

2020 Annual Report

H Share Code: 323

A Share Code: 600808



MAANSHAN IRON & STEEL COMPANY LIMITED

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IMPORTANT NOTICE

- I. The board of directors (the "Board"), the supervisory committee, the directors, the supervisors and senior management of the Company warrant that there are no false representations or misleading statements contained in, or material omissions from this annual report; and jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of the information contained in this annual report.
- II. All directors attended the board meeting.
- III. Ernst & Young Hua Ming LLP issued a standard unqualified audit opinion on the annual financial statements of the Company.
- IV. Mr. Ding Yi, representative of the Company, Mr. Mao Zhanhong, person overseeing the accounting operations, and Mr. Xing Qunli, head of Accounting Department, made representations in respect of the truthfulness, accuracy and completeness of the financial statements contained in the annual report.
- V. Profit distribution plan or plan for the capitalisation of capital reserve during the reporting period proposed by the Board

The Board suggests 2020 final dividend of RMB0.13 per share (tax included) shall be distributed and retained earnings will be carried forward to the year of 2021. No capital reserve shall be transferred to share capital. The distribution plan is going to be submitted to the Annual General Meeting for approval.
- VI. Risk relating to forward-looking statements

The report analyses major risks faced by the Company. Please refer to "(5) Potential risks" of "II. Outlook for Future Development" of "Report of the Board" in Section IV for details. Forward-looking statements such as future plans contained in this report do not constitute any substantive commitments to investors by the Company. Investors should be aware of the relevant risks.
- VII. During the reporting period, no appropriation of fund on a non-operating basis by the controlling shareholder or its related parties was found in the Company.
- VIII. During the reporting period, there is no violation of regulations, decisions or procedures in relation to provisions of external guarantees.
- IX. The majority of the Directors cannot warrant the authenticity, accuracy and completeness of the information contained in the annual report does not exist.
- X. Significant risk warning.

The Company has no significant risk that needs to draw special attention of investors.
- XI. Others

This report is prepared in both Chinese and English. In the event of any discrepancy between the Chinese and English versions, please subject to Chinese text.

Section I Definitions

In this report, unless the context otherwise requires, the following terms have the following meanings:

DEFINITIONS OF COMMON TERMS

“Company” or “the Company” or “Magang Stock”	means	Maanshan Iron & Steel Company Limited
The Group	means	the Company and its subsidiaries
China Baowu or Baowu	means	China Baowu Steel Group Corporation Limited, the controlling shareholder of the Holding
Baosteel Hong Kong Investment	means	Baosteel Hong Kong Investment Company Limited, a wholly-owned subsidiary of China Baowu
The Holding	means	Magang (Group) Holding Co., Limited and the direct controlling shareholder of the Company
The General Meeting	means	the Shareholders' General Meeting of the Company
The Board	means	the board of directors of the Company
Directors	means	the Directors of the Company
Supervisory Committee	means	the supervisory committee of the Company
Supervisors	means	the supervisors of the Company
Senior Management	means	the senior management of the Company
Hong Kong Stock Exchange	means	the Stock Exchange of Hong Kong Limited

Section I Definitions (Continued)

SSE	means	the Shanghai Stock Exchange
A Shares	means	a nominal value of RMB1.00 per share, which are listed on the SSE
H Shares	means	a nominal value of RMB1.00 per share, which are listed on the Hong Kong Stock Exchange
PRC	means	the People's Republic of China
Hong Kong	means	the Hong Kong Special Administrative Region
RMB	means	Renminbi Yuan
CSRC	means	the China Securities Regulatory Commission
CISA	means	China Iron and Steel Association
the Articles of Association	means	The articles of association of Maanshan Iron and Steel Company Limited
Changjiang Steel	means	Anhui Changjiang Steel Co., Ltd., a controlling subsidiary of the Company
Ma Steel (Hefei)	means	Ma Steel (Hefei) Iron & Steel Co., Ltd., a controlling subsidiary of the Company
Masteel Finance	means	Magang Group Finance Co. Ltd., a controlling subsidiary of the Company
Masteel Transportation Material	means	Baowu Group MaSteel Rail Transportation Material Technology Co., Ltd., a wholly-owned subsidiary of the Holding
MG-VALDUNES	means	MG-VALDUNES S.A.S, a wholly-owned subsidiary of the Company

Section I Definitions (Continued)

Ma Steel (Hong Kong)	means	Ma Steel (Hong Kong) Co., Ltd., a wholly-owned subsidiary of the Company
Environmental Protection Company	means	Anhui Magang Chemical & Energy Technology Co., Ltd., a controlling subsidiary of the Holding
Ouyeel Blockchain Finance	means	Formerly known as Maanshan Masteel Scrap Steel Co., Ltd., renamed as Ouyeel Blockchain Finance and Metal Recycling Resources Co., Ltd. in 2020, a controlling subsidiary of the Holding
MaSteel K. Wah	means	Anhui Masteel K. Wah New Building Materials Co. Ltd., a controlling subsidiary of the Holding
Magang Chemicals & Energy	means	Anhui Magang Chemical & Energy Technology Co., Ltd., a controlling subsidiary of the Holding
Magang Investment	means	Magang Group Investment Ltd., a wholly-owned subsidiary of the Holding
Jinma Energy	means	Henan Jinma Energy Co. Ltd., a joint venture of the Company
Auditor, Ernst & Young	means	Ernst & Young Hua Ming LLP
Reporting Period	means	From 1 January 2020 to 31 December 2020

Section II Company Introduction and Major Financial Indicators

1. COMPANY PROFILE

Chinese name of the Company	馬鞍山鋼鐵股份有限公司
Chinese short name of the Company	馬鋼股份
English name of the Company	MAANSHAN IRON & STEEL COMPANY LIMITED
English short name of the Company	MAS C.L.
Legal representative of the Company	Ding Yi

2. CONTACT PERSON

Secretary of the board of directors, joint company secretary		Joint company secretary
Name	He Hongyun	Rebecca Chiu
Office address	No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC	Room 1204-06, 12/F, The Hong Kong Chinese Bank Building, 61 Des Voeux Road Central, Central, Hong Kong, PRC
Telephone	86-555-2888158/2875251	(852)2155 2649
Fax	86-555-2887284	(852)2155 9568
Email address	mggf@baowugroup.com ; mggfdms@magang.com.cn	rebeccachiu@chiuandco.com

3. BASIC INFORMATION

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

4. INFORMATION DISCLOSURE AND LOCATION FOR INSPECTION

Name of newspaper designated for information disclosure	Shanghai Securities News
Internet website designated by CSRC for annual report publication	www.sse.com.cn
Location for inspection of annual report of the Company	The secretariat office of the Board of Maanshan Iron & Steel Company Limited

5. BRIEF INFORMATION ON THE SHARES OF THE COMPANY

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

The address of the A share registrar of the Company: China Securities Depository and Clearing Company Limited Shanghai Branch, No. 188 Yanggao South Road, Pudong New District, Shanghai, the PRC.

The address of the H share registrar of the Company: Hong Kong Registrars Limited, Room 1712–1716, Level 17, Hopewell Centre, 183 Queen's Road East, Wan chai, Hong Kong.

6. THE RELATED INFORMATION

Accounting firm engaged by the Company	Name	Ernst & Young Hua Ming LLP
	Office address	Level 16, Ernst Young Tower, Oriental Plaza, No.1 East Chang An Avenue, Beijing, China
	Names of the auditors who signed the report	Zhong Li, Gong Wei

7. MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS FOR THE PAST THREE YEARS

(1) Major accounting data

Unit: RMB

Major accounting data	2020	2019	Increase/ decrease compared to previous year (%)	2018
Revenue	81,614,151,183	78,262,846,004	4.28	81,951,813,488
Net profit attributable to owners of the parent	1,982,638,821	1,128,148,980	75.74	5,943,286,585
Net profit excluding non-recurring gains or losses attributable to owners of the parent	1,485,651,232	1,635,501,579	-9.16	5,092,357,115
Net cash flows from operating activities	2,770,514,645	7,865,957,124	-64.78	13,870,430,106

	As at the end of 2020	As at the end of 2019	Increase/decrease compared to the end of the previous year (%)	As at the end of 2018
Net assets attributable to owners of the parent	28,386,124,992	26,933,162,065	5.39	28,173,623,272
Total assets	80,711,141,782	86,322,043,538	-6.50	76,871,999,293
Total share capital	7,700,681,186	7,700,681,186	—	7,700,681,186

Section II Company Introduction and Major Financial Indicators (Continued)

(2) Major financial indicators

Major financial data	2020	2019	Increase/decrease compared to the previous year (%)	2018
Basic earnings per share (RMB/ share)	0.258	0.147	75.51	0.772
Diluted earnings per share (RMB/ share)	0.258	0.147	75.51	0.772
Basic earnings per share excluding non-recurring gains or losses (RMB/share)	0.193	0.212	-8.96	0.661
Return on net assets (weighted average) (%)	7.17	4.09	Increased by 3.08 percentage points	22.68
Return on net assets excluding non-recurring gains or losses (weighted average) (%)	5.37	5.94	Decreased by 0.57 percentage points	19.44

8. MAJOR FINANCIAL DATA BY QUARTER IN 2020

Unit: million RMB

	1st Quarter (Jan-Mar)	2nd Quarter (Apr-Jun)	3rd Quarter (Jul-Sep)	4th Quarter (Oct-Dec)
Revenue	16,206	21,223	20,782	23,403
Net profit attributable to owners of the parent	377	435	745	426
Net profit excluding non-recurring gains or losses attributable to owners of the parent	356	210	875	45
Net cash flows from operating activities	-3,127	4,073	1,507	318

9. NON-RECURRING ITEMS AND AMOUNTS

Unit: RMB

Non-recurring items	2020	2019	2018
(Loss)/gain from disposal of non-current assets	417,244,264	-77,058,351	371,280,264
Government grants recognized in current period profit or loss (excluding those having close relationship with the Company's normal business, conforming to the national policies and regulations and enjoying ongoing fixed amount or quantity according to certain standard)	468,081,747	579,015,240	337,543,274
Employee termination compensation	-177,756,341	-1,163,531,268	-150,464,248
Except for the effective hedging business related to ordinary business of the Company, changes in fair value of financial assets and financial liabilities held-for-trading, as well as the return on investment generated from the disposal of financial assets and financial liabilities held-for trading and financial assets at fair value through other comprehensive income	27,841,061	249,161,379	225,957,069
Gain from disposal of subsidiaries	—	—	188,829,498
Gain from disposal of an associate	19,108,539	-16,052	7,689,556
Net non-operating income or expenses other than the above items	4,141,163	3,444,379	-1,033,653
Non-controlling interests effect	-172,096,944	-23,911,246	-40,870,094
Income tax effect	-89,575,900	-74,456,680	-88,002,196
Total	496,987,589	-507,352,599	850,929,470

Section II Company Introduction and Major Financial Indicators (Continued)

10. ITEMS MEASURED AT FAIR VALUE

Unit: RMB

Account name	Opening balance of the reporting period	Closing balance of the reporting period	Change in the reporting period	Effects on the current period profit
Financial assets held for trading	2,126,112,194	2,028,957,057	-97,155,137	130,335,670
Financial liabilities held for trading	2,258,750	95,968,940	93,710,190	-110,874,609
Financing receivables	11,098,699,421	7,072,160,166	-4,026,539,255	-
Other equity instruments investments	278,576,509	390,798,231	112,221,722	-64,691,072
Total	13,505,646,874	9,587,884,394	-3,917,762,480	-45,230,011

11. OTHERS

The group's major accounting data and financial indicators for five recent years (Unit: million RMB)

Accounting data (indicators)	2020	2019	2018	2017	2016
Revenue	81,614	78,263	81,952	73,228	48,275
Profit before tax	3,081	2,298	8,239	5,809	1,369
Net profit	2,578	1,714	7,058	5,072	1,257
Basic earnings per share (RMB)	0.258	0.147	0.772	0.536	0.160
Diluted earnings per share (RMB)	0.258	0.147	0.772	0.536	0.160

Section III Overview of the Company's Business

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

(1) MAIN BUSINESS AND OPERATION MODEL

As one of the largest iron and steel producers and sellers in China, the Company's major businesses are 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 hot and cold-rolled thin plates, galvanized plates and coil coating plates. Hot-rolled thin plates are mostly used in the construction, automobile, bridge-building, machinery businesses and petroleum transportation, while cold-rolled thin plates are used in high-grade light industries, home electrical appliances, and medium and high-grade production of automobile parts. Galvanized plates are positioned to be used as automobile plates, home electrical appliances plates, high-grade construction plates, and plates for businesses like packaging and utensil manufacturing. Coil-coating plates can be used in both interior and exterior of buildings, home electrical appliances and steel windows.

Long products: Major products include section steel and wire rod. H beams is mostly used in construction, steel structures, machinery manufacturing and the construction of petroleum drilling platforms and railways. Common medium-shaped steel is mostly used in construction structures, machinery manufacturing and steel structures used in shipbuilding. High-speed wire rod products are mostly used in construction, the production of fasteners, strand steel wires and spring steel wires. Hot-rolled ribbed bars are mainly used in construction.

Wheels and axles: Major products include train wheels, axles and rings, which are widely used in railway transport, port machinery, petrochemical industries, aerospace industry, and so forth.

The Company's special steel products mainly cover continuous casting round bloom, continuous casting billet, hot-rolled bar, hot-rolled billet, etc., which are mainly applied in four major areas of railway transport, energy, automotive components and high-end manufacturing.

The Company adopts different business models for different products. The products of excellent special steel are mainly operated in the form of direct supply; long products are mainly operated in the form of direct supply for projects and spot sales based on storages in provinces; plate products are mainly operated in the form of direct supply, and supplemented by sales through professional dealers.

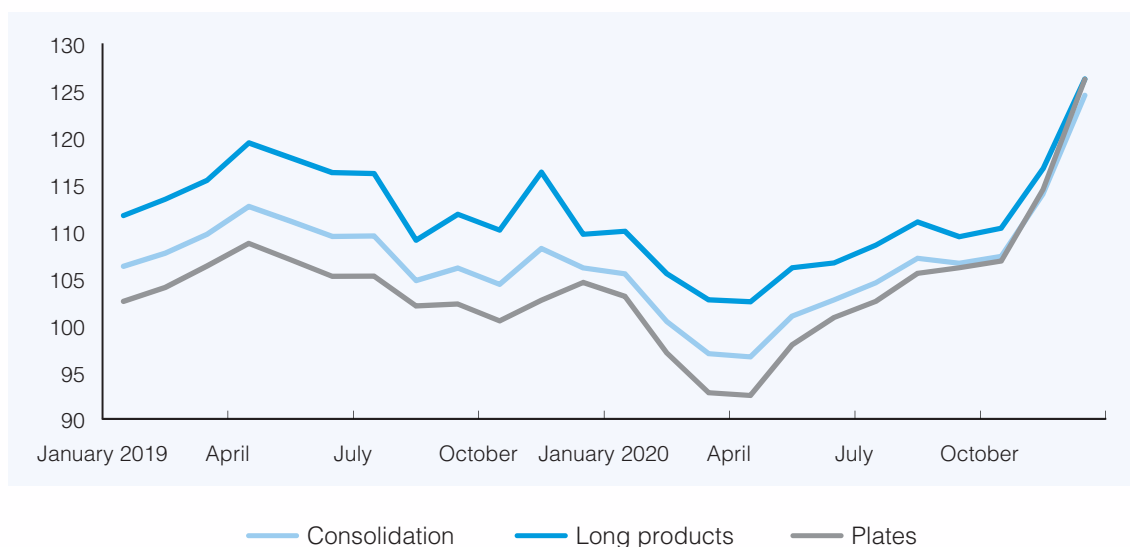
During the reporting period, the major businesses, main products and their usages, operation modes, major driving factors of performance did not experience substantial changes.

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

(2) INDUSTRIAL PERFORMANCE

In 2020, given the impact of COVID-19 pandemic and the grim and complex international situation, under the strong leadership and scientific decision-making of the General Secretary of CPC Central Committee Xi Jinping at the core, China's economy has continued to recover steadily, providing a good external environment for the development of the iron and steel industry. The iron and steel industry firmly adhered to the relevant national decisions and arrangements, with better resumption of work, stable production, continued production growth and relatively good operation situation in overall. The production volume of pig iron, crude steel and steel were 888 million tonnes, 1,065 million tonnes and 1,325 million tonnes, respectively, representing a year-on-year increase of 4.3%, 7.0% and 10.0%, respectively. At the same time, with the rapid recovery of downstream industries such as machinery, automobiles and home electrical appliances, steel prices gradually recovered, but the overall level was lower than that of the previous year. The consolidated price index of steel products fell from 106.34 at the beginning of the year to the lowest level of 96.62 in April the year, and returned to the level of the beginning of the year in August. Since early November, affected by the rising price of iron ore and strong demand of downstream, the price of steel has risen rapidly, reaching 124.52 at the end of December, up by 17.1% over the beginning of the year. The average value of consolidated price index for steel products was 105.57 with a year-on-year decrease of 2.2%. From January to August, the long product market was generally stronger than steel plates. The steel plate market has gradually grown stronger than the long product since September. (Data resource: National Bureau of Statistics, CISA)

Figure 1: Domestic steel price index for the year 2019 and 2020



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

As for raw materials and fuels, affected by the impact of COVID-19 pandemic, the price of the imported iron ore remained relatively low at the beginning of 2020, rising sharply from the end of April, slightly recovering from a high of USD176.1/tonne in mid-December. At the end of December, the price of imported 62% iron concentrate was USD159.54/tonne with a year-on-year increase of 76.25%. The average CIF of import iron ore for the year was USD101.7/tonne with a year-on-year increase of 7.14%. Due to the influence of environmental protection policy and the supply-side reform in sectors, the price of coke continued to increase. Affected by the cost factor, the profit margins of iron and steel enterprises during the Reporting Period declined. (Data resource: National Bureau of Statistics, CISA)

Figure 2: Price of imported iron ore for 2019 and 2020 (62%)



2. DURING THE REPORTING PERIOD, THE STATEMENT OF MATERIAL CHANGE IN THE COMPANY'S MAJOR ASSETS

As at the end of 2020, the construction in progress of the Company was RMB6.98 billion, increased by 114.14% compared with the previous year, mainly due to the increased investment in projects including CCPP comprehensive utilization power generation project and smart manufacturing project, resulting in the increase of the yearend balance. The investment assets, property, plant and equipment, intangible assets and other major assets did not undergo material changes. Among them: overseas assets amounted to RMB2.583 billion, accounting for 3.20% of total assets.

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

3. THE COMPANY'S CORE COMPETITIVENESS ANALYSIS DURING THE REPORTING PERIOD

(1) Synergy advantage

The Company actively integrated into the high-quality steel ecosystem of China Baowu, and the synergy effect gradually appeared. Through the coordination in planning, manufacturing, marketing, procurement, management and other aspects, it is beneficial for the Company to enhance the purchasing and bargaining power, optimise the sales channels, innovate the marketing model, and break through the technical bottleneck. Through management benchmarking and implementation of technical support projects, the Company improved economic and technical indicators, and comprehensively improved the comprehensive competitiveness of the Company.

(2) Location advantage

The Company is located in the bridgehead position of Anhui Province integrating into the national strategy of Yangtze River Delta integration development, close to the downstream market and the riverside and convenient transportation.

(3) Product structure advantage

The unique product structure "plates, long products and wheels and axles" enables the Company to allocate resources flexibly, so as to enlarge the percentage of high value-added products.

(4) Technical advantage

As of 31 December 2020, the Group had owned 1,810 domestic and foreign valid patents, including 4 foreign patents and 748 invention patents; owned 4,109 technical know-hows (non-patented technologies).

4. HIGHLIGHTS OF THE COMPANY'S PRODUCTION, OPERATION AND CONSTRUCTION DURING THE REPORTING PERIOD

- (1) Breakthrough in operating performance. Crude steel production exceeded 20 million tons for the first time, the operating revenue increased by 4.28% year-on-year, and both production volume and revenue increased year-on-year.
- (2) Significant improvement in major economic and technical indicators. The progress rate of indicators reached 73.76%, with a refresh rate of 25.83%.
- (3) Rapid development in green development and smart manufacturing. Ma Steel Wisdom Park and Happy Avenue became the "name card" for the green wisdom of Maanshan.
- (4) Completion and put into production of the first heavy duty H-beam production line in the PRC. With a total investment of RMB1.65 billion and an annual production capacity of 800,000 tonnes, the project has developed more than 20 new products in nine series.

Section IV Report of the Board

I. OPERATING RESULTS AND DISCUSSION AND ANALYSIS

(1) OPERATING RESULTS AND MAJOR WORK MEASURES

1. *Operating Results*

2020 is the final year of China's 13th Five-Year Plan and a crucial year for the Company to accelerate its high-quality transformation and development. The Company overcame the serious impact of COVID-19 pandemic, and the pressures brought by the flood season of the Yangtze River and the significant rise in the prices of iron ore, through achieving a historic leap and successful conclusion of the 13th Five-Year Plan with four breakthroughs in operating performance, grassroots reforms, personnel efficiency and key indicators, as well as four transformations in vision, position, system and model. With the dual improvement of green development and smart manufacturing level, the Company explored a new model of transformation and upgrading of traditional enterprises, so as to promote the high-quality development of the Company.

During the reporting period, the Group produced 18.55 million tonnes of pig iron, 20.97 million tonnes of crude steel and 19.86 million tonnes of steel, representing a year-on-year increase of 2.49%, 5.70% and 5.81%, respectively. The production volume of pig iron, crude steel and steel reached a record high of the Group. According to the China Accounting Standards, the Group's operating income in 2020 was RMB81,614 million, representing a year-on-year increase of 4.28%. The net profit attributable to owners of the parent was RMB1,983 million, representing a year-on-year increase of 75.74%. Basic earnings per share was RMB0.258, representing a year-on-year increase of 75.51%. As at the end of the Reporting Period, the total assets of the Group were RMB80,711 million, representing a year-on-year decrease of 6.50% and the net assets attributable to owners of the parent was RMB28,386 million, representing a year-on-year increase of 5.39%.

2. *Principal work and effectiveness*

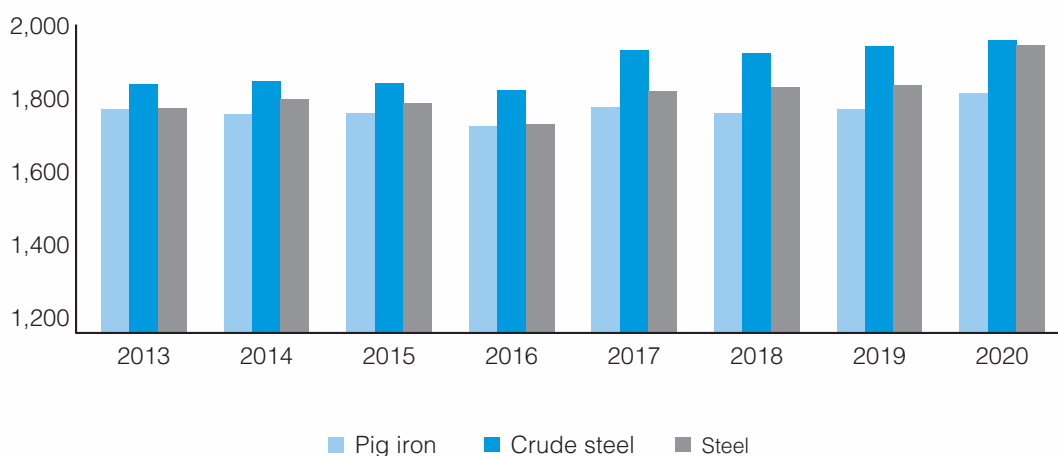
- (1) Effective pandemic prevention and control in an orderly manner. In the face of the sudden outbreak of COVID-19 pandemic, the Company conscientiously implemented a series of decisions and arrangements made by the state, Anhui Province, Maanshan City, and China Baowu, persisted in putting the life safety and health of workers in the first place, and quickly launched emergency plans. The Company made every effort to raise materials for prevention, strictly implemented measures for the prevention and control of the pandemic, promptly resumed the work, withstood the severe situation to ensure the overall control of the pandemic. The workforce was stable, and the production and operation was stable and smooth. During the Reporting Period, the Group achieved a "dual year-on-year rise" in production volume and revenue.

Section IV Report of the Board (Continued)

- (2) Comprehensive implementation of overall benchmarking. The Company adhered to the ultimate goal of “simple, efficient, low cost, high quality”, built a hierarchical and classified benchmarking system at the Company level, professional management level and manufacturing unit level, and systematically promoted the benchmarking work through external benchmarking and internal optimization. The benchmarking system has been gradually improved, covering 333 financial management indicators such as scale capacity, profitability and turnover efficiency, as well as technical and economic indicators such as production, equipment, energy and environmental protection. The process evaluation was timely and efficient, forming a process tracking evaluation mechanism of “monthly briefing – quarterly special report – annual summary”. Significant progress has been made in benchmarking, with the main technical and economic indicators continuing to improve. The hot metal cost index stepped into first tier in the industry, with the iron-steel ratio breaking 9 to reach 8, the contract completion rate, new product gross profit and other indicators improved significantly, and the annual cost reduction increased by RMB720 million compared with the previous year.

Figure 3: Production volume of pig iron, crude steel, steel for the year 2013 to 2020

Ten thousand ton



- (3) Rapid advancement of the integration. In accordance with the requirements of “unified language, unified rules, unified platform and unified culture”, integration work was rapidly promoted. The planning was effectively undertaken, and the Company’s planning was incorporated into the planning system of China Baowu. The Company’s position was defined, and a new round of product production line planning was prepared. Management was fully docked, 59 docking tasks in 14 professional fields were completed, 285 management systems were formulated or revised, and the “system tree” system was basically formed. Culture is deeply integrated. By solidly promoting the series of activities of “Glory of Iron and Steel, Casting Dreams for a Hundred Years”, Company culture and China Baowu culture are deeply integrated and deeply rooted in the hearts of the people.

