,340)	-	-	-	(476,340)	-	(476,340)
3. Balance at the end of the year	7,700,681,186	8,344,594,034	12,271,369	45,427,634	4,688,014,995	300,334,506	11,661,535,210	32,752,858,934	4,658,324,544	37,411,183,478

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2021
Renminbi Yuan

2020

	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 beginning 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
2. Increase/(decrease) during the year	-	-	76,609,021	-	-	-	1,982,638,821	2,059,247,842	595,340,286	2,654,588,128
1) Total comprehensive income	-	-	76,609,021	-	-	-	1,982,638,821	2,059,247,842	595,340,286	2,654,588,128
2) Shareholders' contributions and reduction in capital	-	-	-	-	-	-	-	-	-	-
(i) Capital contributions by shareholders	-	-	-	-	-	-	-	-	10,913,921	10,913,921
(ii) Changes in the share of other equity of associates and joint ventures	-	7,958,142	-	-	-	-	-	7,958,142	-	7,958,142
3) Profits appropriation	-	-	-	-	35,874,686	-	(35,874,686)	-	-	-
(i) Transfer to surplus reserve	-	-	-	-	35,874,686	-	(35,874,686)	-	-	-
(ii) Transfer to general reserve	-	-	-	-	-	(77,629,353)	77,629,353	-	-	-
(iii) Distribution to shareholders	-	-	-	-	-	-	(616,054,495)	(616,054,495)	(285,625,207)	(901,679,702)
4) Special reserve	-	-	-	-	-	-	-	-	-	-
(i) Additions	-	-	-	101,710,625	-	-	-	101,710,625	14,028,683	115,739,308
(ii) Utilisation	-	-	-	(101,375,635)	-	-	-	(101,375,635)	(17,186,472)	(118,562,107)
(iii) Changes in the share of associates and joint ventures' special reserve, net	-	-	-	1,476,448	-	-	-	1,476,448	-	1,476,448
3. Balance at the end of the year	7,700,681,186	8,361,457,903	(23,151,783)	37,295,614	4,687,127,180	248,156,969	7,374,557,923	28,386,124,992	4,225,060,973	32,611,185,965

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

Renminbi Yuan

	2021	2020
1. Cash flows from operating activities		
Cash received from sale of goods and rendering of services	106,726,134,987	85,001,941,596
Tax refunds received	5,722,962	1,986,683
Net decrease in deposits in central bank	849,508	–
Net increase in repurchase agreements	726,985,008	–
Net decrease in financial assets purchased under agreements to resell	562,137,604	1,023,246,427
Net increase in customer deposits and balances from banks and other financial institutions	2,632,925,094	–
Cash received for interest charges, fees and commissions	412,043,770	378,850,393
Cash received relating to other operating activities	204,959,284	685,643,457
Sub-total of cash inflows	<u>111,271,758,217</u>	<u>87,091,668,556</u>
Cash paid for purchases of goods and services	(84,760,290,787)	(70,120,117,388)
Net increase in deposits in central bank	–	(226,335,280)
Net increase in repurchase agreements	–	(1,188,099,504)
Net decrease in deposits and balances from banks and other financial institutions and customer deposits	–	(4,744,795,694)
Net increase in loans and advances to customers	(83,620,774)	(408,826,479)
Cash paid to or on behalf of employees	(5,426,066,966)	(4,736,858,780)
Taxes and surcharges paid	(3,239,773,238)	(2,270,765,693)
Cash paid for interest charges, fees and commissions	(179,297,311)	(144,512,677)
Cash paid relating to other operating activities	(808,232,709)	(480,842,416)
Sub-total of cash outflows	<u>(94,497,281,785)</u>	<u>(84,321,153,911)</u>
Net cash flows from operating activities	<u>16,774,476,432</u>	<u>2,770,514,645</u>

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2021

Renminbi Yuan

	2021	2020
2. Cash flows from investing activities		
Cash received from disposal of investments	31,841,017,645	24,473,423,758
Cash received from investment income	248,003,849	216,975,852
Proceeds from disposal of items of property, plant and equipment, intangible assets, and other non-current assets	187,332,662	508,461,603
Sub-total of cash inflows	32,276,354,156	25,198,861,213
Purchases of property, plant and equipment, intangible assets and other non-current assets	(7,586,327,238)	(7,027,769,955)
Cash paid for investments	(35,394,272,916)	(24,179,299,032)
Cash paid relating to other investing activities	(17,443,494)	(73,705,396)
Sub-total of cash outflows	(42,998,043,648)	(31,280,774,383)
Net cash flows used in investing activities	(10,721,689,492)	(6,081,913,170)
3. Cash flows from financing activities		
Cash received from borrowings	16,618,863,222	17,988,437,837
Cash received from investors	9,375,000	13,125,000
Including: capital injection from a subsidiary's non-controlling interests	9,375,000	13,125,000
Sub-total of cash inflows	16,628,238,222	18,001,562,837

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2021

Renminbi Yuan

	2021	2020
3. Cash flows from financing activities (continued)		
Repayment of borrowings	(19,556,873,889)	(17,085,162,670)
Cash paid for distribution of dividends or profits and for interest expenses	(1,842,152,922)	(1,570,654,370)
Including: dividends or profits paid to non-controlling interests by subsidiaries	(236,624,809)	(285,625,207)
Cash paid relating to other financing activities	<u>(129,537,940)</u>	<u>(54,484,769)</u>
Sub-total of cash outflows	<u>(21,528,564,751)</u>	<u>(18,710,301,809)</u>
Net cash flows used in financing activities	<u>(4,900,326,529)</u>	<u>(708,738,972)</u>
4. Effect of foreign exchange rate changes on cash and cash equivalents	<u>(52,995,362)</u>	<u>(95,916,296)</u>
5. Net (decrease)/increase in cash and cash equivalents	1,099,465,049	(4,116,053,793)
Add: cash and cash equivalents at the beginning of the year	<u>3,123,596,841</u>	<u>7,239,650,634</u>
6. Cash and cash equivalents at the end of the year	<u><u>4,223,061,890</u></u>	<u><u>3,123,596,841</u></u>

NOTES TO FINANCIAL STATEMENTS

As at 31 December 2021

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 2021, the net current liabilities of the Group amounted to RMB3,556,279,606. The directors of the Company have considered the availability of funding sources, including but not limited to an unutilized banking facilities of RMB33.6 billion as at 31 December 2021 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 2021 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 2021, and the results of their operations and cash flows for the year ended 31 December 2021.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2021

Renminbi Yuan

2. SCOPE OF CONSOLIDATION

2.1 No Newly established subsidiary this year.

2.2 Disposal of subsidiaries

Names of subsidiaries	Changes of consolidation scope
Anhui Masteel Gas Technology Co., Ltd.	Disposal and loss of control, becoming an associated company
Maanshan Iron & Steel (Hefei) Industrial Water Supply Co., Ltd	Disposal
Anhui Jiangbei Steel Materials Quality Supervision and Inspection Co., Ltd.	Disposal

2.3 Changes of consolidation scope caused by other reasons

In 2021, the changes of consolidation scope caused by other reasons is as follows:

Names of subsidiaries	Changes of consolidation scope
Anhui Masteel Antirust Material Technology Co., Ltd.	Deregistration
Maanshan (Changchun) Iron and Steel Sales Co., Ltd.	Deregistration
Ma Steel (Hefei) Steel Plates Co., Ltd	Absorbed by Ma Steel (Hefei) Iron & Steel Co., Ltd.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2021

Renminbi Yuan

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.

Other information

Product and service information

External principal operating income

	2021	2020
Sale of steel products	101,018,981,400	72,060,209,513
Sale of steel billets and pig iron	3,288,549,860	2,810,678,955
Sale of coke by-products	114,833,530	60,960,162
Others	<u>6,627,857,455</u>	<u>5,252,536,267</u>
	<u><u>111,050,222,245</u></u>	<u><u>80,184,384,897</u></u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2021

Renminbi Yuan

Geographical information

External principal operating income

	2021	2020
Mainland China	106,255,795,328	76,889,123,103
Overseas and Hong Kong	<u>4,794,426,917</u>	<u>3,295,261,794</u>
	<u>111,050,222,245</u>	<u>80,184,384,897</u>

Non-current assets

	31 December 2021	31 December 2020
Mainland China	46,978,671,717	42,348,121,435
Overseas and Hong Kong	<u>145,347,640</u>	<u>232,462,146</u>
	<u>47,124,019,357</u>	<u>42,580,583,581</u>

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

Major customer information

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2021

Renminbi Yuan

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:

	31 December 2021	31 December 2020
Within one year	1,098,242,556	1,029,732,092
One to two years	13,779,855	22,158,556
Two to three years	14,707,402	10,688,621
Over three years	37,241,496	42,043,744
	1,163,971,309	1,104,623,013
Less: Provisions for bad debts	56,899,956	61,016,972
	<u>1,107,071,353</u>	<u>1,043,606,041</u>

In 2021, there were trade receivables RMB6,351,633 that had been written off (2020: Nil).