Section IV Report of the Board (Continued)

- (4) Significant improvement of the operation efficiency. Lean procurement is safe and efficient: by actively and effectively responding to the sharp changes in the two markets, the Company has strengthened system linkage, promoted operational inventory, strengthened mass procurement, collaborated procurement and intelligent procurement to ensure timely, safe, high-quality and efficient supply of materials. Lean marketing continued to deepen: the Company optimized the marketing system, set up the marketing center, and realized the professional focus and integration of marketing business. The Company improved the customer service model, promoted the whole process, whole cycle customer service “before sale, during sale and after sale” of leading products, and carried out pre-sale of production capacity and forwarded order business. Lean manufacturing was further promoted: the Company optimized coal blending and ore blending structure, improved blast furnace examination and risk early warning mechanism, optimized production line division, reduced iron-steel ratio, and further released equipment production capacity. It also strengthened the control of equipment status and implemented the periodic (annual) maintenance model of equipment, which thus have significantly reduced the maintenance load and significantly improved the equipment system support capability. The Company also deepened the energy economy operation of the system, strengthened technical energy saving, structural energy saving and management energy saving, and continuously improved the main energy consumption indicators. Compared with the previous year, the total coal consumption decreased by 190,000 tonnes, the comprehensive energy consumption per tonne of steel decreased by 18.4kgce/t, and the carbon dioxide emission per tonne of steel decreased by 15kg.
- (5) In-depth implementation of innovation drive. The Company adhered to the technical guidance, strengthened the research on new technologies, new materials and new products, and continuously improved its core competitiveness of enterprises. It also deeply integrated into the scientific and technological innovation system of China Baowu, the Maanshan Iron & steel technology centre of Baowu Central Research Institute was put into operation, a collaborative planning mechanism for R&D was established, the promotion of on-schedule quality improvement and major special planning were carried out, and the collaborative innovation ability was effectively improved. The R&D investment rate increased by 1.14 percentage points over the previous year, and 770,000 tonnes of new products were developed. The self-developed 635MPa high-strength earthquake-resistant steel bars filled the domestic gap. The key technical achievements of high-efficiency green smelting of large converter clean steel won the special prize of metallurgical science and technology. The atmospheric corrosion resistant hot-rolled H-beams for railway vehicles and the rolled steel wheels for railway express passenger cars won the physical quality of metallurgical products “Jinbei Excellent Products” in 2020 by CISA. The first domestic heavy-duty H-beam production line was completed and achieved monthly production, and the key projects of the new round of product production line was implemented at a faster pace.

Section IV Report of the Board (Continued)

- (6) Accelerated green wisdom empowerment. The Company adhered to the big pattern, big environment and great promotion, from pollution prevention to ecological civilization, from factory renovation to “two better and one integration”, from improving factory appearance to improving mental outlook, completed 97 environmental problems rectification tasks of Yangtze River protection in an all-round way, invested RMB3.07 billion to implement 64 “three treatment” projects, effectively established an intelligent platform for environmental protection dynamic management and control, and significantly improved the ecological “face value” and green development level of the factory. With the concept of whole flow, whole process, all elements and complete integration, the Company also adhered to problem-oriented, system upgrading, leading change, standard demonstration, creating and educating people, and completed seven of the first phase intelligent manufacturing projects, including operation control center and intelligent control center for iron making, steel making, hot rolling and cold rolling, to promote the overall improvement of the “four uniformities” index. As compared with the end of 2019, the concentration index at the end of 2020 increased by 28.3 percentage points to 67.7%; the unmanned index increased by 10.3 percentage points to 47.6%; the remoteness index increased by 12 percentage points to 12%; service online index increased by 65 percentage points to 98.3%.
- (7) In-depth advancement of the reform and management. The Company’s management reform is drastic, and the organization reform and process reengineering were forced by informationization. The functions and personnel of the organs were adjusted in place, the grass-roots management reform was promoted smoothly, and the organization was flattened and the personnel are lean. The personnel efficiency has been greatly improved, and the per capita annual steel output has increased by 29% year-on-year through professional integration, policy on consensus termination of labor contract, smart manufacturing, shared employment and other channels. Safety management has been continuously strengthened, and great importance has been attached to safety in production. Taking the three-year action plan for special rectification of safety in production as the starting point, the development concept of “life first, safety first” has been firmly established. By strengthening the management of “two violations”, comprehensive rectification, hidden danger investigation and risk management and control, the construction of intrinsically safe enterprises has been promoted, and the situation of safety in production is generally stable.

Section IV Report of the Board (Continued)

- (8) In-depth implementation of “people first”. The Company adhered to the staff-oriented, highlighted the job value creation, constantly met the employees’ yearning for a better life of “three haves”, and achieved the common growth of employees and enterprises. It also vigorously carried forward the spirit of model workers, labor and artisans, focused on the typical figures of pandemic prevention and control, resumed work and production, and demonstrated and led the annual figures of “the most beautiful Masteel people, innovation and integration”. The innovation and efficiency of employees’ posts were carried out in depth, and the activity of “I offer a plan for the enterprise to find the difference against benchmarks and create the first class” was comprehensively promoted. The number of employees’ plans contributed reached 21,000. The Company organized and carried out 225 labor competitions such as “finding the difference against benchmarks for the first class, improving the indicators and creating benefits”, creating a super good atmosphere of learning and contest.

(2) Analysis of Principal Operation

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

Unit: RMB

Account	Amount of the current year	Amount of the same period of last year	Change (%)
Revenue	81,614,151,183	78,262,846,004	4.28
Cost of sales	73,635,244,275	71,315,481,915	3.25
Selling expenses	1,010,010,332	949,844,233	6.33
General and administrative expenses	1,516,627,132	2,378,932,727	-36.25
R&D expenses	1,813,176,837	846,472,355	114.20
Financial expenses	553,576,584	784,811,228	-29.46
Other income	86,979,866	117,373,339	-25.89
Investment income	533,664,650	815,067,777	-34.53
(Loss)/gain on changes in fair value	-72,693,896	9,598,445	-857.35
Credit impairment losses	-48,276,000	-15,592,865	—
Assets impairment losses	-770,780,451	-424,598,573	—
Gain/(Loss) from disposal of assets	589,074,956	-77,058,351	—
Operating profit	2,866,954,813	1,831,577,615	56.53
Non-operating expenses	188,665,317	3,735,871	4,950.10

Section IV Report of the Board (Continued)

Account	Amount of the current year	Amount of the same period of last year	Change (%)
Profit before tax	3,080,866,517	2,297,755,710	34.08
Net profit	2,577,979,107	1,713,917,869	50.41
Net profit attributable to owners of the parent	1,982,638,821	1,128,148,980	75.74
Net cash flows from operating activities	2,770,514,645	7,865,957,124	-64.78
Net cash flows used in investing activities	-6,081,913,170	-4,793,209,384	–
Net cash flows used in financing activities	-708,738,972	-2,822,692,873	–

(1) Analysis of changes in profit

Revenue increased by 4.28% compared with the previous year, mainly due to the sales increase of steel.

Cost of sales increased by 3.25% compared with the previous year, mainly due to the rising prices of raw materials such as iron ore and the increase in steel sales.

General and administrative expenses decreased by 36.25% compared with the previous year, mainly due to the decrease of compensation for termination of labor contract through negotiation under the implementation of the human resource optimization policy of the Company compared with the previous year.

R&D expenses increased by 114.20% compared with the previous year, mainly due to the Group'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 this year.

Investment income decreased by 34.53% compared with the previous year, mainly due to the impact of pandemic situation and environmental protection policies and other factors, resulting in the decrease of profits of joint ventures.

Loss on changes in fair value in this year was RMB72,693,896 and gain on changes in fair value was RMB9,598,445 last year, mainly due to the loss caused by the change in fair value of forward foreign exchange contracts held by the Company this year.

Section IV Report of the Board (Continued)

Credit impairment losses increased by 209.60% compared with the previous year, mainly due to the increase in the impairment loss of accounts receivable accrued by the Company and some subsidiaries this year.

Assets impairment losses increased by 81.53% compared with the previous year, mainly due to the Company's provision for property, plant and equipment impairment loss of the production line and equipment that have been closed in this year and are planned to be closed in the future according to the production and operation plan.

Gain from disposal of assets was RMB589,074,956 while the loss from disposal of assets was RMB77,058,351 last year, mainly due to the government subsidies received by Hefei Company for land purchasing and reserved after the completion of the disposal of relevant assets this year, and the loss from disposal of assets caused by disposal of assets for new construction projects last year.

Non-operating expenses increased by 4,950.10% compared with the previous year, mainly due to the increase in the loss of property, plant and equipment due to scrapping this year compared with the previous year.

Operating profit, profit before tax, net profit and net profit attributable to owners of the parent increased by 56.53%, 34.08%, 50.41% and 75.74% respectively, mainly due to that (1) the Company's production is stable and efficient, and the output and sales volume increased year-on-year; (2) the relevant costs and operating expenses are relatively reduced through looking for differences against benchmarks in an all-round way; (3) Hefei Company received government subsidies for land purchasing and storage.

(2) Analysis of changes to cash flows

During the Reporting Period, the Group's net decrease in cash and cash equivalents was RMB4,116 million, compared to a net increase of RMB305 million in the same period last year. Among them, net cash inflow from operating activities was RMB2,771 million, representing a decrease of RMB5,095 million from the previous year, primarily due to a net decrease in deposits received during the year compared to a net increase in the previous year; net cash outflows used in investing activities were RMB6,082 million, representing an increase of RMB1,289 million from the previous year, mainly due to the increased outflow from the proceed and purchase of property, plant and equipment and intangible assets compared with the previous year; net cash outflows used in financing activities were RMB709 million, representing a decrease of RMB2,114 million from the previous year, mainly due to the decrease in the cash paid for distribution of dividends or profits and for interest expenses by the Company during the year compared with the previous year.

Section IV Report of the Board (Continued)

Excluding the impact of MaSteel Finance, the net increase in cash and cash equivalents was RMB1,340 million, as follows:

- (1) Net cash inflows from operating activities were RMB8,315 million, representing a year-on-year increase of RMB5,173 million, mainly due to the decrease in cash payment for the year compared with the previous year.
- (2) Net cash outflows used in investing activities were RMB6,170 million, representing a year-on-year increase of RMB1,377 million, mainly due to the increase in capital expenditures such as the acquisition and construction of long-term assets in the current period compared with the previous year.
- (3) Net cash outflows from financing activities were RMB709 million, representing a year-on-year decrease of RMB2,114 million, mainly due to the decrease in the cash paid for distribution of dividends and interest expenses by the Group.

During the Reporting Period, the Company's net cash inflows from operating activities were RMB2,771 million, while net profit was RMB2,578 million, and the difference is RMB193 million, which was not materially different.

- (3) Financial position and exchange risks

As of 31 December 2020, the total loans of the Group amounted to RMB18,677 million, of which short-term loans was equivalent to RMB12,585 million and long-term loans was equivalent to RMB6,092 million (including long-term loans due within one year was equivalent to RMB2,556 million). The loans included foreign currency loans of USD272 million (USD137 million of which were inward documentary notes), all other loans were denominated in Renminbi. Among the Renminbi denominated loans of the Group, loans amounting to RMB11.35 billion carried fixed interest rates and loans amounting to RMB5,552 million carried floating interest rates. Among loans denominated in foreign currencies, US dollar loans amounting to USD245 million carried fixed interest rates and US dollar loans of USD27 million carried floating interest rates.

Section IV Report of the Board (Continued)

The Group's level of loans and borrowings varies according to the scale of production and progress of construction projects. At present, the Group is financing its capital projects primarily with its own funds. During the Reporting Period, no borrowings were overdue. As at the end of the Reporting Period, banking facilities available to the Group amounted to approximately RMB52,855 million, of which the unutilised facilities amounted to approximately RMB26,993 million; the Group's asset-liability ratio was 59.60%, 4.67 percentage points lower than that of the end of 2019; the current ratio was 0.87, 6.45% lower than 0.93 at the end of 2019; the quick ratio was 0.62, 12.68% lower than 0.71 at the end of 2019.

As of 31 December 2020, the Group's cash and bank balances amounted to RMB5,346 million and financing receivables amounted to RMB7,072 million. The majority of the cash and bank balances as well as bank acceptance notes were derived from sales proceeds. No due deposits of the Company couldn't be withdrawn. The Group's trade receivables and cost of capital for inventory decreased by RMB97 million, or 0.8%; and the capital commitments, which were contracted, but not provided for, were RMB4,340 million, representing a year-on-year decrease of 9.19%.

The Group's import of raw materials was mainly settled in US dollar, while import of equipment and spare parts was settled in Euro or Japanese Yen, and export of products was settled in US dollar. During the Reporting Period, the forward foreign currency settlement and sales was applied as per needs to the US dollar paid to the import of raw materials to lock US dollar exchange rate; although the assessment based on the current month-end exchange rates at the end of each quarter may cause fluctuation in the current profit and loss, after the expiry of each exchange lock business, the profit and loss will be flattened; the procurement payment was relatively less affected by exchange rate fluctuations since the amount of such European and Japanese equipment procurement payment was small.

Section IV Report of the Board (Continued)

2. 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	74,871	67,889	9.33	4.34	3.31	Increased by 0.9 percentage point

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	34,065	31,135	8.60	4.14	7.82	Decreased by 3.12 percentage points
Steel plates	35,939	32,251	10.26	6.99	1.92	Increased by 4.47 percentage points
Wheels and axles	2,056	1,716	16.54	-28.29	-33.49	Increased by 6.53 percentage points

Section IV Report of the Board (Continued)

Region	Revenue by region			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 (%)
	Revenue	Cost of sales	Gross margin (%)			
Anhui	37,871	33,998	10.23	41.37	39.17	Increased by 1.42 percentage points
Shanghai	12,453	11,214	9.95	0.71	-3.25	Increased by 3.69 percentage points
Jiangsu	12,330	11,140	9.65	1.28	-0.54	Increased by 1.66 percentage points
Zhejiang	5,060	4,579	9.51	0.40	-2.68	Increased by 2.86 percentage points
Hubei	2,872	2,598	9.54	-12.76	-11.72	Decreased by 1.09 percentage points
Guangdong	2,060	1,867	9.37	-5.33	-7.21	Increased by 1.83 percentage points
Other Mainland regions	5,673	5,168	8.90	-52.03	-50.98	Decreased by 1.95 percentage points
Overseas and Hong Kong	3,295	3,071	6.80	-28.40	-21.09	Decreased by 8.63 percentage points

During the Reporting Period, the Group's revenue from principal operation was RMB80,184 million, of which the iron & steel revenue was RMB74,871 million, accounting for 93% of the principal operation revenue with no significant change in the proportion. The year-on-year decrease in the gross profit margin of long products was mainly attributable to the increase in production cost as a result of the increase in the prices of major raw materials and fuels during the Reporting Period; the year-on-year increase in the gross profit margin of plate products was mainly due to the increase in the price of plate products being greater than the increase in the prices of major raw materials and fuels; and the year-on-year increase in the gross profit margin of axle products was mainly due to a decrease in overall operating costs following the integration of the axle business.

Section IV Report of the Board (Continued)

Analysis of Production and Sales Volumes

Unit: ten thousand tonnes

Products	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	1,032.9	1,034.1	15.6	10.13	10.73	-7.14
Steel plates	931.2	930.6	5.5	1.67	1.60	12.24
Wheels and axles	21.4	20.7	1.7	-6.96	-8.00	70.00

During the Reporting Period, the Group continued to keep a balance between production and sales and maintain a relatively low product inventory. The increase in inventory of axle products at the end of the Reporting Period was mainly due to the shortage of international freight containers and delayed delivery of certain customer orders due to the impact of the overseas COVID-19 epidemic.

(2) Analysis of Costs

Unit: million RMB

Cost components	Amount in 2020	Percentage of total costs in 2020 (%)	Amounts in 2019	Percentage of total costs in 2019 (%)	Change in amount in 2020 against amount in 2019 (%)
Raw materials and fuels	58,773	79.82	55,857	78.32	5.22
Salary	3,436	4.67	3,707	5.20	-7.31
Depreciation and amortization	2,813	3.82	3,037	4.26	-7.38
Fuels and power	3,796	5.16	3,720	5.22	2.04
Others	4,817	6.54	4,994	7.00	-3.54

During the reporting period, the proportion of raw materials and fuels in total costs increased, mainly due to the increase in the price of raw materials and fuels; the proportion of labor wages to the total cost decreased, mainly due to the improvement in personnel efficiency of the Company and the shift of post of some production personnel; the proportion of depreciation and amortization in total costs decreased, mainly due to the disposal of property, plant and equipment in production.

Section IV Report of the Board (Continued)

(3) Analysis of Major Customers and Major Suppliers

During the Reporting Period, the largest customers was Anhui Ma Steel Chemical Energy Technology Co., Ltd. with a sales amount of RMB1.50 billion, accounting for 1.8% of the total annual sales. The amount of total sales to the top five customers was RMB5.43 billion, accounting for 6.7% of the annual sales, which is less than 30%. Among which, the sales to the related parties were RMB1.50 billion, accounting for 1.8% of the annual sales. The largest supplier was Magang (Group) Holding Co., Limited with a purchase amount of RMB4.02 billion, accounting for 6.0% of the total annual purchase. The amount of the total purchase from the top five suppliers was RMB16.14 billion, accounting for 23.9% of the annual purchase, which is less than 30%. Among which, the purchase from the related parties was RMB9.52 billion, accounting for 14.1% of the annual purchases.

Among the major customers, Chemical Company is a subsidiary of the Holding. Among the major suppliers, the Holding is the controlling shareholder of the Company, and Ouyeel Blockchain Finance is a subsidiary of Magang. Saved as the above, there was no directors or supervisors or their contact 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 2020.

3. *Expenses*

During the Reporting Period, the Group's selling expenses were RMB1,010 million, representing an increase of 6.33% year-on-year, which was mainly due to the increase in steel sales this year, and the increase of related transportation expenses and the salary of sales staffs.

The administrative expenses decreased by 36.25%, the R&D expenses increased by 114.20%. The main reason is described in the "(1) Analysis of changes in profit" of the "1. Analysis of the change in accounts of the income statement and statement of cash flows" in the "(II) Analysis of Principal Operation" in the former part of this section.

The financial expenses were RMB554 million, representing a decrease of 29.46%. The main reasons were: first, the borrowing rate this year was lower than the same period of last year; second, the low interest rate financing (domestic letter of credit forfaiting, low interest rate loan) replaced high interest rate financing; third, the Company minimised its exchange rate risk by controlling the risk exposure.

Section IV Report of the Board (Continued)

4. Research and Development (R&D) Expenses

(1) R&D expenses details

Unit: million RMB

Expensed R&D expenses in 2020	1,813
Capitalized R&D expenses in 2020	–
Total R&D expenses	1,813
Total R&D expenses as a portion of revenue (%)	2.22
Number of the Company's R&D staff	2,432
Percentage of R&D staff number to the Company's total number of employees (%)	10.98
Percentage of capitalized R&D expenses (%)	–

(2) R&D projects and their impact on the future development of the Company

In 2020, the Company organized and implemented 193 projects, mainly including research and development of application of pre-ferrous intelligent early warning terminals and surface quality of galvanized duplex steel, etc.; the project has accelerated key core technology breakthroughs and transformation of achievements, promoted the transplantation and application of new technologies and new products in the Company, and generally enhanced the Company's manufacturing level and technology-leading capability; RMB266 million of newly-added straight benefits from scientific research have been realized.

(III) DURING THE REPORTING PERIOD, NO SIGNIFICANT CHANGE IN THE COMPOSITION OR SOURCES OF THE COMPANY'S PROFIT CAUSED BY MINOR BUSINESS OPERATION.

Section IV Report of the Board (Continued)

(IV) ANALYSIS OF ASSETS AND LIABILITIES

1. Assets and Liabilities

Unit: RMB

Account	Closing balance of 2020	Percentage of closing balance of 2020 in total asset (%)	Closing balance of 2019	Percentage of closing balance of 2019 in total assets (%)	Year-on-year change (%)
Cash and bank balances	5,346,108,774	6.62	9,517,313,695	11.03	-43.83
Financing receivables	7,072,160,166	8.76	11,098,699,421	12.86	-36.28
Other receivables	426,386,362	0.53	156,291,851	0.18	172.81
Financial assets purchased under agreements to resell	1,346,725,440	1.67	2,369,966,754	2.75	-43.18
Other equity instrument investments	390,798,231	0.48	278,576,509	0.32	40.28
Property, plant and equipment	29,564,588,450	36.63	30,045,743,674	34.81	-1.60
Construction in progress	6,980,279,959	8.65	3,259,704,984	3.78	114.14
Other non-current assets	3,441,308	0.004	–	–	–
Deposits and balances from banks and other financial institutions	–	–	400,031,889	0.46	-100.00
Customer deposits	6,620,132,197	8.20	10,964,896,002	12.70	-39.62
Repurchase agreements	198,480,944	0.25	1,386,580,448	1.61	-85.69
Short-term loans	12,584,935,187	15.59	12,880,053,159	14.92	-2.29
Financial liabilities held for trading	95,968,940	0.119	2,258,750	0.003	4,148.76
Notes payable	3,297,446,207	4.09	7,313,729,148	8.47	-54.91
Trade payables	7,612,476,174	9.43	6,130,327,006	7.10	24.18
Non-current assets due within one year	2,572,092,845	3.18	1,677,068,898	1.94	53.37
Other current liabilities	569,023,723	0.71	–	–	–
Deferred revenue	872,949,281	1.08	1,402,283,687	1.62	-37.75
Other comprehensive income	-23,151,783	-0.03	-99,760,804	-0.12	–

Cash and bank balances decreased by 43.83% compared with the previous year, mainly due to the planned reduction of inventory of cash and bank balances for the improvement of capital use efficiency, and the increase in the amount of investment funds paid for property, plant and equipment and construction in progress compared with the previous year, as well as the significant drop of the amount of deposits absorbed by the Masteel Finance from the Group and its member units.

Section IV Report of the Board (Continued)

Financing receivables decreased by 36.28% compared with 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.

Other receivables increased by 172.81% compared with the previous year, mainly due to the increase of steel futures deposits, import tariff and VAT deposits this year.

Financial assets purchased under agreements to resell decreased by 43.18% compared with the previous year, mainly due to the decrease of bonds reverse repurchase business of Masteel Finance this year.

Other equity instruments investments increased by 40.28% compared with the previous year, mainly due to the addition of investments in other equity instrument investments of Huabao Duding (Shanghai) Finance Leasing Co., Ltd. and increase in fair value of investment in other equity instruments investments held by the Company this year.

The construction in progress increased by 114.14% compared with the previous year, mainly due to the increased investment in projects including CCPP comprehensive utilization power generation project and smart manufacturing project, resulting in the increase of the year-end balance.

Deposits and balances from banks and other financial institutions decreased by 100.00% compared with the previous year, mainly due to the decrease in interbank borrowing funds by Masteel Finance this year.

Other non-current assets amounted to RMB3,441,308 compared with zero in the previous year, mainly due to the housing loans provided by MG-VALDUNES S.A.S to employees according to local laws.

Customer deposits decreased by 39.62% compared with the previous year, mainly due to the decrease of cash and bank balances of the Group and its member units absorbed by Masteel Finance this year.

Repurchase agreements decreased by 85.69% compared with the previous year, mainly due to the decrease in the amount of funds pledged by Masteel Finance to other financial institutions this year.

Financial liabilities held for trading increased by 4,148.76% compared with the previous year, mainly due to the change of fair value of forward foreign exchange contracts held by the Company at the end of this year.

Notes payable decreased by 54.91% compared with the previous year, mainly due to the increase in the amount of endorsement of notes transfer, resulting in the decrease in the demand for new notes.

Section IV Report of the Board (Continued)

Non-current liabilities due within one year increased by 53.37% compared with the previous year, mainly due to the reclassification of long-term loans due within one year to this account.

Other current liabilities were RMB569,023,723 compared with zero in the previous year, mainly due to the reclassification of the tax to be paid from the contract liabilities to this account at the end of this year.

Deferred revenue decreased by 37.75% compared with the previous year, mainly due to the fact that the surplus land purchased and reserved by Hefei Company was delivered this year, and the relevant deferred revenue was transferred to income of asset disposal.

Other comprehensive income was RMB-23 million, increased by RMB77 million compared with the previous year, mainly due to the Company's provision for impairment of other equity instruments investments, and the amount included in other comprehensive income in previous year was reclassified to assets impairment loss.

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

At the end of the Reporting Period, the restricted assets of the Group totaling approximately RMB2,233 million consisted of mandatory reserves with the central bank by MaSteel Finance of approximately RMB939 million, bank deposits of the Group for bank acceptance notes, letters of credit and performance guarantees of approximately RMB1,185 million, and bank acceptance notes pledged in banks by the Group for obtaining short-term borrowings of approximately RMB108 million.

(5) OPERATIONAL INFORMATION ANALYSIS OF THE INDUSTRY

See Section III "Overview of the Company's Business" of this report for details of the industry performance.