As of 31 December 2021 and 2020, there was no trade receivables that were derecognized due to the transfer of financial assets.

As of 31 December 2021 and 2020, 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 2021

Renminbi Yuan

5. FINANCING RECEIVABLES

	31 December 2021	31 December 2020
Bank acceptance notes	<u>4,795,905,782</u>	<u>7,072,160,166</u>
	<u>4,795,905,782</u>	<u>7,072,160,166</u>

As of 31 December 2021, the Group pledged the bank acceptance notes of RMB0 (31 December 2020: RMB108,365,962) for the short-term loan.

The undue notes discounted or endorsed were as follows:

	31 December 2021		31 December 2020	
	Derecognized	Not derecognized	Derecognized	Not derecognized
Bank acceptance notes	<u>16,485,699,230</u>	<u>439,842,307</u>	<u>8,889,821,875</u>	<u>157,975,562</u>

As of 31 December 2021 and 2020, 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 RMB5,765,372,964 (2020: RMB1,589,777,784), and recognized discount expense amounting to RMB64,370,016 (2020: RMB20,100,719).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2021

Renminbi Yuan

6. PREPAYMENTS

An ageing analysis of the prepayments is as follows:

	31 December 2021		31 December 2020	
	Book value	Ratio (%)	Book value	Ratio (%)
Within one year	1,513,789,753	99	737,480,610	98
One to two years	17,249,774	1	17,859,793	2
Two to three years	3,401,311	–	–	–
	<u>1,534,440,838</u>	<u>100</u>	<u>755,340,403</u>	<u>100</u>

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 2021	31 December 2020
Bank acceptance notes	<u>3,953,458,712</u>	<u>3,297,446,207</u>

As of 31 December 2021 and 2020, 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 2021

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:

	31 December 2021	31 December 2020
Within one year	10,379,620,559	7,561,813,731
One to two years	51,751,662	29,631,818
Two to three years	3,264,523	10,103,644
Over three years	3,072,987	10,926,981
	<u>10,437,709,731</u>	<u>7,612,476,174</u>

9. DIVIDENDS

According to the “2020 Annual Profit Distribution Plan” approved by the Company’s 2020 Annual General Meeting on 29 June 2021, the Company would distribute dividends to all shareholders at RMB0.13 per share (tax included) (2020: RMB0.08 per share), for 7,780,681,186 shares amounting to RMB1,001,088,554 (2020: RMB616,054,495). As at 31 December 2021, the dividends have been paid and have been included in the financial statements.

On 23 March 2022, the 58 meeting of the 9th board of the Company approved the 2021 final cash dividend of RMB0.35 (tax included) per share to shareholders, for 7,700,681,186 shares amounting to RMB2,695,238,415. The profit distribution plan will be submitted for approval in the annual shareholders’ meeting of the Company. Before the approval of the 2021 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 2021

Renminbi Yuan

10. REVENUE AND COST OF SALES

	2021		2020	
	Revenue	Cost of sales	Revenue	Cost of sales
Principal operating income	111,050,222,245	97,199,964,487	80,184,384,897	73,085,061,849
Other operating income	2,800,967,134	1,729,718,883	1,429,766,286	1,297,276,347
	<u>113,851,189,379</u>	<u>98,929,683,370</u>	<u>81,614,151,183</u>	<u>74,382,338,196</u>

Revenue is presented as follows:

	2021	2020
Revenue from contracts with customers	113,430,105,315	81,208,129,331
Rental income	9,040,295	27,171,458
Interest income	412,043,769	378,850,394
	<u>113,851,189,379</u>	<u>81,614,151,183</u>

Timing of revenue recognition from contracts with customers:

	2021	2020
At a point in time		
Sale of steel products	104,307,531,260	74,870,888,468
Sale of other products	8,628,557,023	6,085,120,923
Over time		
Processing	345,574,778	169,274,142
Packaging services	92,365,922	55,980,132
Others	56,076,332	26,865,666
	<u>113,430,105,315</u>	<u>81,208,129,331</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2021

Renminbi Yuan

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

	2021	2020
Revenue	<u>4,377,105,559</u>	<u>3,300,265,491</u>

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

	2021	2020
Within one year	<u>5,741,241,284</u>	<u>4,377,105,559</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