1. Company Information

During the Reporting Period, the production capacity and utilisation rates were as follows:

Product type	Production Capacity (ten thousand tonnes)	Utilisation rate of Production capacity (%)
Pig iron	1,830	101.37
Crude steel	2,171	96.59
Steel production	2,050	96.88

Section IV Report of the Board (Continued)

2. Analysis of Operational Information of the Steel Industry

(1) Manufacturing and Sales of Steel Material Based on Processing Techniques

Unit: million RMB

Type based on processing techniques	Production volume (tonnes)		Sales volume (tonnes)		Revenue		Cost of sales		Gross margin(%)	
	This Year	Last Year	This Year	Last Year	This Year	Last Year	This Year	Last Year	This Year	Last Year
Cold-rolled steel	4,505,303	4,491,648	4,512,677	4,488,675	20,504	17,951	19,275	17,147	5.99	4.48
Hot-rolled steel	15,136,165	14,046,434	15,134,075	14,008,657	49,500	48,351	44,111	43,375	10.89	10.29
Wheel and axles	213,667	230,183	206,884	224,914	2,056	2,867	1,716	2,580	16.54	10.01

(2) Manufacturing and Sales of Steel Material Based on Forms of Finished Goods

Unit: million RMB

Type based on forms of finished products	Production volume (tonnes)		Sales volume (tonnes)		Revenue		Cost of sales		Gross margin(%)	
	This Year	Last Year	This Year	Last Year	This Year	Last Year	This Year	Last Year	This Year	Last Year
Long Products	10,329,257	9,379,436	10,340,973	9,338,795	34,065	32,712	31,135	28,878	8.60	11.72
Steel Plates	9,312,211	9,158,646	9,305,779	9,158,537	35,939	33,590	32,251	31,644	10.26	5.79
Wheels and axles	213,667	230,183	206,884	224,914	2,056	2,867	1,716	2,580	16.54	10.01

(3) Sales of Steel Material Based on Sales Channels

Unit: 100 million RMB

Based on sales channels	Revenue		Percentage in total revenue (%)	
	This Year	Last Year	This Year	Last Year
Offline sales	714.3	686.7	87.52	87.74
Online sales	34.4	30.9	4.21	3.95

Section IV Report of the Board (Continued)

(4) Supply of Iron Ore

Unit: 100 million RMB

Supply source of iron ore	Supply volume (tonnes)		Expense amount	
	This Year	Last Year	This Year	Last Year
Domestic source	7,012,172	7,807,702	64.12	58.75
Overseas import	20,420,675	18,558,939	140.25	133.43
Total	27,432,847	26,366,641	204.37	192.18

(5) Supply of Scrap Steel

Unit: 100 million RMB

Supply source of scrap steel	Supply volume (tonnes)		Expense amount	
	This Year	Last Year	This Year	Last Year
Domestic procurement	2,675,733	2,446,523	73.83	67.81

(6) INVESTMENT ANALYSIS

1. General Analysis of External Equity Investments

Unit: million RMB

Investment amount as at the end of the reporting period of the Company	12,360.02
Changes in investment amount	309.36
Investment amount as at the end of previous year of the Company	12,050.66
Increase in investment amount (%)	2.57

Section IV Report of the Board (Continued)

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

Unit: million RMB

Name of Invested Company	Equity Ratio	Main Business	New Investment during the Reporting Period
Newly established companies			
OBEI Co., Ltd.	11%	<p>Licensed projects: Type 2 value-added telecommunications businesses, Internet information services, operation of Category III medical devices, import and export agent, import and export of goods and technology, road freight transportation, food operation</p> <p>General projects: sales of industrial products (specially regulated ones excepted), electrical and mechanical engineering equipment, equipment specifically for use in metallurgy, furnace equipment, metallurgical accessories, refractory materials accessories, communication equipment, electronic equipment, smart equipment, special equipment, information technology system hardware and software and accessories, sales of chemical products (excluding licensed chemical products), metal materials, construction materials, packaging materials and products, labour protection supplies, daily necessities, office supplies and office furniture, sales of Category I and II medical devices; domestic trade agent; to engage in technology development, technology transfer, technology consultancy, technical services in the field of information technology and internet technology, corporate management, business information consultancy, translation services, supply chain management services, engineering management services, warehousing services (excluding dangerous goods and special provisions), cargo transport agent, sales of lubricant oil, wholesale of refined oil (excluding dangerous chemical products)</p>	192
Anhui Masteel Gas Technology Co., Ltd.	100%	<p>Technology development, consultancy, transfer, promotion; engineering and technical research and experimental development; production and sale of food additives; production of dangerous chemical products (as evidenced by the Certificate of Registration of Hazardous Chemicals), production of pharmaceutical products, mobile pressure vessels/bottle filling; special equipment inspection and testing services, etc.</p>	–

Section IV Report of the Board (Continued)

Name of Invested Company	Equity Ratio	Main Business	New Investment during the Reporting Period
Company with investment changes due to capital increase or equity changes			
Ouyeel Blockchain Finance	18.31%	Recycling, processing and sale of renewable resources	-
Maanshan (Wuhan) Material Technology Co., Ltd.	85%	Research and development of automobile, home electrical appliances, engineering and machinery materials; production and sales of steel and stamping spare parts; storage and service	74
MG-Valdunes S.A.S	100%	Design, manufacturing, processing, investment in product production, maintenance and repair of all products and equipment used in rail transport, urban transport and machinery industry; distribution, import and export of various shapes of steel products	158
Disposed companies			
Ma-Steel OCI Chemical Co., Ltd.	40%	Production, storage and sales of coal tar highly processed products	-144
Maanshan Oubang Color-coated Technology Co., Ltd.	67%	Research & development, design, production (operated by branches only) and sales of high gloss film composite decorative plates and their extended products; wholesale of plastic products and metallic materials & products; and consulting services for the aforesaid products and technologies. (the operation of projects which are subject to approval in accordance with law can only be carried out upon approval by the relevant authorities)	-10
Maanshan (Wuhan) Iron and Steel Sales Co., Ltd.	100%	Sales of steel products and metal minerals	-10
Maanshan Meite Metallurgical Power Technology Co., Ltd.	100%	Metallurgical power technology research and development, technical consultancy, technical services, domestic advertising production, agency, distribution; magazine retail, convention; exhibition services	-0.5
Masteel-CMI International Training Centre Co., Ltd.	50%	Provision of training services on operation, repair and maintenance of cold rolling production lines to CMI customers	-0.5

Section IV Report of the Board (Continued)

Explanation:

- In September 2020, upon the approval of the Board, the Company participated in the establishment of OBEI Co., Ltd.. The registered capital was RMB4 billion and the Company planned to contribute RMB440 million. During the reporting period, the Company contributed RMB192 million.
- In September 2020, upon the approval of the Board, the Company established Anhui Masteel Gas Technology Co., Ltd., a wholly-owned subsidiary with a registered capital of RMB270 million. During the reporting period, the Company has not actually contributed capital.
- In July 2020, upon the approval of the Board, the Company gave up its right of capital contribution to Ouyeel Blockchain Finance and the percentage of its shareholding in Ouyeel Blockchain Finance decreased from 45% to 18.31%.
- In October 2018, the Company established Maanshan (Wuhan) Material Technology Co., Ltd. with a registered capital of RMB250 million and the Company holds 85% of its shares. In 2020, the Company completed the third phase of capital contribution of RMB74.375 million.
- In August 2018, the Board approved to increase the capital of MG-Valdunes by no more than EUR70 million. In November 2018, the first capital increase was EUR30 million (equivalent to RMB237 million), the second capital increase in September 2019 was EUR20 million (equivalent to RMB156 million), and the third capital increase in 2020 was EUR20 million (equivalent to RMB158 million).
- In September 2020, upon the approval of the Board, the Company transferred 40% equity interest in Ma-Steel OCI Chemical Co., Ltd. to Magang Chemicals & Energy.
- During the Reporting Period, due to the continuous losses of Maanshan Oubang Color-coated Technology Co., Ltd., the overlapping business scope of Maanshan (Wuhan) Iron and Steel Sales Co., Ltd. and Wuhan Processing Center, and the small scale of Maanshan Meite Metallurgical Power Technology Co., Ltd., the Company made corporate reduction to these companies. At the end of the reporting period, these companies were liquidated.

Section IV Report of the Board (Continued)

- (1) During the reporting period, the Company had not carried out any significant equity investments.
- (2) Significant Non-Equity Investment

Unit: million RMB

Project Name	Budgeted Investment	New Investment during the Reporting Period	Project Progress
Product quality projects	11,484	3,234	42%
Energy-saving and environment protection projects	7,278	2,628	48%
Equipment advancement and other modification projects	4,110	634	30%
Other projects	N/A	711	N/A
Total	/	7,207	/

By the end of the reporting period, progresses of the major projects under construction were as follows:

Unit: million RMB

Project name	Budget of total investment	Project Progress
A blast furnace overhaul project in the steel making plant	1,390	Construction preparation
Ma Steel (Hefei) environmental relocation project – coking furnace system project	1,260	Coke oven construction
CCPP comprehensive utilization power generation project for energy saving and emission reduction	1,025	Auxiliary system commissioning, main equipment installation
Belt roasting machine project in the south area of the steel making plant	992	Construction of civil and steel structures
New silo project in the coal coking company	420	The first phrase completed and the second phase of the silo body completed to roof-top
Masteel 220KV electricity transmission and transformation – CCPP auxiliary electricity supporting project	374	2 110kv lines completed, one 220kv line under construction
Auxiliary gas and thermal supporting project for new CCPP in the southern area of Masteel	291	No. 1 gas tank and west pipeline completed; No. 2 gas tank under construction; east pipe rack and pipe hoisting
Optimum reconstruction of rain and sewage diversion and discharge in south area of Magang	159	Main network completed, branch network remediating
Total	5,911	/

Section IV Report of the Board (Continued)

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

By the end of the reporting period, progresses of the major projects under construction of Changjiang Steel were as follows:

Unit: million RMB

Project name	Budget of total investment	Project Progress
Environmental upgrade and renovation project for raw materials store yard.	888	X1 line, X2 line coke warehouse body project completed, raw material warehouse under construction
Capacity reduction and replacement project - project of 140 tonnes of electric furnace	593	Plant and auxiliary system completed, electric furnace body under installation
Sintering machine desulfurisation and denitrification system project	213	Desulfurization and denitrification system of No. 1 and No. 2 sintering machines completed, civil and steel structures of No.3 sintering machine desulfurization and denitrification system under construction
600,000 tpa steel slag processing project	158	Equipment installment
Total	1,852	/

The construction fund of Changjiang Steel comes from its own fund.

(3) Financial assets measured at fair value

See "10. Items Measured at Fair Value" in Section II of this report.

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

Section IV Report of the Board (Continued)

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

1. Controlling subsidiary

- (1) Anhui Changjiang Steel Co., Ltd. has a registered capital of RMB1,200 million, in which the Company holds a direct stake of 55%. It is mainly engaged in the production and distribution of ferrous metallurgy, screw threaded steel, round steel, section steel, angle steel, deformed steel, wire and rod; as well as the sales, import and export of iron ore, iron ore fines and scrap steel. The net profit for the reporting period amounted to RMB799 million. At the end of the Reporting Period, its total assets and net assets amounted to RMB10,863 million and RMB5,731 million, respectively.

In 2020, the revenue of Changjiang Steel from principal operation was RMB15,555 million, the profit therefrom was RMB1,967 million, and the net profit was RMB799 million or down 31% year-on-year, mainly resulting from the decrease in the average sales price of steel products and the increase in costs of raw materials.

- (2) Magang Group Finance Co. Ltd. has a registered capital of RMB2,000 million, in which the Company holds a direct stake of 91%. Its business scope is as follows: financial and financing consultancy and relevant consultancy as well as agency business to members of the Group; guarantee provided; bill acceptance and discounting, loans and finance leasing to members of the Group; engagement in inter-bank borrowing; assisting members of the Group in the collection and payment of transaction amount; approved insurance agency business; handling entrusted loans, internal transfer and bill settlement, design of settlement and liquidation plans for members of the Group, and accepting deposits from member entities. The net profit for the reporting period amounted to RMB277 million. At the end of the Reporting Period, its total assets and net assets amounted to RMB17,285 million and RMB3,348 million, respectively.

No.	Indicator	Standard Ratio (%)	Actual Ratio for the year (%)
1	Capital adequacy ratio	≥10.5	28.85
2	Liquidity ratio	≥25	99.67
3	Non-performing asset ratio	≤4	0
4	Non-performing loan ratio	≤5	0
5	Loan loss reserves adequacy ratio	≥100	299.57
6	Loans from other banks ratio	≤100	0
7	Investment ratio	≤70	57.06
8	Margin ratio	≤100	27.5
9	Property, plant and equipment ratio	≤20	0.01

Section IV Report of the Board (Continued)

- (3) Ma Steel (Hefei) Iron & Steel Co., Ltd. has a registered capital of RMB2,500 million, in which the Company holds a direct stake of 71%. It is mainly engaged in metallurgy and extended processing of ferrous metals and sales of resulting products and by-products; production and sales of coke and coke chemical products and energy, extended processing of iron and steel products, production and distribution of metallic products. The net profit for the reporting period amounted to RMB681 million. At the end of the reporting period, the total assets and net assets amounted to RMB4,802 million and RMB3,007 million, respectively.

In 2020, the revenue of Ma Steel (Hefei) Iron & Steel Co., Ltd. from principal business was RMB5,191 million, the profit therefrom was RMB185 million, and the net profit was RMB681 million or up 503% year-on-year, mainly resulting from the recognition of gain from land resumption in the smelter operational area and compensation for the suspension of production in the smelter operational area totaling RMB705 million.

- (4) MG-VALDUNES, a wholly-owned subsidiary of the Company, has a registered capital of EUR150.2 million, and is mainly specialised in design, manufacturing, processing, putting into production, repairing and maintaining of all kinds of products and facilities applied in railway transportation, urban transportation and mechanical industry; sales, import and export of various shapes of steel products. In the reporting period, the net losses amounted to RMB139 million; at the end of reporting period, the total assets and the net assets were RMB728 million and RMB430 million, respectively.
- (5) Baowu Group Masteel Rail Transportation Material Technology Co., Ltd., has a registered capital of RMB1,486 million. It is principally engaged in the design, research and development, manufacturing, maintenance and sales of rail wheels, axles, wheel sets, bogies and other rail equipment. The net profit for the Reporting Period was RMB249 million, with total assets of RMB2,512 million and net assets of RMB1,453 million as at the end of the Reporting Period.
- (6) The Company's wholly-owned subsidiary Maanshan Iron & Steel (Australia) Proprietary Limited has a registered capital of AUD21.7379 million and is mainly engaged in investment and trading. The net profit for the Reporting Period amounted to RMB59 million. At the end of the Reporting Period, it had total assets amounting to RMB192 million and net assets of RMB171 million.
- (7) The Company's wholly-owned subsidiary Ma Steel (Hong Kong) Co., Ltd. has a registered capital of HKD350 million, and is mainly engaged in trading of steel products and pig iron. The net profit for the reporting period amounted to RMB103 million. At the end of the Reporting Period, it had total assets amounting to RMB1,593 million and net assets of RMB427 million.

Section IV Report of the Board (Continued)

2. Major investees

- (1) Henan Jinma Energy Co. Ltd. has a registered capital of RMB535.421 million and the Company directly holds 26.89% of its equity. It's mainly engaged in coke, coal tar, crude benzene, ammonium sulfate, coke oven gas production and sales; coke oven gas power generation, heat production. The net profit for the Reporting Period was approximately RMB475 million. At the end of the Reporting Period, its total assets and net assets were RMB6,301 million and RMB3,957 million, respectively.
- (2) Anhui Magang Chemicals & Energy Technology Co., Ltd. has a registered capital of RMB1,333.33 million and the Company directly holds 45% of its equity. It's mainly engaged in the research & development, production and sale of chemical products (excluding hazardous chemicals and precursor chemicals). The net profit for the Reporting Period was approximately RMB73 million. At the end of the Reporting Period, its total assets and net assets were RMB1,849 million and RMB1,748 million, respectively.
- (3) Ouyeel Blockchain Finance has a registered capital of RMB983 million and the Company directly holds 18.31% of its equity. It's mainly engaged in recycling, processing and distribution of scrap metal. The net profit for the Reporting Period was approximately RMB296 million. At the end of the Reporting Period, the total assets and net assets were RMB8,763 million and RMB2,503 million, respectively.
- (4) Shenglong Chemical Co., Ltd. has a registered capital of RMB568.8 million and the Company directly holds 31.99% of its equity. It's mainly engaged in the production and sales of coke, ammonium sulfate, and coal coke chemical products (excluding other dangerous chemicals); maintenance and processing of mechanical equipment (excluding special equipment). The net profit for the Reporting Period was approximately RMB292 million. At the end of the Reporting Period, the total assets and net assets were RMB3,759 million and RMB2,848 million, respectively.
- (5) Maanshan BOC-Ma Steel Gases Company Limited has a registered capital of RMB468 million and the Company directly holds 50% of its equity. It's mainly engaged in the production and distribution of air or liquid form of air products as well as the preparation for other industrial gas products. During the Reporting Period, the net profit amounted to RMB198 million. At the end of Reporting Period, the total assets and net assets were RMB677 million and RMB597 million, respectively.

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

II. OUTLOOK FOR FUTURE DEVELOPMENT

(1) Industry Landscape and Trend

In 2021, from the perspective of the global situation, the impact of the COVID-19 epidemic is far-reaching, economic globalization is facing a countercurrent, the world situation is complicated and turbulent, and China's development environment is facing profound and complex changes. From a domestic perspective, the foundation for economic recovery is not yet solid. China will adhere to the general tone of the work to seek progress while maintaining stability, and accelerate the construction of a new development pattern in which the major domestic cycle is the mainstay with the mutual promotion of domestic and international cycles. Taking supply-side structural reform as the main line, paying attention to demand-side management, China will form a higher level of dynamic balance in which demand drives supply and supply creates demand, and attach more importance to deepening reform and opening up, so as to enhance the endogenous driving force of development. In February, it was clearly pointed out at the Central Economic Work Conference that China would continue to implement a proactive fiscal policy and a prudent monetary policy, maintain the necessary support for economic recovery, and concentrate on promoting reform and innovation, so as to make a good start for the 14th Five-Year Plan with high-quality development.

With low concentration and fierce competition, the steel industry is a key industry to undergo the national supply-side reform and resolve excess capacity. With the introduction of national carbon peak, carbon neutral and carbon trading policies, the steel industry, as a heavy polluting industry recognized by the environmental protection department, will face unprecedented environmental pressure. However, where there is a challenge, there is an opportunity. The Ministry of Industry and Information Technology proposed to focus on carbon peaking and carbon neutrality target nodes, promote the high-quality development of the steel industry, strengthen policy guidance, intensify the industry's ultra-low emission transformation, and improve the industry's smart manufacturing and green manufacturing standards. With deepening the structural reform of steel supply side as the main line, China will implement the policy of dual control of capacity and output. In 2021, the steel industry will usher in a new stage of development.

(2) Corporate Development Strategy

The powerful system capabilities and "horse racing" mechanism of China Baowu have fully exposed the deep-seated contradictions and problems of the Company. Standing on China Baowu, a larger development platform, to usher in a new stage of the Company's development, the Company is also facing new tests and new challenges. In general, the Company is facing the pressure to speed up the improvement of profitability, accelerate the test of achieving scale leadership, and facilitate the task of promoting technology leadership and reforms in key areas.

Section IV Report of the Board (Continued)

The Company firmly established the concept of “jumping out of Magang to see Magang and jumping out of Maanshan to develop Magang”, so as to build a platform company, build up a healthy body at home, expand the territory, and strive to meet the employees’ pursuit of a better life of “having money, leisure and fun”. To achieve the goal of high-quality enterprise development, high ecological environment, high-quality factory appearance and high-quality life of employees, we will persist in strengthening the leadership of the Party, reform and innovation, comprehensive lean operation, carrying forward the spirit of struggle, the principle of people-oriented, and focus on lean and efficient, strive for the first place, promote all-round value creation of all employees, promote joint construction and sharing, so as to realize the common development of employees and enterprises.

2021 Strategic Mission of the Company

- | | |
|---|--|
| <ul style="list-style-type: none">Fully promote the implementation of the planning, coordinate the development of the filling of liquid iron supply gaps in the northern area, the production line planning of the long product line in the southern area, and the efficiency improvement and technical upgrading project of No. 4 steel making and steel rolling plant | <ul style="list-style-type: none">Fully promote green and low-carbon, fully implement “ultra-low emission of waste gas, zero emission of waste water, no shipping out of solid wastes, cleanness, greening, beautifying and culture”, establish a green city steel plant, basically achieve the target of ultra-low emission rate of waste gas, and achieve zero discharge of wastewater and no solid waste leaving the factory. |
| <ul style="list-style-type: none">Fully promote the ultimate efficiency and comprehensively improve production efficiency and manufacturing capacity in accordance with the requirement of no iron production reduction during the blast furnace overhaul. | <ul style="list-style-type: none">Fully promote informatization, consolidate and integrate the high-quality implementation of information projects, with a project launch rate of 100%. |
| <ul style="list-style-type: none">Fully promote lean operation, deepen the comprehensive examination of benchmarking and finding of shortcomings, achieve continuous improvement in management level and competitiveness, with improvement rate of benchmarking targets reaching 80%. | <ul style="list-style-type: none">Fully promote the optimization of the management and control model, accelerate the integration of resources, explore and implement the governance system and management and control model of “one headquarters with multiple bases”. |

Section IV Report of the Board (Continued)

(3) Business Plan and Major Work

In 2021, the Group plans to produce 17.83 million tonnes of pig iron, 21 million tonnes of crude steel and 19.61 million tonnes of steel, and 100% complete the ultra-low emission transformation. As such, the Company will firmly grasp the strategic basis of expanding domestic demand, base itself on the new development stage, new development concept and new development pattern, pay close attention to ecological coordination, intelligent upgrading and network-based upgrading, and focus on market and on-site operation to create efficiency. The main work includes:

1. *Adhere to the priority of efficiency and focus on improving the efficiency of core elements*

Firstly, continuously improving the production line efficiency. The Company will strengthen the system linkage and high-efficiency cooperation in all links of supply, production and marketing, and promote the significant improvement of key indicators such as blast furnace utilization factor, iron-steel ratio, hot charging and delivery rate, and rolling mill operation rate by optimizing the dynamic balance of internal resources, purchasing billets and on-site breakthrough of difficulties, fully releasing the production line equipment capacity, maximizing the operation efficiency of advantageous units and key production lines, and supporting the Company's profit per tonne of steel and return on net assets to outperform the market. Efforts should be made to overcome the adverse effects caused by the overhaul of No. A blast furnace (expected to last for about 100 days from September to December of 2021, affecting about 815,000 tonnes of pig iron) with high efficiency, striving not to reduce the iron production.

Secondly, continuously improving capital efficiency. The Company will adhere to the principle of "cash is king", strengthen the management of "inventories and receivables", and improve the efficiency of asset turnover. It will strengthen investment management and control, give priority to ensuring the capital needs of safety and environmental protection, product production line planning projects and smart manufacturing and information projects, strictly implement post-evaluation of project investment, and effectively prevent and control investment risks. It will expand financing channels, coordinate financing methods, and realize diversified financing, rational structure and low capital cost.

Thirdly, continuously improving personnel efficiency. The Company will excavate the potential of human resources from management reform, process reengineering, smart manufacturing, post optimization, auxiliary business outsourcing, professional integration and other dimensions, open up the post interface of "operation, inspection, maintenance and adjustment", improve the work handover policy, expand shared employment, and comprehensively improve the allocation efficiency of management, technology and skills. The average annual growth rate of labor productivity of all employees of the Company should reach 8%, and the per capita steel output of the major steel industry should increase by 19.80% in 2021.

Section IV Report of the Board (Continued)

2. *Highlight scale effect and seek for market share*

Firstly, digging up the stock to seize the opportunity of market competition. Focusing on improving the profit per tonne of steel, the Company will grasp the market trend, optimize the product structure, innovate the marketing mode, and further improve the market share of key products such as excellent special steel, H-beam, cold series automobile plates, and construction wire rods.

Secondly, building a big scale. The Company will launch product production line planning, make overall plans for high starting point and high-level implementation and total investment control, speed up transformation, upgrading and structural adjustment, make efforts to build a high-quality base of excellent special steel in the South Area, and optimize the resource balance in the North Area. At the same time, it is necessary to implement the requirements of carbon peaking and carbon neutrality, and plan and implement projects in advance.

Thirdly, paying attention to quality and strengthening ecological synergy. The Company will actively participate in the construction of China Baowu high-quality steel ecosystem sharing platform, rely on the core platform of steel ecosystem, promote professional integration of business, innovate business model, strengthen ecological collaboration, improve the index of all services online, improve system operation efficiency and customer demand response ability, and further build a safe, stable, efficient, sustainable and competitive supply chain of industrial chain.

3. *Strengthen technological innovation, and focus on the wisdom advantages of green products*

Firstly, vigorously promoting green and low-carbon development. Pursuing a higher level of low-carbon sustainability, the Company will actively implement the requirements of carbon peaking and carbon neutrality, explore the application of low-carbon metallurgical technology and all-oxygen blast furnace technology, adopt waste plastic recycling and organic solid waste collaborative treatment, innovate the application of urban solid waste treatment and comprehensive utilization technology of metallurgical furnaces and kilns, accelerate the improvement of green development level, and continue to build garden-style riverside ecological city steel plant, striving to complete the goal of “ultra-low emission of waste gas, zero emission of waste water, no shipping out of solid wastes” ahead of schedule this year.

Secondly, vigorously promoting the innovation of high-quality manufacturing. The Company will accelerate the R&D and application of new technologies, new materials and new products, and overcome the problem in key fields such as H-beam and excellent special steel, occupying the commanding heights of technology. It will strengthen technical exchanges and cooperation with Baowu bases, learn from mature experience, and speed up the solution of technical problems of high-end plate products such as automobile plates.

Section IV Report of the Board (Continued)

Thirdly, vigorously promoting the upgrading of smart manufacturing. The Company will promote the construction of full-process smart steel mills to extend to the field of superior and special long products, accelerate the synchronous upgrading of smart manufacturing of Changjiang Steel and Hefei Steel Plates, and continuously build a smart manufacturing demonstration base by building a big data center, exploring the application of iron and steel industrial brain, and promoting the integration of “operation, inspection, maintenance and adjustment”.

4. *Deepen reform and overcome difficulties, and strive to stimulate value-creating vitality*

Firstly, strengthening the construction of governance system and governance capacity. The Company will continuously improve the decision-making system on major issues, give full play to the role of each governance subject, and highly strengthen the responsibility of each governance subject, so as to enhance the performance of duties and corporate governance standards of each governance subject.

Secondly, exploring and improving the management and control mode of “one headquarters with multiple bases”. The Company will strengthen the functions of specialization, platformization, ecologicalization and industrialization, and further enhance the operation and management capabilities of the Company.

Thirdly, promoting the innovation of market-oriented management mechanism. In accordance with the performance orientation of “surpassing yourself, leading the industry, pursuing excellence”, the Company will carry out the tenure system and contractual management of the operation and management team, comprehensively construct the hierarchical management system, improve the market-oriented salary distribution mechanism, perfect the distribution system according to work and the award policy for major scientific and technological achievements, and the incentive system of “equal rights and responsibilities”, and explore the medium-and long-term incentive mechanism to stimulate the vitality of value creation of various talents.

Fourthly, improving the ability of safety management system. The Company will thoroughly implement the concept of safety development, with the theme of “concentrating on tackling key problems in safety”, taking “implementing responsibility, strengthening foundation and preventing risks” as the main line, and taking “special three-year rectification action” as the starting point, fully implement the concept of “violation is crime”, and promote the safety management to a new level.

Section IV Report of the Board (Continued)

(4) Investment Plan of the Year 2021

In 2021, the Company will prepare the investment plan in accordance with the following principles: priority to ensure the capital demand from the projects related to national policy such as environmental protection and safety, and implement a series of environmental protection projects in accordance with the requirements of the Ultra-low Emission Reform Plan for the Steel and Iron Industry; ensure the implementation of the strategic plan and implement the filling of liquid iron supply gaps in the northern area, and the product and production line planning of the southern area; enhance the level of smart manufacturing, and promote the application of technologies including big data, artificial intelligence, internet of things and blockchain on aspects including smart equipment, smart factories and smart operations in accordance with the “four unifications” requirement of China Baowu; and satisfy the capital demand from the ongoing projects.

In 2021, the Group's investment in property, plant and equipment amounted to approximately RMB9.1 billion, of which approximately RMB5.4 billion will be invested in the ongoing projects, approximately RMB1.5 billion will be invested in the filling of liquid iron supply gaps in the northern area and the product and production line planning of the southern area, and approximately RMB2.2 billion will be invested in smart manufacturing and other key technological transformation projects.

(5) Potential Risks

According to the latest situation at home and abroad, the main risks that the Company may face include the risk of international environmental change and prevention and control for COVID-19, the risk of mineral resources security, the risk of safety and environmental protection, and the risk of cost control and operational efficiency improvement. In addition to the “Business Plan” above, the Company's risk response measures also include:

Risk	Response
International environmental changes and COVID-19 epidemic prevention and control risk	To carry out scientifically, accurately and effectively, without any sloppiness, the normalization work of epidemic prevention and control. To conduct external environmental research and judgment, track the fluctuation of raw material prices and the risk of customers' performance, ensure the stability of the supply chain, and conduct the work related to cost reduction and efficiency enhancement and structural adjustment on an ongoing basis.

Section IV Report of the Board (Continued)

Risk	Response
Risk of ore supply security	To make full use of the existing mineral resources of the Holding and steel materials resources of Ouyeel Blockchain Finance, and at the same time rely on China Baowu's raw materials supply security system to resolve the ore supply risks. To strengthen the role of procurement centres in the coordination of resources allocation and resource balancing, and re-engineer the procurement process with information technology system to achieve synergistic value and improve security capability.
Risk of safety and environmental protection	To continue to promote smart manufacturing labor competition and upgrade the essential safety of the site; expand innovative forms of safety training and improve staff safety awareness and ability to respond to safety risks; comprehensively deepen special safety supervision. To strengthen the energy-related environmental protection responsibility system and strictly control the total amount of pollutants discharged, energy consumption and total coal consumption, ensuring the completion of the targets of energy conservation and environmental protection; conscientiously implement the overall environmental protection planning of the Yangtze River Basin and strengthen the protection of resources in the Yangtze River; strengthen environmental protection inspection and self-examination and rectification, continuously improving the risk management and control of ecological environment.
Risk of improvement of cost control and operational efficiency	To establish a benchmarking system to measure the high-quality development of enterprises, normalize the work of benchmarking and finding of shortcomings, shorten the gap with benchmark enterprises, and continuously improve the management level and competitiveness of the Company. To focus on high efficiency and cooperate with Baowu Group's internal benchmarking enterprises in procurement, marketing, production, research and development, etc.

The above strategies, plans and risks and measures do not constitute the Company's future predictions, nor do they constitute commitments of the Company to investors. The implementation of such strategies, the realization of such plans, the presence or avoidance of the risks depend on the market, policy and other factors with certain uncertainties, so investors shall be prudent in investment.

III. THE COMPANY DID NOT FAIL TO COMPLY WITH DISCLOSURE DUE TO INAPPLICABLE STANDARDS OR SPECIFIC REASONS SUCH AS STATE SECRETS, TRADE SECRETS, ETC.

IV. OTHERS

(1) The service contracts and contractual interests of Directors and Supervisors

The Company has signed service contracts with its Directors and Supervisors. No Director or Supervisor of the Company signed any service contract the Company is disallowed to terminate without compensation within one year (excluding statutory compensation).

During the reporting period, no Director or Supervisor of the Company had any material interests, either directly or indirectly, in any contract signed by the Group, the Holding or any affiliate of the Holding.

During the reporting period and up to the issuing date of this report, no approved indemnity provisions were or are now effective to benefit the Directors (including former Directors) of the Company or any director (including former director) of an associated company thereof.

Subject to relevant laws and regulations, the Company can provide appropriate protection in a proper manner to Directors who are faced with certain legal actions.

- (2) Details of tax are set out in Note IV “Tax”, “18. Deferred Tax Assets/Liabilities”, “28. Tax Payable”, and “59. Income Tax Expenses” of Note V of the financial statements.
- (3) Details of land leasing, property, plant and equipment are set out in “17. Intangible Assets” and “14. Property, plant and equipment” of Note V of the financial statements.
- (4) Details of various reserves and their changes are set out in the “Consolidated Statement of Changes in Equity” and “40. Special Reserve” in Note V of the financial statements.
- (5) During the reporting period, the Group had complied with relevant laws and regulations having significant impact on the Company.
- (6) As of 31 December 2020, no Director, Supervisor or Senior Management of the Company had any interest in any business that constitutes or may constitute competition against the Company, either directly or indirectly.
- (7) As of 31 December 2020, no financial, business, family relationship or any other substantive relationship existed among the Directors, Supervisors and Senior Management of the Company other than working relationships.

Section V Significant Events

1. PROPOSAL OF PROFIT DISTRIBUTION FOR ORDINARY SHARES OR PROPOSAL OF TRANSFERRING CAPITAL RESERVE TO SHARE CAPITAL

(1) Formulation, implementation and adjustment of a cash dividend policy

According to the Articles of Association of the Company, based on the principle of giving proper regard to both the need to generate reasonable investment return for shareholders and the need to fulfill reasonable funding requirements of the Company, the distribution of dividends will be given priority to cash to shareholders in proportion to their shareholdings, and the Company's cash dividend policy should be maintained on a continuous and stable basis while the conditions and procedures for the adjustment and changes of the dividend distribution policy in line with regulations and transparent. During the Reporting Period, the Company implemented the cash dividend policy effectively without any adjustment. In the process of formulating the profit distribution plan the Independent Directors issued independent opinions. The proportion of cash dividends complied with the provisions of the Company's Articles of Association, that is, in the annual profit distribution, the profits distributed in the form of cash shall not be less than 30% of the distributable profits realized in the year, effectively protecting the legitimate rights and interests of the majority of small and medium investors.

(2) 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)

Unit: million RMB

Year of Distribution	Bonus Shares Distributed Every Ten Shares (share)	Dividends		Amount of Cash Dividends (tax included)	Net profit attributable to ordinary shareholders of Listed Company in Consolidated Financial Statements in the Year of Distribution	Ratios to Net Profits attributable to ordinary shareholders of Listed Company in Consolidated Financial Statements (%)
		Distributed Every Ten Shares (tax included) (RMB)	Transferred Shares Every Ten Shares (share)			
2020	-	1.30	-	1,001.1	1,982.6	50.5
2019	-	0.80	-	616.1	1,128.1	54.6
2018	-	3.60	-	2,772.2	5,943.3	46.6

Section V Significant Events (Continued)

According to the China Accounting Standards, in 2020, the Company achieved a net profit of RMB1,018 million. After accruing 10% of the statutory surplus reserve, the profit available for distribution to shareholders at the end of 2020 was RMB3,655 million. Taking into account the Company's profitability and future sustainable development, the Board of Directors proposed a final dividend of RMB0.13 per share (tax included) in 2020, and the retained earnings were carried forward to 2021, and no capital reserve was transferred to share capital. These distribution plans have yet to be submitted to the annual general meeting for approval.

2. PERFORMANCE OF UNDERTAKINGS

(1) Undertakings made by actual holder, related parties, acquirers and the company during the reporting period or subsisting to the reporting period

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

From 7 April 2020 to 13 July 2020, Magang Investment Company further held an aggregate of 158,282,159 A shares of the Company in total through the centralised bidding system of Shanghai Stock Exchange, accounting for 2.055% of the total share capital of the Company with a total amount of RMB409,617,740.89. During the Reporting Period, Masteel Group has performed its holding commitment in full.

2. During the period when applying to CSRC for redemption for cash offer acquisition of the A shares of the Company in 2019, to avoid horizontal competition, China Baowu issued the "Commitment Letter on Avoiding Horizontal Competition", and undertook:

"(1) As for the situation of partial overlap of business between Baosteel and Magang Stock after this acquisition, according to the requirements of current laws, regulations and relevant policies, the Company will, within 5 years after the issuance of this Letter, try its best to steadily promote the integration of relevant businesses in the shortest time period to solve horizontal competition via comprehensive application of various methods such as assets restructuring, business adjustment, and entrusted management, based on the principle of benefiting the development of listed companies and protecting the interests of shareholders, especially minority shareholders, and according to the requirements of the competent securities regulatory authority as well as that of applicable laws, regulations and relevant regulatory rules at that time.

Section V Significant Events (Continued)

The above mentioned methods include but are not limited to:

- 1) Assets restructuring: Organise and restructure the assets with overlapping businesses in Baosteel and Magang Stock to eliminate such overlap by way of purchasing assets via cash consideration, issuance of share consideration and other different ways allowed by relevant laws and regulations, asset replacement, asset transfer and other feasible restructuring methods;
 - 2) Business adjustment: Organize the business boundary between Baosteel and Magang Stock, and make the utmost efforts to achieve differentiated operation between the two listed companies, for example, divide operation by way of assets transactions and business division, including but not limited to business composition, product grade, application, targeted customers and other aspects;
 - 3) Entrusted management: The decision-making right and management right of relevant assets operation with overlapping businesses of one party are totally entrusted to the other party for unified management by way of signing trust agreements;
 - 4) Other feasible solutions within the range permitted by laws, regulations and relevant policies. The implementation of the above measures shall comply with the necessary review procedures for listed companies and the approval procedures of the securities regulatory authority and relevant competent authorities in accordance with relevant laws and regulations.
- (2) The Company has not yet formulated specific implementation plans and time schedule for solving the overlapping businesses between Baosteel and Magang Stock. The Company will timely perform its information disclosure obligation according to relevant laws and regulations after specific feasible plans are issued.
- (3) Save as the above situation, when the Company or its subsidiaries obtain business opportunities that may compete with the business of Magang Stock, the Company will try its best to give the right of priority of such opportunities and the pre-emptive right of projects to Magang Stock, promote the price of relevant transactions to be fair and reasonable, and take the commercial practices followed for conducting general commercial transactions with independent third parties as its pricing basis.
- (4) The Company undertakes to strictly comply with laws, regulations, the articles of association of listed companies and provisions of relevant management rules, not to seek unjustified interests by taking advantage of its status as an indirect controlling shareholder of listed companies to further impair the rights and interests of other shareholders of the listed companies.

Section V Significant Events (Continued)

- (5) The above commitments made by the Company are valid throughout the period when China Baowu has control over the Company. If any loss is caused to the rights and interests of Magang Stock due to the non-performance of the above commitments, China Baowu shall assume corresponding liabilities for compensation.”

During the Reporting Period, China Baowu didn't violate the above commitments.

3. During the period when applying to CSRC for redemption for cash offer acquisition of the A Shares of the Company in 2019, to regulate and reduce the related party transactions between China Baowu and the Company, China Baowu issued the “Commitment Letter on Regulating and Reducing Related Party Transactions” and undertook:

- “(1) China Baowu will ensure the business independence and asset integrity of Magang Stock with a system of independent and complete production, supply, distribution and other auxiliary and supporting services.
- (2) China Baowu and other enterprises controlled thereby will not seek to close deals with Magang Stock and its subsidiaries in priority by taking advantage of its control over Magang Stock.
- (3) China Baowu and other enterprises controlled thereby shall avoid and reduce unnecessary transactions with Magang Stock and its affiliates. If there are necessary and unavoidable transactions, China Baowu and other enterprises controlled thereby shall conclude agreements with Magang Stock and its affiliates based on the principle of equity, fairness and pay in equal value, perform legal procedures, fulfill information disclosure obligation and follow relevant internal decisions and report and approval procedures according to the requirements of relevant laws, regulations, and regulatory documents as well as the provisions of the “Articles of Association of Maanshan Iron and Steel Company Limited”, and not conduct transactions with Magang Stock and its affiliates under the conditions that are obviously unfair compared to market price, nor infringe the legal interests and rights of Magang Stock and its shareholders by using such transactions.
- (4) If violating the above commitments, China Baowu will bear legal liabilities and compensate for the losses caused to Magang Stock therefrom.”

During the Reporting Period, China Baowu didn't violate the commitments.

Section V Significant Events (Continued)

4. During the period when applying to CSRC for redemption for cash offer acquisition of the A shares of the Company in 2019, to keep the independence of the Company, China Baowu issued the “Commitment Letter on Ensuring the Independence of Listed Companies” and undertook:

- “(1) China Baowu ensures to keep separate from Magang Stock in terms of assets, personnel, finance, institutions and businesses, and strictly comply with the relevant regulations of CSRC about the independence of listed companies, and will not violate Magang Stock’s standard operation procedures, intervene in Magang Stock’s management decision-making procedures, or infringe the legal rights and interests of Magang Stock and its shareholders. China Baowu and its subsidiaries undertake not to occupy the funds of Magang Stock and its subsidiaries in any way.
- (2) The above commitments remain effective during the period when China Baowu has control over Magang Stock. If any loss is caused to Magang Stock due to the nonperformance of the above commitments, China Baowu shall assume corresponding liabilities for compensation.”

During the Reporting Period, China Baowu didn’t violate the above commitments.

- (2) No explanation or reason on whether the company has achieved profit forecast issued under the reporting period on its assets or projects was needed.

- 3. NO APPROPRIATION OF FUND ON A NON-OPERATING BASIS BY THE CONTROLLING SHAREHOLDER OR ITS RELATED PARTIES WAS FOUND DURING THE REPORTING PERIOD, THUS NO APPROPRIATION OF FUND ON A NON-OPERATING BASIS WAS FOUND.**
- 4. NO EXPLANATION FROM THE BOARD OF THE COMPANY ON THE “NON-STANDARD AUDIT OPINIONS” ISSUED BY THE AUDITORS WAS NEEDED.**
- 5. NO EXPLANATION REGARDING THE SIGNIFICANT CHANGES TO ACCOUNTING POLICIES, ACCOUNTING ESTIMATES OR MATERIAL ACCOUNTING ERRORS WAS NEEDED.**

Section V Significant Events (Continued)

6. APPOINTMENT AND REMOVAL OF AUDITORS

Unit: RMB ten thousands

Current Auditors	
Name of auditors in the PRC	Ernst & Young Hua Ming LLP
Remuneration of auditors in the PRC	538.5 (including internal control audit fee of RMB600,000)
Tenure of auditors in the PRC (year)	27

Name		Remuneration
Internal control auditors	Ernst & Young Hua Ming LLP	60

As Ernst & Young Hua Ming LLP, the auditors, had developed a thorough understanding of the Company throughout the years, and their work has been conscientious and detailed, the Audit Committee has recommended re-appointing the firm as the auditors for 2020. The Board of Directors has approved the re-appointment and the related resolution was approved at the 2019 Annual General Meeting held on 29 June 2020.

7. **THERE WAS NO INSOLVENCY OR RESTRUCTURING RELATED MATTERS DURING THE REPORTING PERIOD.**
8. **THERE WERE NO MAJOR LITIGATION OR ARBITRATION CASES DURING THE REPORTING PERIOD.**
9. **NO PUNISHMENT OR RECTIFICATION ON THE COMPANY AND ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, CONTROLLING SHAREHOLDERS, ACTUAL HOLDER AND ACQUIRERS WAS MADE DURING THE REPORTING PERIOD.**
10. **NO EXPLANATION OF THE CREDIBILITY OF THE COMPANY, ITS CONTROLLING SHAREHOLDERS AND ACTUAL HOLDER DURING THE REPORTING PERIOD WAS NEEDED.**

11. SUBSTANTIAL RELATED PARTY TRANSACTIONS

(1) Related party transactions related to normal operations

The transactions between the Group and the Holding together with its subsidiaries were carried out in the daily course of business and were settled in cash or notes. The details of which are as follows:

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

In 2018, the Company and the Holding signed the 2019-2021 “Sale and Purchase of Ore Agreement”, as approved at the shareholders’ general meeting. During the Reporting Period, the amount of related party transactions under the Agreement was as follows:

Unit: RMB’000

	Amount	Proportion of transaction of the same category (%)
Purchase of iron ore, limestone and dolomite	4,091,625	20.34

The prices per ton of iron ore, limestone and dolomite the Group purchases from the Holding and its affiliates every year are negotiated between the parties on arm’s length by referring to comparable market prices and determined as per general commercial terms during the term of the agreement.

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

Section V Significant Events (Continued)

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

In 2018, the Company and Xinchuang Environmental Protection signed the 2019–2021 “Energy Saving and Environmental Protection Agreement”, as approved at the shareholders’ general meeting. From 1 January 2020 to 31 December 2020, the transaction amount under the agreement was as follows:

Unit: RMB’000

	Amount	Proportion of transaction of the same category (%)
Energy saving and environmental protection engineering and services	778,574	10.32
Sales of power, energy medium and finished goods, etc.	67,394	23.57
Total	845,968	/

The price the Group receives annually from the Xinchuang Environmental Protection for the provision of energy conservation and environmental protection engineering and services, as well as the price for the sale of available resources to the Environmental Protection Company, are negotiated between the parties on arm’s length by referring to comparable market prices and determined as per general terms and conditions during the term of agreement.

All Directors of the Board (including Independent Non-executive Directors) who are not associated with the Holding or the Xinchuang Environmental Protection considered that those transactions were carried out in the daily course of business under normal commercial terms and in accordance with the terms of “Energy Saving and Environmental Protection Agreement”. The terms were fair and were in the best interest of the shareholders of the Company as a whole. During the reporting period, the amount of such transaction was under the 2020 annual cap of RMB996 million specified in the “Energy Saving and Environmental Protection Agreement”.

Section V Significant Events (Continued)

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

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

Unit: RMB’000

	Amount	Proportion of transaction of the same category (%)
Steel products, measuring services, and other products and services purchased by the Holding from the Company	499,653	0.67
Property, plant and equipment, building services, and other products and services purchased by the Company from the Holding	5,729,856	12.33
Total	6,229,509	/

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

All Directors of the Board (including Independent Non-executive Directors) who are not associated with the Holding considered that, those transactions were conducted in the daily course of business under normal commercial terms and in accordance with the terms of the agreement. The terms were fair and were in the best interest of the shareholders of the Company as a whole. The transaction amount was under the annual cap of 2020 for that agreement, amounting to RMB8,853 million during the reporting period.

Section V Significant Events (Continued)

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

In 2018, Masteel Finance and the Holding signed the 2019–2021 “Financial Service Agreement”, as approved at the shareholders’ general meeting. During the reporting period, the transaction amount under the agreement was as follows:

Unit: RMB’000

Business Nature		Amount of loan or deposit	Interest income/expenses
Deposit	Maximum daily deposit	11,296,134	Interest expenses
	Monthly average maximum daily deposit	10,864,215	
Loan	Maximum daily loan	2,921,000	Interest income
	Monthly average maximum daily loan	2,894,667	
Other income			
Net income from handling fee and commission			680
Income from discount interest			15,116

When Masteel Finance provides the deposit service to the Holding and its subsidiaries, the interest rate paid on the deposit shall not be higher than the benchmark interest rate and floating range of the same type of deposit set by the People’s Bank of China in the same period, nor be higher than the interest rate offered by other independent commercial banks in China to the Holding and its affiliates in the same period. When Masteel Finance provides loan services to the Holding and its affiliates, the interest rate charged on the loan shall not be lower than the interest rate range set by the People’s Bank of China for the same type of loan in the same period, nor be less than the interest rate charged by other independent commercial banks in China to the Holding and its affiliates for the same type of loan interest in the same period. When Masteel Finance provides other financial services to the Holding and its affiliates, the fees shall not be lower than the standard fees published by the People’s Bank of China for the same type of financial services in the same period (if applicable), nor be less than the fees charged by other independent commercial banks in China for providing the Holding and its affiliates with other financial services of the same type in the same period.

Section V Significant Events (Continued)

All Directors of the Board (including Independent Non-executive Directors) who are not associated with the Holding considered that those transactions were set and conducted in daily course of business under normal commercial terms and in accordance with the terms of “Financial Services Agreement”. The terms were fair and were in the best interest of the shareholders of the Company as a whole. During the reporting period, such transactions were carried out according to the terms for the “Financial Services Agreement” and their transaction amount was under the annual cap of 2020 for that agreement, amounted to the maximum daily loan that did not exceed the daily cap of RMB3,170 million, while interests, handling and service fees were less than RMB200 million.

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

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

Unit: RMB’000

	Amount	Proportion of transaction of the same category (%)
Raw scrap steel materials and other products purchased by Ouyeel Blockchain Finance from the Company	10,404	100
Scrap steel, agency services, and other products and services purchased by the Company from Ouyeel Blockchain Finance	5,508,074	80.82
Total	5,518,478	/

Section V Significant Events (Continued)

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

All Directors of the Board (including Independent Non-executive Directors) who are not associated with the Holding and Ouyeel Blockchain Finance believe that such transactions were concluded by the Group with Ouyeel Blockchain Finance in the ordinary course of business and conducted on normal commercial terms and in accordance with the agreements for relevant transactions. The terms were fair and reasonable, and in the interests of the shareholders of the Company as a whole. During the reporting period, the total amount of such transactions did not exceed the annual cap for 2020 as set out in the agreements for relevant transactions, amounting to RMB7,583 million.

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

In 2018, the Company signed the Continuing Related Party Transactions Agreement for 2019–2021 with Magang Chemicals & Energy, as approved at the shareholders’ general meeting. During the Reporting Period, the amount generated from the related party transactions under the Agreement was as follows:

Unit: RMB’000

	Amount	Proportion of transaction of the same category (%)
Water, electricity, and by-products purchased by Magang Chemicals & Energy from the Company	1,498,872	39.96
Coke oven gas, wastewater treatment services and other products and services purchased by the Company from Magang Chemicals & Energy	1,309,665	100
Total	2,808,537	/

Section V Significant Events (Continued)

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

All Directors of the Board (including Independent Non-executive Directors) who are not associated with the Holding and Magang Chemicals & Energy believe that such transactions were concluded by the Group with Magang Chemicals & Energy in the ordinary course of business and conducted on normal commercial terms and in accordance with the agreements for relevant transactions. The terms were fair and reasonable, and in the interests of the shareholders of the Company as a whole. During the reporting period, the total amount of such transactions did not exceed the annual cap of 2020 as set out in the agreements for relevant transactions, amounting to RMB3,818 million.

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

In 2018, the Company signed the Continuing Related Party Transactions Agreement for 2019–2021 with MaSteel K. Wah, as approved at the shareholders’ general meeting. During the reporting period, the amount generated from the related party transactions under the Agreement was as follows:

Unit: RMB’000

	Amount	Proportion of transaction of the same category (%)
Water granulated slag and other products purchased by Masteel K. Wah from the Company	688,142	80.06

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

Section V Significant Events (Continued)

All Directors of the Board (including Independent Non-executive Directors) who are not associated with the Holding and MaSteel K. Wah believe that such transactions were concluded by the Group with MaSteel K. Wah in the daily course of business and conducted on normal commercial terms and in accordance with the agreements for relevant transactions. The terms were fair and reasonable, and in the interests of the shareholders of the Company as a whole. During the reporting period, the total amount of such transactions did not exceed the annual cap of 2020 as set out in the agreements for relevant transactions, amounting to RMB921 million.

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

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

During the Reporting Period, the amount of transactions under the Agreement was as follows:

Unit: RMB’000

	Amount	Proportion of transaction of the same category (%)
Steel, technical services and other products and services purchased by China Baowu from the Company	201,410	0.27
Ore, infrastructure technology moderation and other products and services purchased by the Company from China Baowu	2,790,168	8.43
Total	2,991,578	/

Section V Significant Events (Continued)

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

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

The aforesaid continuing related party transactions partly constitute continuing connected transactions as defined in 14A.56 of the Listing Rules for the Main Board of The Stock Exchange of Hong Kong.

Ernst & Young Hua Ming LLP, the Company's auditor, was engaged to assure the Group's continuing connected transactions of this year in accordance with Hong Kong Standards on Assurance Engagements 3000 (Revised)-Assurance Engagements Other than Audits or Reviews of Historical Financial Information, with reference to Practice Note 740 Auditor's Letter on Continuing Connected Transactions under the Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young Hua Ming LLP has issued an unqualified conclusion in respect of the continuing connected transactions disclosed above by the Group in accordance with 14A.56 of the Listing Rules of the Hong Kong Stock Exchange. A copy of the auditors' letter will be submitted to the Hong Kong Stock Exchange by the Company.

Section V Significant Events (Continued)

(2) Related party transactions in respect of acquisition and disposal of assets or equity

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

Summary of matter	Index of documents
Transfer part of assets to Magang Chemicals & Energy	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2020-07-15/600808_20200715_3.pdf
Dispose part of land and land assets to the Magang Logistics Company	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2020-08-27/600808_20200827_4.pdf
Transfer 40% equity interests of Ma-steel OCI to Magang Chemicals & Energy	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2020-09-22/600808_20200922_3.pdf
Huabao Duding (Shanghai) Finance Leasing Co., Ltd. merger by absorption Ma Steel (Shanghai) Financial Leasing Co., Ltd.	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2020-10-31/600808_20201031_1.pdf

2. *Matters disclosed in periodic announcements without progress or change in the follow-up implementation*

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

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

Section V Significant Events (Continued)

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

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

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

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

3. Substantial related party transactions in respect of jointly investment

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

Summary of matter	Index of documents
Abandoning capital increase in Ouyeel Blockchain Finance	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2020-07-15/600808_20200715_3.pdf
Joint investment to establish OBEI Co., Ltd.	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2020-09-22/600808_20200922_4.pdf

Section V Significant Events (Continued)

4. Others

1. As of 31 December 2020, there were no obligations or debts between the Company and its related parties except for daily business activities.
2. Significant contracts concluded with the controlling shareholder

Other than mentioned above, the Company or any of its affiliates concluded no significant contracts with China Baowu or the Holding at anytime for the year ended 31 December 2020.

12. MATERIAL CONTRACTS AND EXECUTION THEREOF

- (1) DURING THE REPORTING PERIOD, THERE WAS NO SUBSTANTIAL ENTRUSTMENT, CONTRACTING AND LEASING MADE BY THE COMPANY.
- (2) MAJOR GUARANTEES

Unit: RMB100 million

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

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

Guarantees Offered to Subsidiaries

Total amount of guarantees newly offered to subsidiaries during the reporting period	-3.37
Total ending balance of guarantees offered to subsidiaries (B)	31.50

Total Amount of Guarantees Offered by the Company (including guarantees offered to subsidiaries)

Total amount of guarantees (A+B)	31.50
Total amount of guarantees as a percentage of net assets of the Company (%)	9.66
of which:	
Amount of guarantees offered to shareholders, actual holder and their related parties (C)	–
Amount of debt guarantees offered to those with asset-liability ratio exceeding 70%, directly or indirectly (D)	30.00
The portion of total guarantees in excess of 50% of net assets (E)	–
Total amount of the preceding three types of guarantees (C+D+E)	30.00

Section V Significant Events (Continued)

Explanation on guarantees	During the Reporting Period, with the approval of the Board, the Company withdrew the financing guarantee of EUR42 million (about RMB337 million) provided for MG-Valdunes. At the end of the Reporting Period, the Company provided Ma Steel (Hong Kong) with a guarantee for banking facilities of RMB3 billion for its trade financing, and the actual amount was approximately USD27.59 million, about RMB180 million. The asset-liability ratio of Ma Steel (Hong Kong) exceeded 70%, and such guarantee was approved by the shareholders' general meeting. In addition, at the end of the Reporting Period, Changjiang Steel provided its wholly-owned subsidiaries with a guarantee cap of RMB150 million, and the actual amount was nil.
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Pursuant to the requirements of the CSRC, the independent directors of the Company carried out due diligence process and issued independent opinions in relation to the external guarantees offered by the Company, and considered: as of 31 December 2020, the approval procedures of all external guarantees offered by the Company complied with related regulations and procedures; the Company did not provide any guarantees to controlling shareholders or other related parties in which the Company held less than 50% equity interest, unincorporated entities or individuals; the total amount of guarantees provided by the Company accounted for less than 50% of the net assets as stated in its consolidated financial statements of the most recent year.