	2021	2020
Interest expenses (<i>Note</i>)	653,603,557	643,235,325
Less: interest income	29,644,120	43,291,465
Exchange (gain)/loss	(9,782,465)	(64,724,018)
Others	<u>17,571,039</u>	<u>18,356,742</u>
	<u>631,748,011</u>	<u>553,576,584</u>

Note: The Group's interest expenses included interests on bank loans, lease liabilities and discounted notes.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2021

Renminbi Yuan

12. GAIN FROM DISPOSAL OF ASSETS

	2021	2020
Gain on disposal of fixed assets	219,770,738	66,506,223
Gain on disposal of intangible assets	3,965,614	522,568,733
	<u>223,736,352</u>	<u>589,074,956</u>

13. NON-OPERATING INCOME

	2021	2020	Included in 2021 non-recurring gains and losses
Government grants not related to the ordinary course of business	15,059,208	381,601,233	15,059,208
Others	23,669,552	20,975,788	23,669,552
	<u>38,728,760</u>	<u>402,577,021</u>	<u>38,728,760</u>

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

	2021	2020
Compensation for settlement of employees	14,700,249	236,486,123
Compensation for “Three Supplies and Property Management” (“三供一業”)	–	13,689,408
Compensation for termination of Masteel (Hefei) Iron & Steel Co., Ltd	–	130,867,400
Others	358,959	558,302
	<u>15,059,208</u>	<u>381,601,233</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2021

Renminbi Yuan

14. NON-OPERATING EXPENSES

	2021	2020	Included in 2021 non-recurring gains and losses
Charity donation	2,148,922	2,362,220	2,148,922
Penalty expenditure	12,667,311	4,227,080	12,667,311
Loss from scrap of fixed assets	371,604,496	177,364,028	371,604,496
Others	3,901,464	4,711,989	3,901,464
	<u>390,322,193</u>	<u>188,665,317</u>	<u>390,322,193</u>

15. INCOME TAX EXPENSES

	2021	2020
Mainland China current income tax expense	987,382,463	493,938,520
Hong Kong current income tax expense	3,163,366	12,217,437
Overseas current income tax expense	34,590,414	14,735,133
Deferred tax expense	(2,781,717)	(18,003,680)
	<u>1,022,354,526</u>	<u>502,887,410</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2021

Renminbi Yuan

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

	2021	2020
Profit before tax	7,016,329,171	3,080,866,517
Tax at the applicable tax rate of 25% (Note)	1,754,082,293	770,216,629
Effect of different tax rates of subsidiaries	330,094	(9,220,416)
Non-deductible expenses	18,446,995	18,696,718
Adjustment of income tax of prior period	82,987,225	(12,046,686)
Other tax preference	(564,446,570)	(154,660,118)
Income not subject to tax	(1,726,888)	(13,647,332)
Unrecognized deductible temporary difference and tax losses	116,734,932	222,652,274
Utilised previous years' tax losses	(209,901,919)	(215,578,288)
Share of profit or loss of joint ventures and associates	<u>(174,151,636)</u>	<u>(103,525,371)</u>
Tax charge at the Group's effective rate	<u><u>1,022,354,526</u></u>	<u><u>502,887,410</u></u>
The Group's effective rate	15%	16%

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 2021

Renminbi Yuan

16. EARNINGS PER SHARE

	2021 <i>cent/share</i>	2020 <i>cent/share</i>
Basic earnings per share		
Continuing operations	<u>69.24</u>	<u>25.75</u>
Diluted earnings per share		
Continuing operations	<u>69.24</u>	<u>25.75</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 2021 and 2020, 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:

	2021	2020
Earnings		
Profit attributable to owners of the parent Continuing operations	<u>5,332,253,043</u>	<u>1,982,638,821</u>
Number of shares		
Weighted average number of ordinary shares in issue during the year	<u>7,700,681,186</u>	<u>7,700,681,186</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2021

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. Then, the Company and the tax authorities had 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 has not been charged of prior period income taxes arising from difference in income tax rates.

In view of above, the director of the Company believed that it is uncertain whether the tax authorities will chase 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 2021, the Group and the Company did not have significant pending litigation.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

As at 31 December 2021

Renminbi Yuan

18. EVENTS AFTER THE BALANCE SHEET DATE

On 23 March 2022, the 58th meeting of the 9th board of the Company approved the 2021 final cash dividend of RMB0.35 (tax included) per share to shareholders. The profit distribution plan will be submitted for approval in the annual shareholders' meeting of the Company.

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

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

23 March 2022

Maanshan City, Anhui Province, the PRC

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