- (3) DURING THE REPORTING PERIOD, NO ENTRUSTED CASH ASSET MANAGEMENT WAS MADE BY THE COMPANY.

13. ACTIVE FULFILLMENT OF SOCIAL RESPONSIBILITY

(1) POVERTY RELIEF WORK

1. Targeted poverty relief planning

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

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

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

Section V Significant Events (Continued)

Fourthly, the Company partnered with cadre-reserved households to help fight poverty. All of these cadres strengthened contact with poverty-stricken households through different channels by visiting and expressing sympathy to partnered poverty-stricken households, acquiring timely information on the living and production conditions of these households, and helping these households to solve practical difficulties and problems.

2. *Overview of annual targeted poverty relief*

As the core enterprise of the Holding, the Company's targeted poverty alleviation work is strongly supported by the Holding. In 2020, the Company successfully completed the annual targeted poverty alleviation target set at the beginning of the year.

Firstly, strengthen the organisational leadership and compact the responsibility of poverty elimination. The Party Committee of Magang listened to 4 poverty alleviation reports and researched poverty alleviation works. The Company leaders have deeply assisted poor villages in investigation and survey by batches, listened to work reports, visited poor households, understood the production and living conditions, and actively planned the assistance measures. It organised and carried out the special labor competition of "winning the critical battle against poverty", further strengthened the organizational synergy of joint consultation, planning and promotion of the leading groups for poverty alleviation, and stimulated the dedication and fighting spirit of the work teams and poverty alleviation workers stationed in villages in the battle against poverty.

Secondly, strengthen field investigation and survey, and cultivate pillar industries. The Company organised relevant departments to establish an investigation and survey team to conduct the feasibility investigation and survey of dividends by shares declared by the village collective. Upon analysis and evaluation, it funded Malou Village for RMB200,000 and RMB500,000 respectively for contributing Anhui Qiaozhu Garden Co., Ltd. and Anhui Tianze Intelligent Textile Science & Technology Co., Ltd., and donated RMB600,000 to Liji Village for contributing the seedling and flowers cooperative, so as to obtain stable dividend income for the village collective. In addition, under the guidance of provincial SASAC, Sanhe ethnic village in Funan County was given assistance of RMB300,000 for the construction of rural recreation projects.

Thirdly, promote poverty alleviation in education and improve the ability to get rid of poverty. Focusing on the long-term support mechanism of the Company's Bursary Scheme, the Company found out the number of children from poverty-stricken households and the like going to school, and issued grants totaling RMB240,000 to 120 children from poverty-stricken households throughout the year. Through the implementation of school enterprise cooperation project by Masteel Technician College, 8 students were recruited in Funan County, including 2 poor people registered in files.

Section V Significant Events (Continued)

Fourthly, assist the “dual-base” construction and promote rural revitalisation. Centering on the goal of building a beautiful village, the Company assisted RMB200,000 in the construction of a cultural square in Malou village, RMB400,000 in Liji village for the implementation of a road lighting project, and supported poor villages in the construction of facilities for mass cultural activities and public service facilities to promote rural revitalisation and development.

Fifthly, deepen poverty alleviation through consumption and enhance the assistance effectiveness. Magang has intensified efforts to poverty alleviation through consumption. According to the needs of employees' welfare, distribution of heatstroke prevention articles, and purchase of foods for working meals, it has purchased agricultural products from targeted assistance regions of China Baowu and Funan County, with the accumulative purchase amount of RMB18,200,000. Through purchasing agricultural products instead of donation, it has actively helped poor people in increasing income and eliminating poverty.

Sixthly, perform the subcontracting and guarantee system and implement personal assistance. Magang has continued to carry out the assistance work with certain cadres being responsible for certain households, timely adjusted the assistance arrangement, and regularly organised subcontracting and guarantee cadres to visit poor households, to solve practical problems within the capability, and timely do well in poverty alleviation condolence.

Seventhly, participate in epidemic prevention and control and support flood prevention. Since the start of the epidemic prevention and control work, Magang has arranged cadres stationed in the villages to return to their posts and work in a timely manner to cooperate with two committees of village to do well in propaganda of epidemic prevention and control knowledge, screening of key groups and other works according to the requirements of the local government; after resumption of work and production, it accelerated the implementation of industrial projects for poor households and helped people with the demand of migrant work to return to their posts as soon as possible; it assisted enterprises entering the employment poverty alleviation workshop of Malou Village to conduct equipment transformation and organised the production of civil masks. Facing the severe situation in Liji Village caused by the flood situation of Huaihe River, the cadres stationed in the village of the Company led people to protect the bank and organised the flood prevention work.

Section V Significant Events (Continued)

Eighthly, deepen the guidance of party construction and strengthen assistance of poverty alleviation stationed in village. The poverty alleviation cadres stationed in village actively publicised and implemented various people's livelihood policies for all, helped 18 poor households in improving living environment, implemented poverty alleviation by developing industry to 36 households, released the industrial bonus of RMB136,000, implemented kindergarten funding, education support, tuition and miscellaneous fee reduction and Yulu plan for 88 times, helped 150 families living in poverty, such as orphans, widows, the disabled and people in straitened circumstances, implemented the social welfare policies, and achieved full coverage of poverty alleviation through health.

3. Results of targeted poverty relief efforts

Unit: RMB ten thousands

Indicator	Figures and Progress
I. Summary	
1. Funds	1,522.8
2. Number of persons getting rid of poverty (person)	69
II. Breakdown	
1. Poverty relief by industries	
1.1 Types of industrial poverty alleviation projects	✓Asset income poverty alleviation
1.2 Number of industrial poverty alleviation projects	3
1.3 Investment amount of industrial poverty alleviation projects	140
1.4 Number of persons getting rid of poverty (person)	69
2. Other items	
2.1 Investment amount	1,382.8
	Purchase and sell the agricultural products in poor areas amounting to
2.2 Description of other items	RMB13.828 million

Section V Significant Events (Continued)

(2) ENVIRONMENTAL INFORMATION

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

(1) Pollutant emission information

The Company, Ma Steel (Hefei) and Changjiang Steel operate in highly polluting industries identified by the state environment authority and all of them implement a series of emission standards for the iron and steel industry. Main pollutants are waste water, waste gases and solid wastes. Details are as follows:

Name of Company	Pollutant Category	Typical Pollutants	Way of Discharge	Processing Equipment	Number and Distribution of Discharge Outlets
Magang Stock	Waste gases	Dust, NO _x , SO ₂ , etc.	Emitted into the air via chimney stack after dust elimination, desulfidation and denitration	246 sets	271 distributed along the production lines
	Waste water	SS, COD, oil, ammonia nitrogen, etc.	Discharged after up to standard processing	66 sets	22
	Solid wastes	Iron dust, iron oxide scale, metallurgical slag, etc.	Recycled and compliance treatment	15 sets	–
Changjiang Steel	Waste gases	Dust, NO _x , SO ₂ , etc.	Discharged after up to standard processing	47 sets	60 distributed along the production lines
	Waste water	SS, COD, oil, ammonia nitrogen, etc.	Discharged after up-to-standard processing	9 sets	1
	Solid wastes	Iron dust, iron oxide scale, metallurgical slag, etc.	Partially recycled internally while partially transferred to external units for treatment and utilisation	–	–
Ma Steel (Hefei)	Waste gases	Dust, acid fog, alkali fog, oil fog, etc.	Discharged after up-to-standard processing	11 sets	16 distributed along the production lines
	Waste water	Acid and alkali, oil, etc.	Discharged after up to standard processing	3 sets	1
	Hazardous wastes	Emulsified liquid slag, oil sludge, waste filter paper, bottom residue, etc.	Treatment by qualified service provider	–	–

Section V Significant Events (Continued)

During the Reporting Period, the emission density, total emission amount of main typical pollutants and the approved annual emission permit limit are as follows:

Name of Company	Pollutant Category	Typical Pollutants	Emission density	Emission Permit Limit (Ton/Year)	Total Emissions During the Reporting Period (Ton)
Magang Stock	Waste gases	Dust	≤14.48mg/m3	34,498.33	15,711 (note)
		SO ₂	≤14.52mg/m3	21,069.82	6,791
		NO _x	≤28.71mg/m3	39,568.21	14,342
	Waste water	COD	≤13.73mg/l	1,565.28	526
		Ammonia nitrogen	≤0.9mg/l	124.56	32.75
Changjiang Steel	Waste gases	Dust	20.03mg/m3	10,692.31	6,654 (note)
		SO ₂	11.92mg/m3	4,560.12	1,198.3
		NO _x	40.37mg/m3	7,560.48	4,057.5
	Waste water	COD	12.14mg/l	270	12.856
		Ammonia nitrogen	0.093mg/l	27	0.098
Ma Steel (Hefei)	Waste gases	Dust	≤20mg/m3	51.90	7.65 (note)
		SO ₂	≤150mg/m3	6.04	2.51
		NO _x	≤300mg/m3	38.06	30.08
	Waste water	COD	≤200mg/L	106.82	26.10
		Ammonia nitrogen	≤15mg/L	16.10	0.40
	Hazardous wastes	Emulsified liquid slag	N/A	700	557.2
		Oil sludge	N/A	450	391.64
		Waste filter paper	N/A	120	113.68
		Bottom residue	N/A	90	86.7

Section V Significant Events (Continued)

Note: the total discharge amount during the reporting period is based on the standard statistics of the original Ministry of Environmental Protection (renamed as Ministry of Ecology and Environment of the PRC in 2018) in accordance with the Technical Specification for Application and Issuance of Discharge Permit for Iron and Steel Industry (HJ846-2017). During the Reporting Period, the total amount of smoke and dust emission of the Company includes 4,101 tonnes of organised emission and 11,610 tonnes of unorganised emission. The total amount of smoke and dust emission of Changjiang Steel includes 2,013 tonnes of organised emission and 4,641 tonnes of unorganised emission. Among them, the organised emission is calculated according to the monitoring data, while the unorganised emission is calculated according to the emission coefficient specified in the original Ministry of Environmental Protection's "Calculation Methods of Pollutants Discharge Amount for Seventeen Industries Classified in Pollutants Discharge Permitting Administration (Including Factors & Material Measuring Methods) (Trial)" in 2017.

In 2019 and the period before, the relevant data is based on the statistics of statement of China Steel Association. According to the statement of China Steel Association, the total smoke and dust emission of Magang in the Reporting Period is 4,101 tonnes, that of Changjiang Steel is 2,013 tonnes and that of Ma Steel (Hefei) is 7.65 tonnes.

(2) Construction and operation of pollution prevention and control facilities

In 2020, the Company added 18 sets of environmental treatment facilities such as No.1, No.2, No.5 and No.8 coke oven coal gas desulfurization and denitrification, implemented the upgrading and transformation of 32 sets of environmental protection facilities such as textile dust bag of No.4 Steel Rolling Plant, and added 8 sets of wastewater treatment facilities such as Liufenhe wastewater advanced treatment station, desulfurization wastewater treatment facilities in thermal power plant and sewage treatment facilities in southern slag piles.

The Company's various pollution prevention and control facilities were fully equipped, technically feasible and operating normally in 2020. On-line surveillance and monitoring facilities were installed at the main discharge outlets of waste water and waste gases, and were networked in accordance with government requirements. Industrial solid waste disposal facilities were available, while facilities for silencing, noise reduction as well as sound insulation and isolation were provided in each production process to effectively control ambient noise.

Pollution prevention and control facilities were constructed for all the production processes of Changjiang Steel in accordance with the EIA requirements. They were running synchronously with the main production lines, and were operating in good condition.

Section V Significant Events (Continued)

The waste gas treatment facilities of Ma Steel (Hefei) were all operating online, launched along with the operation of the production lines, and were all operating normally. The waste water pollution prevention and control facilities were operating normally on-line for 24 hours.

- (3) Environmental impact assessment of construction projects and other environmental protection administrative licenses

The Company carried out the project environmental assessments work of construction projects according to law and strengthened the project environmental assessments management of construction projects. In 2020, a total of 50 projects have been carried out according to regulations, of which 20 projects have been approved, 17 projects have been put on record, and the other projects were being carried out in an orderly manner.

Due to the changes of organisation, production line, pollution prevention and control facilities and discharge outlet, the Company carried out the change of emission permit in accordance with the requirements of relevant specifications, and integrated the four permits of steel and iron, coking and power plant, which has been submitted to Maanshan City Ecological Environment Bureau (hereinafter referred to as "Municipal Environment Bureau") and completed the preliminary examination.

Changjiang Steel obtained environmental impact assessment reports and approvals for all its production facilities as well as pollutant discharge permits for the iron & steel industry and thermal power industry. In 2020, Changjiang Steel received environmental impact assessment approvals for 9 projects including the 140-tonne electric furnace steelmaking project and the environmental upgrade and renovation project for raw materials store yard.

The production facilities of Ma Steel (Hefei) obtained environmental impact assessment reports and approvals as well as pollutant discharge permits for the steel & iron industry.

- (4) Prepared Emergency Response Plans for Environmental Incidents

In 2020, the Company completed the amendments and re-file the emergency response plans, including 1 comprehensive emergency response plan, 21 special emergency response plans and 25 on-site response plans.

Changjiang Steel and Ma Steel (Hefei) have compiled the "Prepared Emergency Response Plans for Environmental Incidents" in accordance with national requirements and have filed these documents with the local environmental authorities.

Section V Significant Events (Continued)

(5) Environmental Self-monitoring Programme

The Company, Changjiang Steel and Ma Steel (Hefei) Company have compiled the “Environmental Self-monitoring Programme” in accordance with national requirements and have filed these documents with the local environmental authorities.

The Company adopted two methods of self-monitoring: continuous automatic monitoring and manual monitoring. At present, the Company has 315 sets of online monitoring devices to carry out continuous and automatic monitoring of discharge outlets without interruption. The monitoring data are transmitted synchronously to the environmental authorities, and disclosed on a real-time basis. Qualified third-party monitors are entrusted to carry out manual monitoring, and the monitoring data are disclosed on a real-time basis.

(6) Other environmental information that should be disclosed

During the Reporting Period, due to accidental discharges in an unorganised manner and excessive emission, Municipal Environment Bureau imposed 7 penalty decisions on the Company and its subsidiaries with a total fine of RMB2.64 million. All the violations have been rectified.

According to the Law on Cleaner Production and the requirements of the Municipal Environment Bureau, the Company started the cleaner production audit in May 2020 and prepared the Cleaner Production Audit Report of Magang Stock. The report was reviewed by the technical assessment meeting held by the Municipal Environment Bureau, and has been submitted to the Municipal Environment Bureau for review.

2. *No explanation shall be made on environmental protection situation of companies except for the Key pollutant producers.*

(3) SOCIAL RESPONSIBILITY WORK

Further details are stated in “Maanshan Iron & Steel Company Limited Social Responsibility Report 2020”. Information sources: www.sse.com.cn, www.hkex.com.hk.

Section V Significant Events (Continued)

14. OTHER MAJOR EVENTS

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

Items	Date of publication
Announcement on Estimated Decrease in Profit in Annual Results of 2019	23 January 2020
Announcement on Re-appointment of Accounting Firm	31 March 2020
Announcement on the Profit Distribution Plan for the Year 2019	31 March 2020
Announcement on Increase in Shareholding of the Company and Subsequent Plan of Increase in Shareholding by the Controlling Shareholder and Its Party Acting in Concert	8 April 2020
Announcement on Receipt of Government Grants	30 April 2020
Announcement of Connected Transactions in Relation to entering into the “Continuing Connected Transactions Supplement Agreement” with the Holding	8 May 2020
Announcement of Connected Transactions in Relation to entering into the “Continuing Connected Transactions Supplement Agreement” with Ouyeel Blockchain Finance	8 May 2020
Announcement of Connected Transactions in Relation to entering into the “Supplementary Agreement for Continuing Connected Transaction” with China Baowu	8 May 2020
Announcement on the Progress of the Increase in Shareholding of the Company by the Controlling Shareholder and Its Party Acting in Concert	19 May 2020 20 May 2020 3 July 2020
Announcement on Change of Employee Supervisor	30 June 2020
Announcement on the Results of the Increase in Holding of Shares of the Company by the Controlling Shareholder and its Party Acting in Concert	14 July 2020
Announcement on Connected Transactions (Transfer Assets to Magang Chemicals & Energy and Abandoning Capital Increase in Ouyeel Blockchain Finance)	15 July 2020
Announcement of the Implementation of the 2019 Annual Equity Distribution	22 July 2020
Announcement on Connected Transactions (Dispose Part of Land and Land Assets to the logistics company of the Holding)	27 August 2020
Announcement of Foreign Investment and Connected Transactions (Establishment of Ouyeel Industrial Products Co., Ltd)	22 September 2020
Announcement on Connected Transactions (Transfer 40% equity interests of Magang OCI)	22 September 2020
Announcement on Receipt of Government Grants by Controlling Subsidiaries	31 October 2020
Announcement on Connected Transactions (Merger by Absorption of Ma Steel (Shanghai) Financial Leasing Co., Ltd.)	31 October 2020
Announcement in Relation to Resignation of Director and General Manager	21 November 2020

Section V Significant Events (Continued)

Items	Date of publication
Announcement in Relation to the Postponement of Election of the Board of Directors and the Supervisory Committee	26 November 2020
Announcement in Relation to the Confirmation of Gains on the Disposal of Assets by Controlling Subsidiary	19 December 2020
Announcement in Relation to Appointment of Senior Management	19 December 2020
Announcement on Change of Shareholding Structure of Controlling Shareholder	31 December 2020

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

Section VI Movements in Share Capital and Shareholders

1. TABLE ON ORDINARY SHARE MOVEMENTS

Unit: Share

	Before the change		Increase/(decrease) during the year					After the change	
	Number of shares	Percentage (%)	New shares issued	Bonus shares	Shares converted from surplus reserve	Others	Sub-total	Number of shares	Percentage (%)
I. Shares with selling restriction	-	-	-	-	-	-	-	-	-
II. Shares without selling restriction	7,700,681,186	100	-	-	-	-	-	7,700,681,186	100
1. RMB ordinary shares	5,967,751,186	77.5	-	-	-	-	-	5,967,751,186	77.5
2. Foreign shares listed domestically	-	-	-	-	-	-	-	-	-
3. Foreign shares listed overseas	1,732,930,000	22.5	-	-	-	-	-	1,732,930,000	22.5
4. Other shares	-	-	-	-	-	-	-	-	-
III. Total	7,700,681,186	100	-	-	-	-	-	7,700,681,186	100

During the Reporting Period, there was no movement in the total number of ordinary shares and the structure of share capital.

2. SHAREHOLDERS AND ACTUAL HOLDERS

(1) TOTAL SHAREHOLDERS

Numbers of Shareholders as end of the reporting period (unit)	193,278
Numbers of Shareholders as end of last month prior to the report date (unit)	188,521

Section VI Movements in Share Capital and Shareholders (Continued)

(2) SHAREHOLDING OF THE TOP TEN SHAREHOLDERS AND THE TOP TEN TRADABLE SHAREHOLDER (OR SHAREHOLDERS WITHOUT SELLING RESTRICTIONS) AT THE END OF THE REPORTING PERIOD

Unit: Share

Shareholding of the top ten shareholders							
Name of Shareholder (Full Name)	Increase/ Decrease within the Reporting Period	No. of Shares at the End of Period	Percentage (%)	No. of Shares under Restricted Condition for Sales	Pledged or Frozen Situations Share Status	Number	Shareholder Nature
Magang (Group) Holding Co., Limited	–	3,506,467,456	45.535	–	Nil	–	State-owned shareholder
Hong Kong Securities Clearing Company (Nominees) Limited (Note)	894,738,458	1,717,091,050	22.298	–	Unknown	Unknown	Unknown
Magang Group Investment Ltd.	158,282,159	158,282,159	2.055	–	Nil	–	State-owned shareholder
Central Huijin Investment Ltd.	–	142,155,000	1.846	–	Unknown	Unknown	State-owned shareholder
Hong Kong Securities Clearing Company Ltd.	–9,376,808	105,849,129	1.375	–	Unknown	Unknown	Unknown
China Merchants Bank Ltd. – SSE Dividend Index ETF	49,641,791	79,163,604	1.028	–	Unknown	Unknown	Unknown
Zhang Wu	Unknown	24,800,000	0.322	–	Unknown	Unknown	Unknown
Li Xiaozhong	Unknown	16,679,455	0.217	–	Unknown	Unknown	Unknown
Chen Xiaomin	Unknown	13,974,135	0.181	–	Unknown	Unknown	Unknown
Shao Jianjun	Unknown	11,366,576	0.148	–	Unknown	Unknown	Unknown

Section VI Movements in Share Capital and Shareholders (Continued)

Top Ten Shareholders with unrestricted selling condition			
Name of Shareholder	The number of unrestricted outstanding shares held	Type and Quantity of Shares	
		Type	Quantity
Magang (Group) Holding Co., Limited	3,506,467,456	Ordinary shares in RMB	3,506,467,456
Hong Kong Securities Clearing Company (Nominees) Limited (Note)	1,717,091,050	Overseas listed shares	1,717,091,050
Magang Group Investment Ltd.	158,282,159	Ordinary shares in RMB	158,282,159
Central Huijin Investment Ltd.	142,155,000	Ordinary shares in RMB	142,155,000
Hong Kong Securities Clearing Company Ltd.	105,849,129	Ordinary shares in RMB	105,849,129
China Merchants Bank Ltd. – SSE Dividend Index ETF	79,163,604	Ordinary shares in RMB	79,163,604
Zhang Wu	24,800,000	Ordinary shares in RMB	24,800,000
Li Xiaozhong	16,679,455	Ordinary shares in RMB	16,679,455
Chen Xiaomin	13,974,135	Ordinary shares in RMB	13,974,135
Shso Jianjun	11,366,576	Ordinary shares in RMB	11,366,576

Notes on the above shareholders' affiliated relation or concerted action

At the end of the reporting period, the controlling shareholder of Magang Group Investment Ltd. is Magang (Group) Holding Co., Limited, hence they are persons acting in concerted action. In addition, Magang (Group) Holding Company Limited has no affiliated 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 affiliated relation among other foregoing shareholders and whether they are persons acting in concerted action.

Note: At the end of the Reporting Period, Hong Kong Securities Clearing Company (Nominees) Ltd. held 1,717,091,050 H shares of the Company on behalf of its clients, among which, 896,387,958 shares are held on behalf of Baosteel Hong Kong Investment Company Limited.

During the Reporting Period, no shares held by the Magang (Group) Holding Company Limited and Magang Group Investment Ltd. were pledged, frozen or hosted. However, the Company was unaware whether shares held by other shareholders who have 5% and above of the total were pledged, frozen or hosted.

Section VI Movements in Share Capital and Shareholders (Continued)

(3) INTERESTS OR SHORT POSITIONS RECORDED ACCORDING TO THE SECURITIES AND FUTURES ORDINANCE

As of 31 December 2020, the Company was aware of below interests or short positions recorded according to the Securities and Futures Ordinance.

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

As at 31 December 2020, none of the directors, supervisors, or senior management had any interests or short positions in the share capital or relevant share capital and bonds of the Company or any of its associated corporations (definition refers to the Securities and Futures Ordinance).

Save as disclosed above, as at 31 December 2020, the Company was no aware of any interests or short positions recorded according to the Securities and Futures Ordinance.

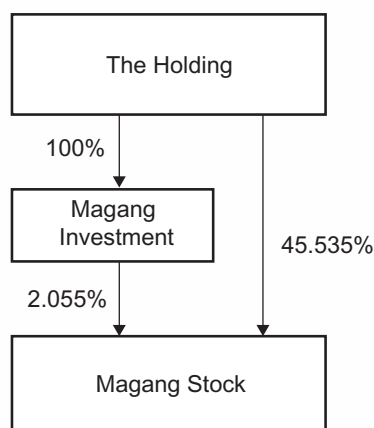
3. SUBSTANTIAL SHAREHOLDERS AND ACTUAL HOLDER

(1) CONTROLLING SHAREHOLDERS

1. Legal Person

Name	Magang (Group) Holding Co., Limited
Head of unit or legal representative	Ding Yi
Date of Incorporation	1 September 1993
Major business operations	Mining and sorting of mineral products; construction, construction materials, machine manufacturing, maintenance and design; external trading; domestic trading; distribution and storage of materials; property management; consulting service; rental services; agriculture and forestry.
Equity in other domestic and overseas listed companies controlled or partially owned during the reporting period	At the end of the reporting period, in addition to the Company's stock, Magang (Group) Holding Company Limited also held 11.0060 million shares of Huaibei Mining, with a shareholding ratio of 0.51%; holding 0.0505 million shares of Huishang Bank, with a shareholding ratio of 0.0004%. During the reporting period, the substantial shareholders did not control or partially own any other domestic and overseas listed company.

2. Block Diagram of Property Rights and Controlling Relationships between the Company and Controlling Shareholders



Section VI Movements in Share Capital and Shareholders (Continued)

(2) ACTUAL HOLDER

1. Legal Person

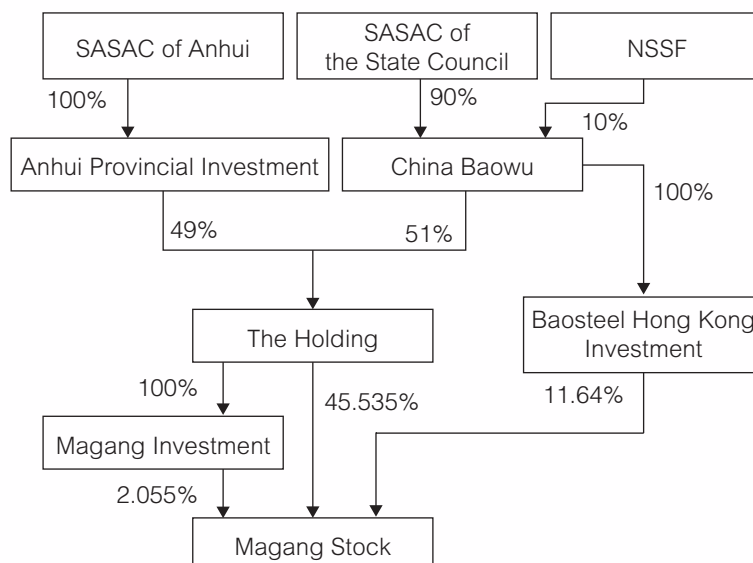
At the end of 2020, the actual holder of the Company is the SASAC of the State Council.

On 19 September 2019, the SASAC of Anhui transferred its 51% equity in the Holding to China Baowu according to the equity transfer agreement signed with China Baowu on 31 May 2019. After such equity transfer, China Baowu became the controlling shareholder of the Holding by holding 51% of its equity, and indirectly held 45.535% of the Company's equity via the Holding, obtaining its control over the Company. Given China Baowu is wholly owned by the SASAC of the State Council, the actual holder of the Company was changed from the SASAC of Anhui to the SASAC of the State Council. The proportion of the Holding's equity held by the SASAC of Anhui was decreased from 100% to 49%. The direct controlling shareholder of the Company remained the same, being the Holding, which held 45.535% of the Company's shares.

Name	China Baowu Steel Group Corporation Limited
Head of unit or legal representative	Chen Derong
Date of Incorporation	1 January 1992
Major business operations	Operation of state-owned assets within the range authorized by the State Council; operation and investment of state-owned capital
Equity in other domestic and overseas listed companies controlled or partially owned during the Reporting Period	As of the end of 2020, the listed companies with over 5% shares being held by China Baowu directly or indirectly were as follows: Baoshan Iron & Steel Co., Ltd. (62.29%), Shanghai Baoxin Sight Co., Ltd. (50.15%), Xinjiang Bayi Iron and Steel Co., Ltd. (50.02%), Guangdong Shaogan Iron and Steel Co., Ltd. (53.05%), Shanghai Baosteel Packaging Co., Ltd. (59.89%), Shanxi Taigang Stainless Steel Co., Ltd. (63.31%), Tibet Mining Development Co., Ltd. (22.27%), Daming International Holdings Limited (16.66%), Beijing Shougang Co., Ltd. (15.00%), China Pacific Insurance (Group) Co., Ltd. (14.06%), Nanjing Yunhai Special Metal Co., Ltd. (14.00%), New China Life Insurance Co., Ltd. (12.09%), Shanxi Securities Co., Ltd. (10.03%) and China Bohai Bank Co., Ltd. (9.49%).

Section VI Movements in Share Capital and Shareholders (Continued)

2. Block Diagram of Property Rights and Control Relationships between the Company and Actual Holders



4. 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.

5. PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the reporting period, the Group didn't purchase, sell or redeem any listed shares of the Company.

6. PREFERRED SHARES ISSUANCE AND PRE-EMPTIVE RIGHTS

During the reporting period, the Company didn't issue preferred shares. 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 shareholdings first.

7. TRANSACTIONS INVOLVING ITS OWN SECURITIES

For the year ended 31 December 2020, the Group didn't issue or grant any convertible securities, options, equity warrants or other similar warrants. At the end of the reporting period, the Group had no redeemable securities.

8. TAX RELIEF OF HOLDERS OF LISTED SECURITIES

For the year ended 31 December 2020, holders of the Company's listed securities were not eligible for tax relief by holding such securities according to their Chinese legal status.

Section VII Directors, Supervisors, Senior Management and Employees

1. CHANGES IN SHAREHOLDING AND EMOLUMENTS

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

Unit: RMB ten thousands

Name	Position	Gender	Age	Date of term commencement	Date of term termination	Annual emoluments before tax during the reporting period	Receive emoluments from the Company's related parties
Ding Yi	Chairman	Male	57	2013-8-9	Note	–	Yes
Wang Qiangmin	Director	Male	51	2020-3-5	2020-11-20	115.05	No
	General Manager			2019-12-30	2020-11-20		
Qian Haifan	Director	Male	60	2011-8-31	2021-3-19	–	Yes
Zhang Wenyang	Director	Male	53	2017-11-30	2021-3-16	94.98	No
	Deputy General Manager			2017-2-14	2020-12-18		
	General Manager			2020-12-18	2021-3-16	10.70	
Ren Tianbao	Director	Male	57	2011-8-31	Note	103.30	No
Zhang Chunxia	Independent Director	Female	58	2017-11-30	Note	10.00	No
Zhu Shaofang	Independent Director	Female	57	2017-11-30	Note	10.00	No
Wang Xianzhu	Independent Director	Male	41	2017-11-30	Note	10.00	No
Zhang Xiaofeng	Chairman of Supervisory Committee	Male	59	2008-8-31	Note	115.85	No
Zhang Qianchun	Supervisor	Male	59	2017-11-30	Note	–	Yes
Yan Kailong	Supervisor	Male	56	2015-12-1	2020-6-29	31.99	No
Geng Jingyan	Supervisor	Female	46	2020-6-29	Note	12.00	No
Yang Yada	Independent Supervisor	Female	65	2017-11-30	Note	7.37	No
Qin Tongzhou	Independent Supervisor	Male	51	2017-11-30	Note	7.37	No
Mao Zhanhong	Deputy General Manager	Male	51	2021-3-16	Note	–	Yes
Tian Jun	Deputy General Manager	Male	60	2017-2-14	2021-3-16	102.67	No
Fu Ming	Deputy General Manager	Male	54	2017-10-11	Note	103.61	No
Zhang Maohan	Deputy General Manager	Male	51	2020-12-18	Note	8.61	No
He Hongyun	Secretary of the Board of Directors	Female	49	2018-4-19	Note	54.46	No
Total	/	/	/	/	/	797.96	/

Section VII Directors, Supervisors, Senior Management and Employees (Continued)

Note: The ninth session of the Board of the Company expired on 30 November 2020. In view of the fact that the nomination of candidates for the new session of Directors of the Board and Supervisors of the Supervisory Committee of the Company has not yet been completed, in order to maintain the continuity and stability of the work of the Board and the Supervisory Committee, the general election of the Board and Supervisory Committee of the Company has been appropriately postponed. At the same time, the term of office of the professional committees and senior management of the ninth session of Board of the Company shall also be extended accordingly.

Explanation: During the Reporting Period, the pension plan payment of Wang Qiangmin, current Director and general manager, whose organizational affiliation procedure were under progress, was paid by his former employer. Director Ren Tianbao received annual remuneration from Masteel wheel & Axle. The annual emoluments after tax of independent Directors and independent Supervisors were RMB80,000 and RMB60,000 respectively, and personal income tax from the annual emoluments of Independent Directors and Independent Supervisors were withheld by the Company.

The Company's current Directors, Supervisors and senior management and their working experiences are as follows:

Name	Working Experience
Ding Yi	Mr. Ding is the current Chairman of the Company. He served as the Deputy General Manager of the Company from January 2004 to July 2011. From July 2011 to June 2013, he served as the Deputy General Manager of the Holding. From June 2013 to December 2020, he served as the General Manager of the Holding. Effective from August 2013, he served as the Chairman of the Company. Mr. Ding also serves as the Chairman of Magang Group Finance Co., Ltd. and the Director of Magang Group Investment Ltd..
Ren Tianbao	Mr. Ren is the current Director of the Company. He served as the Director of the Company since August 2011. From February 2012 to May 2015, he served as the Secretary to the Board of the Company. From May 2015 to December 2019, he served as the Deputy General Manager of the Holding. Since March 2020, Mr. Ren served as the Chairman of Ma-Steel Rail Transportation Material Technology Co., Ltd..
Zhang Chunxia	Ms. Zhang is the current independent Director of the Company. From January 2006 to March 2018, she served as a professor-level senior engineer and doctoral supervisor in the State Key Laboratory of Advanced Steel Processes and Materials of the Central Iron and Steel Research Institute. She served as an Independent Director of the Company since 30 November 2017. Ms. Zhang is also a member of the Expert Committee of the China Society of Metals.

Section VII Directors, Supervisors, Senior Management and Employees (Continued)

Name	Working Experience
Zhu Shaofang	Ms. Zhu is the current Independent Director of the Company. From February 1999 to October 2016, she was the audit manager and partner of Deloitte Touche Tohmatsu Certified Public Accountants LLP and the managing partner of Nanjing Branch. She served as an Independent Director of the Company since 30 November 2017.
Wang Xianzhu	Mr. Wang is the current Independent Director of the Company. From March 2012 to September 2013, he served as the Vice President of the School of Economics, Anhui University of Technology. From September 2013 to November 2015, he served as the Vice President of the School of Business of Anhui University of Technology. From November 2015 to September 2019, he served as the Secretary of the Communist Youth League Committee of Anhui University of Technology. From November 2016 to October 2018, he served as the Standing Committee Member of the Huashan District Party Committee of Maanshan City and the Deputy Head of the district government (serving temporary positions). From September 2019 to November 2020, he was the Executive Vice President of the School of Postgraduate of Anhui University of Technology. Since November 2020, he has served as Director of the personnel department of Anhui University of Technology. Since 30 November 2017, he was an independent Director of the Company.
Zhang Xiaofeng	Mr. Zhang is the current Chairman of the Company's Supervisory Committee. From August 2008 to March 2021, he served as the Chairman of the Holding and the Company's Labor Union. He assumed the Chairmanship of the Company's Supervisory Committee since 31 August 2008.
Zhang Qianchun	Mr. Zhang is currently the Supervisor of the Company. From September 2014 to March 2021, he became the Deputy Chief Accountant of Magang (Group) Holding Company Limited, and was appointed as a Supervisor of the Company since 30 November 2017.
Geng Jingyan	Ms. Geng is currently the Supervisor of the Company. From January 2014 to January 2020, she successively served as Deputy Chief Inspector and Chief Inspector of the Audit Office of the Disciplinary Committee (Supervision and Audit Department) of Magang (Group) Holding Company Limited. Since January 2020, she served as the Chief Inspector of the audit function of the Audit Department of the Company, and she has served as the Supervisor of the Company since 29 June 2020. In addition, Ms. Geng concurrently serves as a supervisor of Magang Hongfei Electricity Power Co., Ltd..

Section VII Directors, Supervisors, Senior Management and Employees (Continued)

Name	Working Experience
Yang Yada	Ms. Yang is currently the Independent Supervisor of the Company. She is also the Professor, Master Instructor of School of Business of Anhui University of Technology. Ms. Yang was appointed the Professor of School of Business of Anhui University of Technology in September 2002. She sequentially served as the Head of Business Administration Department, Deputy Dean and Dean of School of Management of Anhui University of Technology. She was elected as a member of the 10th, 11th and 12th National People's Congress. Ms. Yang was appointed the Independent Director and the Independent Supervisor of the Company on 31 August 2011 and 30 November 2017, respectively.
Qin Tongzhou	Mr. Qin is currently the Independent Supervisor of the Company. He is also the CFO of China Fire & Security Group Inc. ("CFSG") and Deputy Manager of Sureland Industrial Firefighting Limited, a wholly owned subsidiary of CFSG. Having years of audit experience, Mr. Qin was engaged in audit work in Ernst & Young Hua Ming from March 2001 to March 2010. He was appointed the Deputy General Manager of Sureland Industrial Firefighting Limited of CFSG in March 2010 and CFO of CFSG since July 2010. Mr. Qin was appointed the Independent Director of the Company on 31 August 2011, and the Independent Supervisor of the Company since 30 November 2017.
Mao Zhanhong	Mr. Mao is currently the Deputy General Manager of the Company. From January 2017 to April 2019, he served as the Deputy Director of the Cold Rolling Technology Management Promotion Committee of Baosteel Co., Ltd., and the Deputy General Manager of Zhanjiang Iron and Steel. From April 2019 to March 2020, Mr. Mao served as the Deputy Director of the Cold Rolling Technology Management Promotion Committee and the director of the Manufacturing Management Department of Baosteel Co., Ltd.. From March 2020 to February 2021, he served as the Assistant to General Manager and the Head of Manufacturing Management Department and Deputy Director of Cold Rolling Technology Management Promotion Committee of Baosteel Co., Ltd.. Since February 2021, he was appointed as a member of the Standing Committee of the Party Committee of Magang (Group) Holding Company Limited. Since 16 March 2021, he was appointed as the Deputy General Manager of the Company.

Section VII Directors, Supervisors, Senior Management and Employees (Continued)

Name	Working Experience
Fu Ming	<p>Mr. Fu is currently the Deputy General Manager of the Company. In February 2012, he was appointed as the Manager of the Company's Production Department. From December 2013 to July 2018, he has been the Director and Deputy Party Secretary of the Company's Second Ironmaking Plant. He was appointed as the Deputy General Manager of the Company on 11 October 2017. Since December 2019, he was appointed as the Deputy General Manager and Safety Director of the Company. He resigned from the position of Safety Director in January 2021.</p>
Zhang Maohan	<p>Mr. Zhang is currently the Deputy General Manager of the Company. From September 2017 to February 2020, he served as the assistant to the General Manager of the Company and General Manager of the sales company. From February 2020 to June 2020, he served as the assistant to the General Manager of the Company, Secretary of the Party Committee and General Manager of the sales company. From June 2020 to December 2020, he served as the Assistant to the General Manager of the Company, Secretary of the Party Committee and General Manager of the sales company, and General Manager of the Marketing Center. From December 2020, Mr. Zhang served as the member of the Standing Committee of the Party Committee of the Holding, member of the Standing Committee of the Party Committee and Deputy General Manager of the Company, Secretary of the Party Committee and General Manager of the sales company, and General Manager of the Marketing Center. Mr. Zhang concurrently served as a Chairman in companies including Ma Steel (Hong Kong) Co., Ltd., Maanshan (Chongqing) Material Technology Co., Ltd., Ma Steel (Jinhua) Processing and Distribution Co., Ltd., Wuhan Material Technology Co., Ltd., Ma Steel (Yangzhou) Processing and Distribution Co., Ltd., Ma Steel (Wuhu) Processing and Distribution Co., Ltd., Ma Steel (Hefei) Processing and Distribution Co., Ltd., Maanshan Iron & Steel (Hefei) Material Technology Co., Ltd., Ma Steel (Guangzhou) Processing and Distribution Co., Ltd., and Ma Steel (Cihu) Processing and Distribution Co., Ltd., also concurrently served a director in Ma Steel America Co., Ltd., Ma Steel (Hefei) and Ma Steel (Hefei) Plate Co., Ltd., as well as concurrently served as an executive Director in companies including Ma' Anshan (Shanghai) Iron and Steel Sales Co., Ltd., Ma' Anshan (Nanjing) Iron and Steel Sales Co., Ltd., Ma' Anshan (Hangzhou) Iron and Steel Sales Co., Ltd., Ma' Anshan (Wuxi) Iron and Steel Sales Co., Ltd. and Maanshan (Changchun) Iron and Steel Sales Co., Ltd..</p>

Section VII Directors, Supervisors, Senior Management and Employees (Continued)

Name	Working Experience
He Hongyun	Ms. He is currently the Secretary of the Board of the Company. From June 2015 to April 2017, she was appointed as the securities affairs representative office; since April 2017, as the Deputy Director of the secretariat of the Board. Since 19 April 2018, she became the Secretary of the Board of the Company and Joint Company Secretary. Since June 2020, she concurrently served as the Deputy Director of the Legal Affairs Department of the Company. In addition, Ms. He serves as the director of Ma Steel (Hefei), Ma Steel (Hefei) Steel Plates Co., Ltd., and Masteel Finance Co., Ltd..

Ms. Geng Jingyan held 12,000 A shares of the Company on 1 January 2020 when Ms. Geng was not an Employee Supervisor of the Company. On 29 June 2020, Ms. Geng was elected as the Employee Supervisor of the Company approved by the Joint Employee Representatives General Meeting held by the Company, and on that day Ms. Geng held 7,000 A shares of the Company. On 30 June 2020, Ms. Geng sold out the 7,000 A shares she held. Save as above, during the Reporting Period, none of the Directors, Supervisors and Senior Management held any share of the Company.

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

2. CURRENT AND RESIGNED DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

(1) POSITIONS IN SHAREHOLDERS' COMPANY

Name	Name of shareholders' company	Position in shareholders' company
Ding Yi	China Baowu Steel Group Corporation Limited Magang (Group) Holding Co., Limited	Chief Representative of Maanshan Headquarters Chairman, Secretary of the Party Committee
Zhang Wenyang	Magang (Group) Holding Co., Limited	Standing Committee Member of the Party Committee
Zhang Qianchun	Magang (Group) Holding Co., Limited	Deputy Chief Accountant
Mao Zhanhong	Magang (Group) Holding Co., Limited	Standing Committee Member of the Party Committee
Fu Ming	Magang (Group) Holding Co., Limited	Standing Committee Member of the Party Committee
Zhang Maohan	Magang (Group) Holding Co., Limited	Standing Committee Member of the Party Committee
Wang Qiangmin	Magang (Group) Holding Co., Limited	Standing Committee Member of the Party Committee

(2) POSITIONS IN OTHER ENTITIES

Name	Name of other entities	Position in other entities
Zhang Chunxia	Central Iron & Steel Research Institute The Chinese Society for Metals	PhD Supervisor Committee Member
Yan Kailong	Maanshan Federation of Trade Unions	Deputy Chairman
Yang Yada	Anhui University of Technology	Professor of Business School
Qin Tongzhou	China Fire & Security Group Inc. ("CFSF")	CFO
Zhang Maohan	Import and Export Working Committee of China Iron and Steel Association	Committee Member

3. EMOLUMENTS FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Decision-making process of emoluments for Directors, Supervisors and Senior Management

1. The Remuneration Committee of the Board is responsible for organizing the performance assessment of Executive Directors and Senior Management. The Committee evaluates the Senior Management in terms of performing duties in accordance with the operating target status, and reports the yearly performance assessment to the Board. After the consideration and approval from the Board, the result is reported to the AGM.
2. The annual remuneration of the non-independent supervisors who receive remuneration from the Company shall be determined by the Board of Supervisors provided that the total annual remuneration shall not be exceeded those approved at the general meeting of shareholders. The result is decided by appraisal results and reported to shareholders at the Annual General Meeting.
3. Independent Directors and Independent Supervisors of the Company received a fixed amount of emoluments during their term of office.

Basis for determination of Directors, Supervisors and Senior Management

Appraisals.

Actual payment to Directors, Supervisors and Senior Management

Please refer to the previous section "Changes in Shareholding and Emoluments".

Total actual payment to Directors, Supervisors and Senior Management at the end of reporting period

During the reporting period, the total salaries for Directors, Supervisors and Senior Management who received emoluments or allowances from the Company amounted to RMB7.9796 million (tax included).

4. CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Name	Position	Movement	Reasons of movement
Wang Qiangmin	Director	Appointment	Approval with AGM
	Director and General Manager	Resignation	Job change
Qian Haifan	Director	Resignation	Retirement due to age
Yan Kailong	Supervisor	Resignation	Job change
Geng Jingyan	Supervisor	Appointment	Election of Employee Representatives General Meeting
Zhang Wenyang	General Manager	Appointment	Board appointment
	Director and General Manager	Resignation	Job change
Zhang Maohan	Deputy General Manager	Appointment	Board appointment
Tian Jun	Deputy General Manager	Resignation	Retirement
Mao Zhanhong	Deputy General Manager	Appointment	Board appointment

On 5 March 2020, as approved by the first extraordinary general meeting held by the Company in 2020, Mr. Wang Qiangmin was additionally elected as the Director of the Company.

On 29 June 2020, Mr. Yan Kailong resigned from the position of Supervisor of the Company. As approved by the Joint Employee Representatives General Meeting held by the Company, Ms. Geng Jingyan was elected as the Employee Supervisor of the Company.

On 20 November 2020, Mr. Wang Qiangmin ceased to serve as the Director and General Manager of the Company.

On 18 December 2020, the Board of the Company appointed Mr. Zhang Wenyang as the General Manager of the Company and Mr. Zhang Maohan as the Deputy General Manager of the Company.

On 16 March 2021, Mr. Zhang Wenyang ceased to serve as the Director and General Manager of the Company, Mr. Tian Jun ceased to serve as the Deputy General Manager of the Company, and Mao Zhanhong was appointed as the Deputy General Manager of the Company.

On 19 March 2021, Mr. Qian Haifan ceased to serve as the Director of the Company.

5. THE COMPANY WAS NEVER PUNISHED BY SECURITIES REGULATORY AGENCIES IN THE PAST THREE YEARS.

6. EMPLOYEES IN THE PARENT COMPANY AND ITS MAJOR SUBSIDIARIES

(1) EMPLOYEES

The number of current employees of the parent company	17,166
The number of current employees of the major subsidiaries	4,979
Total number of current employees	22,145
Number of retired employees whose parent company and major subsidiaries are required to bear expenses	–

Professional constitution

Profession category	Number of staff of Profession constitution
Production Line	18,095
Sales representative	328
Technician	2,432
Financial staff	143
Administrative staff	1,147
Total	22,145

Educational level

Education	Number of staff
Postgraduate	747
Graduate	3,633
Junior College	5,752
Vocational secondary or below	12,013
Total	22,145

(2) REMUNERATION POLICY

In 2020, the Company strengthened the management mechanism of total wages, and all units made overall planning and reasonable arrangements within the scope of the total wage control indicators determined by the Company. For all secondary units, the total number of employees covered under the inclusive total wage was linked to the optimization target, and all units were encouraged to increase the income of their employees through increasing human resources efficiency. At the same time, the Company strengthened the management of special awards, improved the transfer payment, balance application and other processes, controlled the payment of remuneration throughout the process, and standardized the management of remuneration.

(3) TRAINING PROGRAM

The Company adhered to the principle of grading and categorized training, and conducted employee training through the combination of internal and external training, and the combination of the online and on-site training. All units earnestly implemented the organization and implementation as planned, and completed the annual education and training work. In 2020, the Company carried out 17,367 person-times of trainings for management personnel, 21,558 person-times of trainings for technical and business personnel, and 55,410 person-times of trainings for operation and maintenance personnel, with a total of approximately 1.729 million credit hours.

In 2021, the Company made a plan for a total of 136 training programs, which were divided into the types of management, technical business, operation and maintenance, and skill appraisal. The Company will implement the trainings from multiple dimensions including improving management capabilities, technical R&D level and operational skills, strengthen training effect evaluation, so as to strive to satisfy the training plan completion rate and training hour indicator requirements, and provide training support for the development of the Company's key tasks.

Section VIII Corporate Governance (Corporate Governance Report)

1. RELATED INFORMATION OF CORPORATE GOVERNANCE

In accordance with the requirements of relevant laws and regulations, the Company has set up a check-and-balance corporate governance structure since its listing on the Hong Kong Stock Exchange in 1993 and on the Shanghai Stock Exchange in 1994, consisting of the shareholders' general meeting, the Board, the Supervisory Committee and the General Manager. The shareholders' general meeting, the Board, the Supervisory Committee and the General Manager perform their respective duties, take their respective responsibilities and coordinate operations with effective check and balance.

The Board is committed to continuously improving the level of corporate governance and of the view that good corporate governance is essential to the Company's operations and sustainable development. During the Reporting Period, through further improving the corporate governance system, implementing a notice delivering system for the resolutions of the Board and matters of directors' concerns, the Board strengthened the construction of the Board in order to improve the level of corporate governance. The revised basic systems included the Management Measures on Strategic Planning, Working Rules for General Manager, Management System for Investor Relations, Management System on Insiders and Administrative Measures for Internal Control of Connected Transactions, involving company strategy, investment, related transactions, investor relations and other aspects.

Meanwhile, to the best knowledge of the Board, the Company complied with all the requirements of the Code on Corporate Governance (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange in 2020, and where appropriate, endeavored to adopt the recommended best practices contained in the Code.

2. DIRECTORS AND THE BOARD

(1) COMPOSITION OF THE BOARD

In accordance with the Articles of Association, the Board comprises seven to nine Directors and the specific number of members of the Board shall be determined by shareholders at general meetings within this range. Among the Directors, external Directors shall represent more than half of the members of the Board, Independent Directors shall represent more than one-third of the members of the Board, and at least one Independent Director shall be an accounting professional.

At the beginning of 2020, the ninth session of the Board of the Company comprised seven Directors, of whom Chairman Ding Yi, Mr. Zhang Wenyang and Mr. Ren Tianbao were executive Directors while Mr. Qian Haifan, Ms. Zhang Chunxia, Ms. Zhu Shaofang, and Mr. Wang Xianzhu were Non-executive Directors. Among the Non-executive Directors, Ms. Zhang Chunxia, Ms. Zhu Shaofang, and Mr. Wang Xianzhu were Independent Directors, accounting for three-seventh of the members of the Board. Two female Directors made up two-seventh of the Board.

Section VIII Corporate Governance (Corporate Governance Report) (Continued)

On 5 March 2020, Mr. Wang Qiangmin was elected as the Director of the ninth session of the Board of the Company at the shareholders' general meeting. On the same day, the Board announced Mr. Wang Qiangmin as executive Director, re-designated Mr. Qian Haifan from executive Director to Non-executive Director and Mr. Ren Tianbao from Non-executive Director to executive Director. As at the time, the Board of the Company consisted of eight Directors, including four executive Directors and four Non-executive Directors. Among the Non-executive Directors, three of them were Independent Directors, accounting for three-eighths of the members of the Board. Two female Directors made up a quarter of the Board.

On 20 November 2020, Mr. Wang Qiangmin resigned as the Director of the Company due to job changes. At the end of the Reporting Period, the Board of the Company consisted of seven Directors, including three executive Directors and four Non-executive Directors. Among the Non-executive Directors, three of them were Independent Directors, accounting for three-sevenths of the members of the Board. Two female Directors made up two-seventh of the Board.

On 16 March 2021, Mr. Zhang Wenyang resigned as the Director of the Company due to job changes. On 19 March 2021, Mr. Qian Haifan resigned as the Director of the Company due to his retirement. As at the issuing date of this report, the Board of the Company comprised five Directors, of whom, there were two executive Directors and three Non-executive Directors. Among the Non-executive Directors, three of them were Independent Directors, accounting for three-fifths of the members of the Board. Two female Directors made up two-fifths of the Board.

The ninth session of the Board of the Company should have expired on 30 November 2020. In view of the fact that the nomination of candidates for the new session of Directors of the Board and Supervisors of the Supervisory Committee of the Company has not yet been completed, in order to maintain the continuity and stability of the work of the Board and the Supervisory Committee, the general election of the Board and the Supervisory Committee of the Company has been appropriately postponed. At the same time, the term of office of the professional committees of the ninth session of the Board of the Company would also be extended accordingly. Before the completion of the election of the Board and the Supervisory Committee of the Company, all members of the ninth session of the Board and the Supervisory Committee of the Company would continue to perform the duties and responsibilities of Directors and Supervisors in accordance with laws, regulations and the Articles of Association. The postponed election of the Board and the Supervisory Committee of the Company will not affect the Company's normal operations.

Section VIII Corporate Governance (Corporate Governance Report) (Continued)

The Board of the Company is committed to diversity, and reviews the composition of the Board from time to time. All of its Executive Directors are veterans in the iron and steel industry. They are experienced in the production, operation and management of iron & steel, and are capable of making rational decisions on the matters to be resolved by the Board. Among the three Independent Directors, Ms. Zhu Shaofang is the senior member of the Chinese Institute of Certified Public Accountants (CICPA), with years of experience in the auditing profession; Ms. Zhang Chunxia is a doctoral tutor in the State Key Laboratory of Advanced Steel Processes and Materials of the Central Iron and Steel Research Institute and also a member of the Expert Committee of the China Society of Metals, who mainly involves in the R&D of steel metallurgical process engineering and environmental engineering and is knowledgeable and experienced in the steel industry and environmental protection; Mr. Wang Xianzhu has served as the Vice-Dean of School of Economics and School of Business of Anhui University of Technology, with a profound knowledge of economics. All Independent Directors of the Company are fully capable of evaluating internal control and reviewing financial reports. The composition of the Board of Directors fully meets the requirements of domestic and foreign laws, regulations and regulatory documents, as well as the demands of the Company's development at the current stage. The Company purchased liability insurance for all Directors.

The names of all Directors are announced in the company newsletter and the Independent Directors are specifically noted. The list of Directors and their roles and functions are published on the Company's website.

During the Reporting Period, as far as the Board is aware of, there were no relationships, including relationships with respect to finance, business, family aspects or other relevant relationship, existing among members of the Board (including Chairman and General Manager) that were required to be disclosed.

All of the Directors of the Company 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 Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

The Company received the independence confirmation letters from all Independent Directors, which were submitted in accordance with Rule 3.13 of Chapter 3 "Authorized Representatives, Directors, Board Committees and Company Secretary" in the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange. The Board of the Company was therefore of the opinion that all Independent Directors were all independent.

Section VIII Corporate Governance (Corporate Governance Report) (Continued)

(2) NON-EXECUTIVE DIRECTOR

The term of office of the Company's four Non-executive Directors (including Independent Directors) is three years. Please refer to Section VII "Directors, Supervisors, Senior Management, and Employees" of this report for further details of names and incumbency.

In order to protect the legal rights and interests of the minority shareholders and the stakeholders, the Company established the "Work System of Independent Directors". The system specifies in detail the appointment criteria and nomination procedures of Independent Directors and working conditions that the Company shall provide to Independent Directors. It also stipulates that Independent Directors shall issue independent opinions on matters such as connected transactions and external guarantees.

(3) CHAIRMAN AND GENERAL MANAGER

The positions of the Company's Chairman and General Manager are assumed by different individuals. The Chairman of the Company is Mr. Ding Yi. During the Reporting Period, the Board approved the resignation of Mr. Wang Qiangmin as the Director and General Manager of the Company on 20 November 2020. On 18 December 2020, the Board appointed Mr. Zhang Wenyang as the General Manager of the Company (Mr. Zhang Wenyang resigned as General Manager due to job changes on 16 March 2021). The Chairman and General Manager are independent and have a clear division of responsibilities:

The Chairman is responsible for corporate planning and strategic decisions, leading the work of the Board, ensuring that the Board will consider all matters involved in an appropriate manner, facilitating an effective operation of the Board, promoting Directors to make effective contributions to the Board, and maintaining a good and constructive relationship between Directors. The Chairman convenes and presides over the Board meetings, reviews the implementation of resolutions by the Board, and supervises the implementation of board resolutions. Between sessions of the board meetings, the Chairman shall give guidance to the major business activities of the Company. In the event of force majeure, the Chairman is authorized to adjudicate on and dispose of the affairs of the Company.

The General Manager shall be accountable to the Board. The General Manager leads the Management, is responsible for the usual course of operation in production and management, and organizes the implementation of various resolutions by the Board. The General Manager shall regularly report to the Board or the Supervisory Committee on the signing and execution of the Company's material contracts, as well as the application of funds and profit and loss situation pursuant to the requirements of the Board or the Supervisory Committee.

(4) DUTIES AND AUTHORITIES OF THE BOARD AND THE MANAGEMENT

The Board performs the duties and authorities conferred by the laws and regulations as well as the Articles of Association, mainly including: to guide, lead and monitor the Company's affairs to ensure the company's long-term success; to develop strategic goals and pay due attention to value creation and risk management; to convene the shareholders' general meetings and to execute the resolutions thereof; to decide on the annual operating plans and key investment proposals of the Company; to formulate the financial budget, the profit appropriation plan, the fundamental management system and substantial acquisitions or disposal plans of the Company; to decide on the establishment of specialized committees, and appointment and removal of their persons-in-charge; to appoint or remove the Company's General Manager, and to appoint or dismiss the Company's Senior Management such as Deputy General Managers and Financial Officers-in-charge pursuant to the General Manager's nomination; to appoint or remove the Secretary to the Board; to manage information disclosure matters of the Company, ensuring transparency; accountability, wherein Directors are responsible for their actions or omissions and should consider the opinions of shareholders and stakeholders when appropriate in the decision-making process; to ensure that the company has enough resources, qualifications and experience in accounting, internal auditing, financial reporting and other functions; to propose to the shareholders' general meeting the re-appointment or change of the Company's auditors; to receive the report from the Company's General Manager and to review the work of the General Manager; to approve the Company's external investments, leasing of assets, pledges of assets and other guarantees, entrusted operations and wealth management within the limit as stipulated in the Articles of Association.

There are four committees under the Board, namely the Strategic Development Committee, the Audit Committee (hereinafter referred to as "the Audit Committee"), the Nomination Committee and the Remuneration Committee. Please refer to "4" of this section for the composition and the major duties of the committees.

The Company's Management performed their major responsibilities in accordance with the duties and authorities conferred by the Articles of Association, mainly including: to provide necessary documents to directors to assist them to identify potential issues as soon as possible; to organize the implementation of the Company's annual operating plans and investment proposals; to propose the establishment schemes of the Company's internal management structure; to propose the Company's fundamental management systems; to formulate the Company's basic constitutions; to appoint or remove the officers-in-charge other than those who are appointed or removed by the Board; to decide on the rewards and penalty, promotions and demotions, increase and decrease of salaries, appointment, recruitment or removal and termination of the Company's staff; to deal with the important external businesses of the Company on its behalf; to propose the convening of extraordinary Board meetings.

(5) THE BOARD MEETING

The Board convenes four regular meetings annually, and notifies Directors about the time and date, location and agenda of a regular Board meeting 14 days in advance so as to ensure all Directors could attend the meetings. All Directors are given opportunities to raise matters for discussion and such matters will be included in the agenda of the regular meetings. If required by the Directors, the Management is able to provide adequate information timely to the Directors and such information can help the Directors make appropriate decisions. All or most of the Directors shall attend each regular Board meeting in person. When the Board vote on connected transactions, the connected Directors shall abstain from voting and the connected transactions shall be approved by the non-connected Directors. All Directors are entitled to and have the opportunity to access to the minutes of the Board meetings.

The Secretary to the Board is responsible for organizing and preparing the Board meetings and assists the Chairman in ensuring that the procedures for the meetings comply with the requirements of relevant laws, regulations and regulatory documents.

(6) NOMINATION AND ELECTION OF DIRECTORS

The Company sets out a formal, prudent and transparent director election procedure in the Articles of Association. Except for certain special circumstances, a new session of the Board of the Company shall be elected every three years. The term of office of all Directors is the same as the term of office of the Board for such session. Upon the expiry of the session, re-election must be held.

Candidates for Directors are nominated by the Company's Board, the Supervisory Committee or shareholder(s) severally or jointly holding more than 3% of the issued shares of the Company. Candidates for Independent Directors are nominated by the Company's Board, the Supervisory Committee or shareholder(s) severally or jointly holding more than 1% of the issued shares of the Company.

The nomination of a Director by the Company has taken into adequate consideration of the nominee's situation including his/her career, academic background, job title, detailed work experience and all concurrent posts, with the consent of the nominee obtained in advance. With respect to the nomination of an Independent Director, the Board will give its opinion on the nominee's qualifications and independence of holding the position of Independent Director. The nominee will also issue a public statement indicating that there is no relationship between him/her and the Company that may affect his/her independent and objective judgment. Under no circumstance the Independent Directors shall serve the Company for more than six years. Prior to convening the relevant shareholders' general meeting, the Company will submit the related materials about the candidates for Independent Directors to the SSE for approval.

3. REMUNERATION OF THE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(1) DIRECTORS' REMUNERATION

Approved by the Shareholders' General Meeting, the annual aggregate remuneration of all Directors of the ninth session of the Board of the Company shall not exceed RMB2.80 million (tax inclusive) during their term of office. Each of the Independent Directors receives a fixed annual remuneration of not more than RMB80,000 (tax exclusive) from the Company. The Company has adopted an annual salary system for the remaining Directors who receive remuneration from the Company. Considering the performance of the Company and the Directors' personal contribution, the Remuneration Committee of the Board of the Company proposes the appraisal and distribution opinion according to the "Remuneration Assessment Method (Trial) for Directors and Senior Management" and the annual salaries will be implemented accordingly subject to the Board's approval. No director may determine his/her own remuneration.

(2) SUPERVISORS' REMUNERATION

Approved by the Shareholders' General Meeting, the annual aggregate remuneration of all Supervisors of the ninth session of the Company's Supervisory Committee shall not exceed RMB1.60 million (tax inclusive) during their term of office. Each of the Independent Supervisors receives a fixed annual remuneration of not more than RMB60,000 (tax exclusive) from the Company. As for the remaining Supervisors who receive annual remunerations from the Company, their annual remunerations shall be determined by the Supervisory Committee according to the appraisal results within the annual aggregate remuneration for Supervisors approved by the shareholders' general meeting and be reported to the shareholders' general meetings.

(3) SENIOR MANAGEMENT'S REMUNERATION

The Company has adopted an annual salary system for the Senior Management. Taking into account the performance of the Company and the Senior Management members' personal contribution, the Remuneration Committee of the Board of the Company proposes the appraisal and distribution opinion according to the "Remuneration Assessment Method (Trial) for Directors and Senior Management" and the annual salaries of the Senior Management will be implemented accordingly subject to the Board's approval.

4. THE PROFESSIONAL COMMITTEES OF THE BOARD OF DIRECTORS

The Company's Board of Directors has four professional committees: the Strategic Development Committee, the Audit Committee, the Nomination Committee, and the Remuneration Committee. During the Reporting Period, the composition of each professional committee of the ninth session of the Board of the Company is as follows:

Committees	Strategic Development Committee	Audit Committee	Nomination Committee	Remuneration Committee
Directors				
Mr. Ding Yi	Chairman		member	
Ms. Zhang Chunxia	member	member	Chairman	member
Ms. Zhu Shaofang	member	Chairman	member	member
Mr. Wang Xianzhu	member	member	member	Chairman

(1) THE STRATEGIC DEVELOPMENT COMMITTEE

1. Composition and Main Duties of the Committee

The Strategic Development Committee has four members, including Mr. Ding Yi, Chairman of the Company and Independent Directors Ms. Zhang Chunxia, Ms. Zhu Shaofang, and Mr. Wang Xianzhu, of whom, Ding Yi is the Chairman of such Committee.

The Committee mainly has the following duties: to research and make suggestions on long-term development strategy and important investment decisions of the Company; to research and make suggestions on long- and medium-term planning for strategic development of the Company; to monitor the implementation of strategic development plan of the Company and report any significant deviation from the development strategy to the Board of Directors; to research material changes in economic situation, industrial policies, technological advances, industry conditions, and force majeure, and make suggestions to the Company as to adjustments to its development strategy; to research and make suggestions on other material issues affecting development of the Company; and other duties granted by the Board of Directors.

2. *Report on Discharge of Duties*

In 2020, the Strategic Development Committee of the Board totally held four meetings, with committee members (Mr. Ding Yi, Ms. Zhang Chunxia, Ms. Zhu Shaofang and Mr. Wang Xianzhu) attending in person. The agenda of the meetings were as follows: reviewed the implementation of the Company's strategic plan in 2019, product production line development plan and 2020 investment plan, smart manufacturing development outline, green city steel mill indicator improvement and "three governance" action plan, as well as the report on the duty performance of the Strategic Development Committee in 2019, and agreed to submit to the Board for deliberation; reviewed the reform plan of functional departments, business departments and unit management of the Company, considered 4 projects including flue gas desulfurization and denitrification and ultra-low emission renovation project of No. 1 sintering machine in the southern area of the ironmaking general plant, and agreed to submit to the Board for deliberation.

All convening procedures of meetings held by the Strategic Development Committee complied with relevant laws, regulations, the Articles of Association and Code of Practice of the Strategic Development Committee of the Board. All committee members truthfully performed their duty of confidentiality for reports heard in the meeting according to relevant regulations; no unauthorized disclosure of related information happened.

(2) AUDIT COMMITTEE

1. *Composition and Main Duties of the Committee*

The Audit Committee has three members, including Independent Directors Ms. Zhu Shaofang, Ms. Zhang Chunxia, Mr. Wang Xianzhu, of whom, Ms. Zhu Shaofang is the Chairman of such Committee.

The major duties of the Audit Committee are: to propose the appointment or change of external auditors; to monitor the Company's internal audit system and its implementation; to be responsible for the communication between the internal and external audit; to review the Company's financial information and its disclosure; and to review the Company's risk management and internal control system.

In order to fully leverage on the role of the Audit Committee, the Company has also specifically worked out "Annual Report Work Rules of the Audit Committee", which has streamlined the duties of the Audit Committee in the process of the preparation of annual report and the disclosure thereof.

Section VIII Corporate Governance (Corporate Governance Report) (Continued)

2. *Report on Discharge of Duties*

The Audit Committee held five meetings in 2020, with committee members Ms. Zhang Chunxia, Ms. Zhu Shaofang and Mr. Wang Xianzhu attending all meetings in person. Details of the meetings were as follows:

- Discussed the unaudited 2019 financial statement with the senior management and the financial department, to scrutinize issues concerned, to approve submission of the financial statement for audit by external accounting firm, and to determine the working schedule for the audit of the financial statement together with the external accounting firm.
- Debriefed the internal control work on a periodic basis to urge improvement.
- Reviewed the audited 2019 financial statement, discussed and communicated with the Company's audit department and external accounting firm on the statement, concluding that the Company complied with the Enterprise Accounting Rules in all major aspects and made full information disclosure without major omission.
- Reviewed the Company's 2019 profit distribution plan.
- Reviewed the summary report on the Company's auditing work in 2019 conducted by the external accounting firm.
- Following deliberations, approved the payment of RMB5.385 million to Ernst & Young Hua Ming LLP in 2019, which included an annual audit fee of RMB4.80 million (including an internal control audit fee of RMB600,000) and a fee of RMB585,000 for the agreed-upon procedures on interim financial statements
- Considered and agreed that Ernst & Young Hua Ming LLP would be re-appointed as the Company's auditors for 2020.
- Following deliberations, confirmed that the connected transactions contemplated under the "Sale and Purchase of Ore Agreement", the "Continuing Connected Transaction Agreement" and "Supplementary Agreement of Continuing Connected Transactions", "Energy Saving and Environmental Protection Agreement" and "Supplementary Agreement of Energy Saving and Environmental Protection", "Financial Services Agreement", "Continuing Connected Transaction Agreement" and "Integrated Support Services Agreement" of the Company in 2019 were concluded during the daily course of business, and carried out under general commercial terms and relevant agreements which were fair and reasonable to the Company, and in the whole interest of the Company and its shareholders. The amount of all relevant transactions was under the annual cap of 2019 specified in the various relevant agreements.

Section VIII Corporate Governance (Corporate Governance Report) (Continued)

- Following deliberations, confirmed that all external guarantees provided by the Company in 2019 were compliant with the laws and regulations.
- Considered and passed the 2019 Report on Internal Control Assessment of the Company.
- Considered and approved the Report on the Discharge of Duties by the Audit Committee for 2019.
- Reviewed the Company's unaudited first quarterly, interim and third quarterly financial statement of 2020 and was of the opinion that the Company had complied with the requirements of the Accounting Standards for Business Enterprises in every material respect and had made adequate disclosure without any material omissions.
- Discussed and determined the Annual Audit Plan for 2020 with external accounting firm.

All the procedures for convening and holding the Committee's meetings as well as voting and resolutions made thereat were in compliance with the provisions or relevant laws and regulations, the Articles of Association and the Work Rules of the Audit Committee. In 2020, all the members of the Committee faithfully fulfilled their confidentiality obligations towards the matters discussed at the meetings of the Committee in accordance with the relevant rules without any unauthorized disclosure of relevant information.

(3) NOMINATION COMMITTEE

1. *Composition and Main Duties of the Committee*

The Nomination Committee has four members, including three Independent Directors Ms. Zhang Chunxia, Ms. Zhu Shaofang, and Mr. Wang Xianzhu, as well as Mr. Ding Yi, of whom, Ms. Zhang Chunxia is the Chairman of such Committee.

The major duties of the Committee are: to regularly evaluate the structure and number of members of the Board, and the skills, knowledge and experience needed for Directors based on the shareholding structure and development strategies of the Company, and to make recommendations to the Board on any prospective changes; to consider and make recommendations on the selection criteria and procedures for Directors, General Manager and Secretary to the Board; to seek candidates for Directors, General Manager and Secretary to the Board, and to nominate the relevant candidates for Directors, General Manager and Secretary to the Board according to the Company's needs after reviewing their qualifications and abilities, and make recommendations to the Board in this regard; to examine the independence of Independent Directors; to make recommendations to the Board on matters related to the appointment and reappointment of Directors, and on succession plans for Directors (including Chairman), General Manager and Secretary to the Board.

Section VIII Corporate Governance (Corporate Governance Report) (Continued)

2. *Report on Discharge of Duties*

In 2020, the Nomination Committee held two meetings. Committee members Ms. Zhang Chunxia, Ms. Zhu Shaofang, Mr. Wang Xianzhu and Mr. Ding Yi presented each meeting in person. The agenda of the meetings were as follows: promoted the diversity of the Board and discussed the proper number of members and structure of the Board; reviewed the Report on the Discharge of Duties of Nomination Committee for 2019; reviewed the candidates for the General Manager and concluded that Mr. Zhang Wenyang met the qualifications and is recommended to the Board for appointment; reviewed the candidates for the Deputy General Manager and concluded that Mr. Zhang Maohan met the qualifications and is recommended to the Board for appointment.

The procedures for convening and holding all the meetings of the Committee as well as the voting and resolutions made thereat were in compliance with the requirements of relevant laws and regulations, the Articles of Association and the Work Rules of the Nomination Committee of the Board of Directors. All members of the Committee faithfully fulfilled the obligation of confidentiality in accordance with the relevant rules towards the matters discussed at the meetings of the Committee without any unauthorized disclosure of relevant information.

(4) REMUNERATION COMMITTEE

1. *Composition and Main Duties of the Committee*

As at the end of the Reporting Period, the Remuneration Committee has three members, including three Independent Directors Mr. Wang Xianzhu, Ms. Zhang Chunxia and Ms. Zhu Shaofang, of whom Mr. Wang Xianzhu is the Chairman of such Committee. Mr. Ren Tianbao resigned as a member of the Remuneration Committee on 10 June 2020.

The major duties of the Committee are: to recommend to the Board with respect to the remuneration policies for all Directors and Senior Management of the Company, and the procedures of formulating such policies in a proper and transparent manner; to draft equity incentive plan; to review the remuneration of the Directors and Senior Management in accordance with the corporate objectives formulated by the Board; to review the compensation to be paid to the Directors or Senior Management with respect to their removal or appointment; to ensure that none of the Directors nor their associates could decide on their own remuneration; and other responsibilities as delegated by the Board.

2. *Report on Discharge of Duties*

In 2020, the Remuneration Committee held three meetings. All members (Mr. Wang Xianzhu, Ms. Zhang Chunxia, Ms. Zhu Shaofang and Mr. Ren Tianbao) attended the meeting in person. The details of the meeting were as follows: reviewed the rating standards for the operating performance of the leadership team of the Company in 2020, reviewed appraisals on business results in 2019 on Executive Directors and Senior Management who receive pay from the Company, and estimated remuneration based on the results of work performance appraisals and actual working months and submitted to the Board for deliberation; reviewed and approved the Remuneration Committee's Report on Discharge of Duties for 2019.

All the procedures for convening and holding the Remuneration Committee's meetings as well as voting and resolutions made thereat were in compliance with relevant laws and regulations, the Articles of Association and the Work Rules of the Remuneration Committee. When the remuneration of Directors and Senior Management Staff were discussed at the meetings, none of the directors was involved in deciding their own remuneration. All the members of the Committee faithfully fulfilled their confidentiality obligations towards the matters discussed at the meetings of the Committee in accordance with the relevant rules without any unauthorized disclosure of relevant information.

5. TRAINING AND CONTINUING PROFESSIONAL DEVELOPMENT OF DIRECTORS

The Company is committed to building a Board in learning type. During the Reporting Period, the Company enrolled the directors for training classes and workshops organized by stock market regulators, associations of listed companies and other organizations, kept them updated regularly with latest developments of laws and regulations, as well as market and regulatory dynamics and information gathered by the Company, and created opportunities of continuing professional development as appropriate. By these means, current Directors Mr. Ding Yi, Mr. Ren Tianbao, Ms. Zhang Chunxia, Ms. Zhu Shaofang and Mr. Wang Xianzhu and former Directors Mr. Qian Haifan, Mr. Zhang Wenyang, and Mr. Wang Qiangmin developed and updated their knowledge and skills, and were informed of the Company's business performance and the market environment, and well understood their responsibilities and obligations under listing rules and other applicable regulatory rules, and were therefore equipped with the capabilities to make continuous contribution to the Board.

Section VIII Corporate Governance (Corporate Governance Report) (Continued)

Case one: During the Reporting Period, the Board organized all Directors to intensively study the newly revised Securities Law, Opinions on Further Improving the Quality of Listed Companies issued by the State Council, Notice on Seriously Studying and Implementing the “Opinions on Further Improving the Quality of Listed Companies” issued by Anhui Securities Regulatory Bureau, Guidelines on Directors’ Responsibilities in Corporate Transaction Valuation issued by the Hong Kong Securities and Future Regulatory Commission, Declaration of Conduct and Responsibilities when Considering Enterprise Acquisition or Sale Projects and other relevant notices and notifications of securities regulatory agencies. As an environmental protection expert, Ms. Zhang Chunxia shared on the Board meeting the new progress of green development of steel and iron industry, coordinated pollution control, ultra-low emissions and the development of smart steel mills.

Case Two: Mr. Ding Yi and Mr. Wang Qiangmin participated in the training class for the Chairman and General Manager of listed companies held by China Association of Listed Companies through the Internet. Many Directors participated in the New Securities Law seminar organized by the Anhui Association of Listed Companies and the online training regarding the “New Securities Law Amendment” organized by the China Association of Listed Companies.

6. SECRETARIES TO THE BOARD (COMPANY SECRETARIES)

In addition to serving as the secretary to the Board of the Company, Ms. He Hongyun also serves as the joint company secretaries of the Company together with Ms. Rebecca Chiu. All Directors of the Company are entitled to obtain advice and services from company secretaries. Board secretaries report to the Chairman on board governance matters, are responsible for ensuring the compliance with the procedure of the Board, and promote the information exchange and communication between directors as well as between directors and shareholders and the management. Both Ms. He and Ms. Chiu received more than 15 hours of professional training in 2020.

7. ACCOUNTABILITY AND AUDIT

(1) Financial Reporting

The Board regularly receives the financial statements of the Company and other related materials, and acknowledges its responsibility for the preparation of the Company’s accounts.

In 2020, the Company disclosed its annual, semi-annual and quarterly results within three months, two months, and one month after the end of the relevant accounting period. Confirmed by the Directors, the Directors has the responsibility to prepare accounts for the year ended 31 December 2020, which truly and fairly reflected the Company’s financial position, operating performance and cash flow status. The auditor Ernst & Young also stated in the Auditor’s Report (Audit Report) its responsibilities as the Company’s auditor.

(2) Risk Management And Internal Control

The Board of the Company undertakes to be responsible for the availability and finetuning, as well as effective enforcement of a system of risk management and internal controls at the Company, and for a review of the effectiveness of this system. The Board would like to point out that this system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Company measures the impact of the remaining risks on the Company in accordance with the “Internal Control Manual”, based on the extent of impact of controls on inherent risks and the degree of effective control over the likelihood of occurrence, and identifies key risk exposures according to the results of such evaluation. In “Risk Control and Management Measures”, the Company requires the office of internal controls to manage risks, define risk criteria and priorities, carry out risk evaluation, and come up with countermeasures. A well-established risk ownership structure is in place to guide all departments and entities to manage risks properly. The departments, subsidiaries and branches are responsible for managing risks associated with their activities. The Department of Business Management shall go through all potential risks the Company may meet with in achieving its business objectives and report to the Board on a quarterly basis. The Supervision and Audit Department shall carry out a test of internal controls. Key topics therein are whether all risk exposures have been identified, pertinent countermeasures have been taken, the owners of risks have been accurately defined, the risk management department has carried out regular review, and the risk supervision and evaluation situation are regularly reported to the Board. In accordance with the corporate internal control standard system and the Company’s Internal Control Manual, the internal control evaluation work is organized and the “Internal Control Evaluation Report” is formed and submitted to the Board for deliberation on a yearly basis.

The Company should maintain a system of risk management and internal controls, which is overarching and applies to the whole life cycle of business processes and every staff member, so as to rule out the possibility of any gap or loophole; which is focused on high-risk business fields and significant risks that need to be identified and managed in a proactive manner; which works in a cost-effective way to achieve effective risk control in reasonable cost and is checked for effectiveness on a regular basis and improved constantly; which is designed with checks and balances to form a well-knit organization and sound business environment with reciprocal constraints and supervision in terms of governance structure, organization setup, division of duties and business processes, with equal importance given to efficiency; which complies with the applicable laws and regulations, and fits well into the scale and scope of business scale, scope and objectives, risks of the Company and the environment in which the Company operates.

Section VIII Corporate Governance (Corporate Governance Report) (Continued)

The Board listened to the report on risk management and internal control and the report on risk supervision and evaluation, reviewed and confirmed that during the Reporting Period, the Company maintained proper control over strategic risk, financial risk, market risk, operational risk, legal risk and environmental risk to keep all risks under control.

On 25 March 2021, as of the reporting date for internal control assessment (31 December 2020), the Board confirmed that the Company was free from any material defect in internal controls over financial reporting, based on the identification of material defects in internal controls over financial reporting. In the opinion of the Board, the Company maintained effective internal controls over financial reporting in all material aspects as required by good practices of internal controls and relevant rules. The Board also confirmed that as of the reporting date for internal control assessment, no material deficiency in internal controls other than over financial reporting was found, based on the identification of material deficiency in internal controls other than over financial reporting. Ernst & Young audited the Company's internal controls related to financial reporting in 2020 and issued an Internal Control Audit Report with standard opinion.

8. THE AUDITOR

Since Ernst & Young understood the Company on an ongoing basis and worked rigorously and meticulously, the Audit Committee recommended to re-appoint Ernst & Young as the Company's 2020 auditor, to which the Board has no objection. The relevant proposal has been reviewed and approved at the 2019 Annual General Meeting held by the Company on 29 June 2020.

Accordingly, Ernst & Young was appointed as the auditors of the Company in 2020 and had issued audit report on financial statements and internal control audit report with declaration on its reporting responsibilities in these reports.

Upon the authorization of the 2019 Annual General Meeting and recognition by the Audit Committee consisting of Independent Directors, the Board decided that the remuneration for auditor amounted to RMB5.385 million (tax inclusive), including 2020 annual audit fee of RMB4.80 million (including internal control audit fee of RMB600,000) and the fees for agreed upon procedures on 2020 interim financial statements of RMB585,000. The aforementioned audit fees, agreed-upon procedures fees and other professional services were already inclusive of disbursements incurred by the auditors. Meal and accommodation expenses incurred by auditors while performing professional services at the Company were borne by the Company.

Section VIII Corporate Governance (Corporate Governance Report) (Continued)

As of 31 December 2020, Ernst & Young has provided auditing services to the Company for 27 consecutive years. Ms. Zhong Li and Mr. Gong Wei were the certified public accountants who had signed the Company's 2020 auditors' reports. Since five years ago, Ms. Zhong Li has provided auditing services to the Company for the first time, while Mr. Gong Wei has provided auditing services to the Company for two consecutive years.

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

Ernst & Young submitted the "Declaration of Independence" to the Company's Audit Committee to explain and guarantee its independence.

9. SHAREHOLDERS' RIGHTS AND EFFECTIVE COMMUNICATION WITH SHAREHOLDERS

(1) Shareholders' Rights

Any shareholder who holds shares carrying 10% or more of the voting rights in the Company, either individually or jointly, has the right to demand an extraordinary general meeting or Shareholders' Class Meetings according to the Articles of Association. In accordance with the Articles of Association, when the Company convenes the Annual General Meeting, any shareholder who individually or jointly hold 3% or more of the shares of the Company, has the right to submit a new proposal to the Company in writing. Shareholders who individually or jointly hold 1% or more of the shares of the Company may nominate candidates for Independent Directors, and shareholders who individually or jointly hold 3% or more of the shares of the Company may nominate candidates for Directors and Supervisors. Shareholders may send inquiries and comments to the Board by mail to the Company's office in Maanshan, Anhui (No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province, the PRC).

(2) Effective Communication

1. General Meeting

The Board maintains a smooth communication channel with the shareholders, striving to maintain communication with shareholders and encouraging them to attend the shareholders' general meetings.

During the Reporting Period, the Company stated clearly in the notices of 2020 First Extraordinary General Meeting and 2019 Annual General Meeting that A shareholders holding the Company's A shares as at the market closing in the afternoon of the respective register dates and registered in the register of members maintained by the Shanghai branch of CSDCC, and H shareholders holding the Company's H shares on the same date and registered in the register of members maintained by the Hong Kong Registrars Limited were eligible for attending the respective shareholders' general meetings after completing the registration procedures for attending the meetings. The Chairman attended the shareholders' general meeting in person and served as the chairman of the meetings. At the shareholders' general meetings, the chairman of the meetings proposed individual resolutions for each independent matter, introduced the voting procedure to the participating shareholders in detail, and answered shareholders' questions. The chairmen of the Strategy Committee, Audit Committee, Nomination Committee, Remuneration Committee and other Directors, Supervisors and senior management shall attend the shareholders' general meetings upon the invitation and in accordance with the requirements of the Board. Independent Directors submit their performance reports to the general meeting every year. Details of the 2020 First Extraordinary General Meeting and the 2019 Annual General Meeting set out in "11. SHAREHOLDERS' GENERAL MEETING" of this section.

The information available on the Company's website, together with annual reports, semi-annual reports, quarterly reports and announcements and circulars released by the Company, provide shareholders of the Company with a variety of accesses to the Company's information.

Section VIII Corporate Governance (Corporate Governance Report) (Continued)

2. *Communication with Shareholders*

The Company has been using multi-channels to proactively enhance the communication with local and overseas institutional investors. During the Reporting Period, due to the impact of the COVID-19 epidemic, the Company has actively strengthened the communications with domestic and foreign investors through various forms including the Internet, telephone, email, and WeChat. During the Reporting Period, the Company and investors held 22 telephone or video conferences, and communicated with 17 institutions with more than 100 persons. With those visits and meetings, the understanding of investors towards the Company has further enhanced. In addition, during the Reporting Period, the Company revised the Management System of Investor Relations to strengthen communication and exchanges with relevant parties including shareholders.

Investor relations contact information contained in the investor relations column of the company website:

Address: No. 8, Jiuhua West Road, Maanshan City, Anhui Province, China
Phone: 86-555-2888158/2875252; Fax: 86-555-2887284
Email: mggf@baowugroup.com, mggfdms@magang.com.cn

3. *During the Reporting Period, there was no change to the Articles of Association of the Company.*

(3) Type of Shareholders and Shareholding

As of 31 December 2020, the Company had 192,303 A shareholders with a total of 5,967,751,186 shares; 975 H shareholders with a total of 1,732,930,000 shares. Except for Baosteel Hong Kong Investment, Magang Group, and Magang Investment Limited, the total number of shares held by the remaining shareholders is 3,139,543,613 shares, including 2,303,001,571 A shares and 836,542,042 H shares. For the equity holdings of Baosteel Hong Kong Investment, the Holding, and Magang Investment, please refer to “(2) SHAREHOLDING OF THE TOP TEN SHAREHOLDERS AND THE TOP TEN TRADABLE SHAREHOLDER (OR SHAREHOLDERS WITHOUT SELLING RESTRICTIONS) AT THE END OF THE REPORTING PERIOD” of “2 SHAREHOLDERS AND ACTUAL HOLDERS” in Section 6 “MOVEMENTS IN SHARE CAPITAL AND SHAREHOLDERS” of this report. During the Reporting Period, the senior management of the Company held no shares of the Company.

Section VIII Corporate Governance (Corporate Governance Report) (Continued)

(4) Market Value

On 31 December 2020, the closing price of the Company's A shares was RMB2.66, and the market value was RMB15.874 billion; the closing price of the Company's H shares was HKD2.14, and the market value was HKD3.708 billion. The total market value was equivalent to about RMB18.971 billion.

(5) Log of Shareholder Matters

Matters	Date	A Share	H Share
2020 First Extraordinary General Meeting	Share Record Date	4 February 2020	4 February 2020
	Meeting date		5 March 2020
2019 Annual General Meeting	Share Record Date	29 May 2020	29 May 2020
	Meeting date		29 June 2020
2019 Annual Equity Distribution	Record date for the Cash Dividend Distribution	28 July 2020	9 July 2020
	Payment Date for Cash Dividend		29 July 2020

10. EXPLANATION ON LACK OF INDEPENDENCE OR INDEPENDENT OPERATING ABILITY IN TERMS OF BUSINESS, PERSONNEL, ASSETS, ORGANIZATIONS, AND FINANCE BY THE COMPANY FROM ITS CONTROLLING SHAREHOLDER

☐ Applicable ☒ Not Applicable

The Holding, the direct controlling shareholder of the Company, hasn't carried out horizontal competition with the Company. For the horizontal competition between Baoshan Iron & Steel Co., Ltd. ("Baosteel Co., Ltd."), a controlling subsidiary of China Baowu which is the indirect controlling shareholder of the Company, please refer to "15. Horizontal Competition between the Company and Controlling Shareholders" in this section.

No significant variance exists between the corporate governance and relevant requirements of CSRC.

11. SHAREHOLDERS' GENERAL MEETING

Session of Meeting	Date of Meeting	Specified Website for Publishing Resolutions	Publishing Date of Resolution
2020 First Extraordinary General Meeting	2020-3-5	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2020-03-06/600808_20200306_1.pdf	2020-3-6
2019 Annual General Meeting	2020-6-29	http://static.sse.com.cn/disclosure/listedinfo/announcement/c/2020-06-30/600808_20200630_2.pdf	2020-6-30

The first extraordinary general meeting in 2020 reviewed and approved the additional election of Mr. Wang Qiangmin as a Director of the ninth session of the Board of the Company.

The 2019 annual general meeting reviewed and approved the 2019 annual work report of the Board, the 2019 annual work report of the Supervisory Committee, the 2019 audited financial Report, the re-appointment of Ernst & Young Hua Ming LLP as the Company's auditor in 2020, the 2019 profit distribution plan, the 2019 remuneration of the Company's Directors, Supervisors and senior management personnel, the Supplementary Agreement on Continuing Related Transactions between the Company and China Baowu Steel Group Corporation Limited, the Supplementary Agreement on Continuing Connected Transactions between the Company and Maanshan Iron & Steel (Group) Holdings Co., Ltd. and the Supplementary Agreement on Continuing Connected Transactions between the Company and Ouyeel Blockchain Finance.

The above general meeting took place in the Company's office building, located at No. 8 Jiu Hua Xi Road, Maanshan City, Anhui Province. Announcements detailing resolutions made at these meetings were released on Shanghai Securities News, the website of SSE (<http://www.sse.com.cn>) and that of the HKEx (<http://www.hkex.com.hk>).

12. PERFORMANCE OF DIRECTORS

(1) ATTENDANCE OF DIRECTORS IN THE BOARD MEETINGS AND SHAREHOLDERS' GENERAL MEETING

Attendance of directors in the board meetings								Attendance in the General Meeting
Name of Director	Independent Director	Required attendance during the year	Attendance in person	Attendance by way of correspondence	Attendance by proxy	Absence	Two consecutive personal absence	In the General Meeting Attendance
Ding Yi	No	13	9	4	0	0	No	2
Wang Qiangmin	No	10	7	3	0	0	No	2
Qian Haifan	No	13	9	4	0	0	No	1
Zhang Wenyang	No	13	9	4	0	0	No	2
Ren Tianbao	No	13	9	4	0	0	No	2
Zhang Chunxia	Yes	13	7	6	0	0	No	1
Zhu Shaofang	Yes	13	7	6	0	0	No	1
Wang Xianzhu	Yes	13	7	6	0	0	No	1

Due to the impact of the COVID-19 epidemic, Independent Directors Ms. Zhang Chunxia, Ms. Zhu Shaofang and Mr. Wang Xianzhu were unable to attend the first extraordinary general meeting in 2020. Director Mr. Qian Haifan was unable to attend the 2019 annual general meeting due to other official duties.

All directors of the Company were not absent from the board meetings for two consecutive times during the Reporting Period.

Number of meetings held by the Board during the reporting year	13
Of which: Number of face-to-face meetings	7
Number of meetings by teleconferencing	4
Number of face-to-face meetings combined with teleconferencing	2

- (2) DURING THE REPORTING PERIOD, THE INDEPENDENT DIRECTORS HAVE NO OBJECTION TOWARD MATTERS OF THE COMPANY, BUT PAY MUCH ATTENTION ON THE COMPANY'S INTERNAL CONTROL, RISK MANAGEMENT, R&D, FOREIGN INVESTMENT, CONNECTED TRANSACTIONS. AT THE SAME TIME, ACCORDING TO THE DOMESTIC AND INTERNATIONAL POLITICAL AND ECONOMIC SITUATION, THEY WENT DEEP INTO THE GRASSROOTS TO CONDUCT MAJOR SURVEYS ON ISSUES INCLUDING THE GREEN DEVELOPMENT OF THE STEEL AND IRON INDUSTRY, REMINDED THE MANAGEMENT TO PAY ATTENTION TO THE SHORT-TERM AND LONG-TERM IMPACT OF THE COVID-19 EPIDEMIC ON EXPORTS AND DOMESTIC DEMAND, THE IMPLEMENTATION OF THE COMPANY'S STRATEGIC PLANNING, THE MANAGEMENT AND CONTROL OF THE FUNDS, PROCESS AND CONSTRUCTION PERIOD OF PROJECT IMPLEMENTATION, AND THE ENVIRONMENTAL PROTECTION WORK.

13. THE PROFESSIONAL COMMITTEE UNDER THE BOARD OF DIRECTORS HAD NO SIGNIFICANT ADVICE AND SUGGESTIONS WHEN PERFORMING DUTIES DURING THE REPORTING PERIOD

The professional committee of the Board is mainly composed of Independent Directors. In view of the fact that the Independent Directors have made a number of good suggestions to the Company in their personal capacity in the areas of environmental protection, risk management, internal control and business management, no additional comments and suggestions have been made by the Committee.

14. DURING THE REPORTING PERIOD, THE SUPERVISORY COMMITTEE SUPERVISED THE DISCHARGE OF DUTIES OF DIRECTORS AND SENIOR MANAGEMENT PERSONAL AS WELL AS THE LEGAL OPERATION OF THE COMPANY, HAD NO OBJECTION TOWARD ITS SUPERVISION AND FOUND NO RISKS IN THE COMPANY.

15. HORIZONTAL COMPETITION BETWEEN THE COMPANY AND CONTROLLING SHAREHOLDERS

With respect to product type, application, and major sales areas, etc. there are certain overlaps and market competition between the Company and Baosteel Co., Ltd., a controlling subsidiary of China Baowu, the indirect controlling shareholder of the Company, in terms of its plate products. Apart from Baosteel Co., Ltd., there are differences between enterprises, engaged in the iron and steel industry and controlled by China Baowu, and the Company in terms of major sales areas, product type, performance and application, without substantial horizontal competition.

To avoid horizontal competition, China Baowu issued the “Commitment Letter on Avoiding Horizontal Competition” on 26 August 2019. Details of the Commitment and the performance are set out in “2. PERFORMANCE OF COMMITMENTS” of Section V “SIGNIFICANT EVENTS” in this report.

16. ESTABLISHMENT AND IMPLEMENTATION OF APPRAISAL MECHANISM AND INCENTIVE MECHANISM FOR THE SENIOR MANAGEMENT DURING THE REPORTING PERIOD

The Company has established an evaluation mechanism for senior executive salaries related to company performance and individual performance. During the reporting period, the mechanism worked effectively. Details of senior executive salaries are set out in Section VII “Directors, Supervisors, Senior Management and Employees”.

17. WHETHER TO DISCLOSE THE REPORT ON INTERNAL CONTROL SELF ASSESSMENT

Report on Internal Control Assessment of the Company in 2020 was discussed and approved by the forty-second meeting of the ninth session of the Board of the Company on 25 March 2021, confirming that the Company’s internal control in 2020 was effective. Search the following websites for the Report on Internal Control Assessment at: www.sse.com.cn, www.hkex.com.cn.

There was no material deficiency in internal control during the Reporting Period.

18. PRESENTATION OF RELEVANT CONDITIONS CONCERNING THE AUDITING REPORT ON INTERNAL CONTROL

Ernst & Young Hua Ming LLP audited the effectiveness of relevant internal controls on financial reports in 2020 and issued Auditing Report on Internal Control with standard opinion. Search the following websites for the Auditing Report on Internal Control: www.sse.com.cn, www.hkex.com.cn.

Independent Auditor's Report



Ernst & Young Hua Ming (2021) Shen Zi No. 60438514_A01

Maanshan Iron & Steel Company Limited

To the shareholders of Maanshan Iron & Steel Company Limited

1. OPINION

We have audited the financial statements of Maanshan Iron & Steel Company Limited, which are comprised of the consolidated and company statements of financial position as of 31 December 2020, and the consolidated and company income statements, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements.

In our opinion, the accompanying financial statements of Maanshan Iron & Steel Company Limited present fairly, in all material respects, the consolidated and company financial position of Maanshan Iron & Steel Company Limited as of 31 December 2020 and their financial performance and cash flows for the year then ended in accordance with China Accounting Standards for Business Enterprises.

2. BASIS FOR OPINION

We conducted our audit in accordance with China Standards on Auditing ("CSAs"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of Maanshan Iron & Steel Company Limited in accordance with the *Code of Ethics for Chinese Certified Public Accountants*, and we have fulfilled our other ethical responsibilities. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

3. KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

3. KEY AUDIT MATTERS (CONTINUED)

We have fulfilled the responsibilities described in the *Auditors's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter

How our audit addressed the key audit matter

Impairment of inventories

As of 31 December 2020, inventories amounted to RMB11,193,000,766 with an impairment of RMB292,706,535 in the consolidated financial statements. Management performed impairment testing of inventories and if the cost is in excess of the net realisable value, impairment of inventories is recognised. Net realisable value is determined based on the estimated selling price on normal business terms deducted by the estimated costs to completion, the estimated selling expenses and related taxes. During the process, management needs to make significant judgement and estimation regarding the future selling price, production costs, selling expenses, related taxes, etc.

The disclosures related to the net realisable value of inventories of Maanshan Iron & Steel Company Limited are included in Notes III.10, III. 32 and V.7 to the financial statements.

We obtained an understanding of and tested the internal controls related to impairment testing of inventories. We reviewed management's model, method and related parameters for impairment testing of inventories, specifically the future selling price, production costs, selling expenses, related taxes, etc. In addition, we also reviewed the disclosures regarding the net realisable value of inventories in the financial statements.

Impairment of property, plant and equipment

As of 31 December 2020, property, plant and equipment amounted to RMB30,060,819,567 with an impairment of RMB506,583,427 in the consolidated financial statements. According to the future production and operation plan of Maanshan Iron & Steel Company Limited, some property, plant and equipment need to be shut down in this year or in the future, which was an indicator of the impairment of property, plant and equipment. Hence, management performed an impairment assessment on such property, plant and equipment by determining the recoverable amounts of the cash generating units ("CGUs") that the property, plant and equipment are allocated to, and recognised an impairment losses of RMB487,220,879. During the process, management needs to make significant judgement and estimation regarding the future sales, production costs, residual value, discount rates, etc.

The disclosures related to the impairment of property, plant and equipment of Maanshan Iron & Steel Company Limited are included in Notes III.13, III.18, III.32, and V.14 to the financial statements.

We obtained an understanding of and tested the internal controls related to the impairment of property, plant and equipment. We reviewed management's model, method and related parameters for impairment testing of property, plant and equipment, specifically the future sales, production costs, residual value, discount rates, etc. We also involved our valuation specialists to assist us in assessing the valuation methodologies and some key model parameters. In addition, we also reviewed the disclosures regarding the impairment of property, plant and equipment in the financial statements.

Independent Auditor's Report (Continued)

4. OTHER INFORMATION

The management of Maanshan Iron & Steel Company Limited is responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

5. RESPONSIBILITIES OF THE MANAGEMENT AND GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with China Accounting Standards for Business Enterprises, and designing, implementing and maintaining internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing Maanshan Iron & Steel Company Limited's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless either the management intend to liquidate Maanshan Iron & Steel Company Limited or to cease operations or have no realistic alternative but to do so.

The Governance is responsible for overseeing Maanshan Iron & Steel Company Limited's financial reporting process.

6. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are usually considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with CSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Maanshan Iron & Steel Company Limited's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements according to CSAs or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Maanshan Iron & Steel Company Limited to cease to continue as a going concern.
- Evaluate the overall presentation, including the disclosures, structure and content of the financial statements, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Independent Auditor's Report (Continued)

6. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Maanshan Iron & Steel Company Limited to express an opinion on the financial statements. We are responsible for the guidance, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Governance regarding the planned scope, timing of the audit and significant audit findings, including deficiencies worthy of attention in internal control that we identify during our audit.

We also provide the Governance with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with the Governance all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Ernst & Young Hua Ming LLP

Zhong Li (Engagement Partner)
Chinese Certified Public Accountant

Gong Wei
Chinese Certified Public Accountant

Beijing, the People's Republic of China

25 March 2021

Consolidated Statement of Financial Position

31 December 2020

Renminbi Yuan

ASSETS	Note V	31 December 2020	31 December 2019
CURRENT ASSETS			
Cash and bank balances	1	5,346,108,774	9,517,313,695
Financial assets held for trading	2	2,028,957,057	2,126,112,194
Trade receivables	3	1,043,606,041	1,092,930,122
Financing receivables	4	7,072,160,166	11,098,699,421
Prepayments	5	755,340,403	981,443,575
Other receivables	6	426,386,362	156,291,851
Inventories	7	10,900,294,231	10,947,850,219
Financial assets purchased under agreements to resell	8	1,346,725,440	2,369,966,754
Loans and advances to customers	9	4,636,066,439	4,256,415,190
Other current assets	10	3,981,226,262	3,975,034,798
Total current assets		37,536,871,175	46,522,057,819
NON-CURRENT ASSETS			
Long-term equity investments	11	3,694,172,463	3,546,219,668
Other equity instrument investments	12	390,798,231	278,576,509
Investment properties	13	62,504,615	64,697,688
Property, plant and equipment	14	29,564,588,450	30,045,743,674
Construction in progress	15	6,980,279,959	3,259,704,984
Right-of-use assets	16	394,472,380	418,879,903
Intangible assets	17	1,881,124,406	1,973,126,962
Deferred tax assets	18	202,888,795	213,036,331
Other non-current assets		3,441,308	–
Total non-current assets		43,174,270,607	39,799,985,719
TOTAL ASSETS		80,711,141,782	86,322,043,538

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

Consolidated Statement of Financial Position (Continued)

31 December 2020

Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	Note V	31 December 2020	31 December 2019
CURRENT LIABILITIES			
Deposits and balances from banks and other financial institutions	19	—	400,031,889
Customer deposits	20	6,620,132,197	10,964,896,002
Repurchase agreements	21	198,480,944	1,386,580,448
Short-term loans	22	12,584,935,187	12,880,053,159
Financial liabilities held for trading	23	95,968,940	2,258,750
Notes payable	24	3,297,446,207	7,313,729,148
Trade payables	25	7,612,476,174	6,130,327,006
Contract liabilities	26	4,377,105,559	3,765,254,551
Payroll and employee benefits payable	27	549,348,136	691,976,938
Taxes payable	28	569,759,727	547,209,418
Other payables	29	4,123,490,248	4,294,496,279
Non-current liabilities due within one year	30	2,572,092,845	1,677,068,898
Provision	31	26,968,253	22,664,675
Other current liabilities	32	569,023,723	—
Total current liabilities		43,197,228,140	50,076,547,161
NON-CURRENT LIABILITIES			
Long-term loans	33	3,536,364,338	3,468,200,000
Lease liabilities	34	394,983,673	411,432,835
Long-term employee benefits payable	35	79,496,046	101,327,703
Deferred revenue	36	872,949,281	1,402,283,687
Deferred tax liabilities	18	18,934,339	21,500,325
Total non-current liabilities		4,902,727,677	5,404,744,550
Total liabilities		48,099,955,817	55,481,291,711

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

Consolidated Statement of Financial Position (Continued)

31 December 2020

Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY (CONTINUED)		Note V	31 December 2020	31 December 2019
SHAREHOLDERS' EQUITY				
Share capital	37		7,700,681,186	7,700,681,186
Capital reserve	38		8,361,457,903	8,353,499,761
Other comprehensive income	39		(23,151,783)	(99,760,804)
Special reserve	40		37,295,614	35,484,176
Surplus reserve	41		4,687,127,180	4,651,252,494
General reserve	42		248,156,969	325,786,322
Retained earnings	43		7,374,557,923	5,966,218,930
Equity attributable to owners of the parent			28,386,124,992	26,933,162,065
Non-controlling interests			4,225,060,973	3,907,589,762
Total shareholders' equity			32,611,185,965	30,840,751,827
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			80,711,141,782	86,322,043,538

The financial statements were signed by the following persons:

Legal Representative:
Ding Yi

Chief Accountant:
Mao Zhanhong

Head of Accounting:
Xing Qunli

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

Consolidated Income Statement

For the year ended 31 December 2020

Renminbi Yuan

	Note V	2020	2019
Revenue	44	81,614,151,183	78,262,846,004
Less: Cost of sales	44	73,635,244,275	71,315,481,915
Taxes and surcharges	45	536,530,335	580,515,703
Selling expenses	46	1,010,010,332	949,844,233
General and administrative expenses	47	1,516,627,132	2,378,932,727
R&D expenses	48	1,813,176,837	846,472,355
Financial expenses	49	553,576,584	784,811,228
Including: Interest expense		643,235,325	788,151,024
Interest income		43,291,465	79,269,218
Add: Other income	50	86,979,866	117,373,339
Investment income	51	533,664,650	815,067,777
Including: Share of profits of associates and joint ventures		414,021,154	575,520,895
Gain from derecognition of financial assets measured at amortised cost		–	67,796,079
(Loss)/gain on the changes in fair value	52	(72,693,896)	9,598,445
Credit impairment losses	53	(48,276,000)	(15,592,865)
Asset impairment losses	54	(770,780,451)	(424,598,573)
Gain/(loss) from disposal of assets	55	589,074,956	(77,058,351)
Operating profit		2,866,954,813	1,831,577,615
Add: Non-operating income	56	402,577,021	469,913,966
Less: Non-operating expenses	57	188,665,317	3,735,871
Profit before tax		3,080,866,517	2,297,755,710
Less: Income tax expense	59	502,887,410	583,837,841
Net profit		2,577,979,107	1,713,917,869
Categorised by operation continuity			
Net profit from continuing operations		2,577,979,107	1,713,917,869
Categorised by ownership			
Net profit attributable to owners of the parent		1,982,638,821	1,128,148,980
Net profit attributable to non-controlling interests		595,340,286	585,768,889

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

Consolidated Income Statement (Continued)

For the year ended 31 December 2020

Renminbi Yuan

	Note V	2020	2019
Other comprehensive income, net of tax		76,609,021	12,941,359
Other comprehensive income attributable to owners of the parent, net of tax	39	76,609,021	12,941,359
Other comprehensive income that will not be reclassified to profit or loss:		76,755,689	9,340,609
Changes in fair value of other equity instruments investments		76,755,689	9,340,609
Other comprehensive income that may be reclassified to profit or loss:		(146,668)	3,600,750
Other comprehensive income using the equity method that may be reclassified to profit or loss		—	—
Exchange differences on translation of foreign operations		(146,668)	3,600,750
Other comprehensive income attributable to non-controlling interests, net of tax		—	—
Total comprehensive income		2,654,588,128	1,726,859,228
Attributable to:			
Owners of the parent		2,059,247,842	1,141,090,339
Non-controlling interests		595,340,286	585,768,889
EARNINGS PER SHARE:			
Basic earnings per share (cent/share)	60	25.75	14.65
Diluted earnings per share (cent/share)	60	25.75	14.65

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

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		
	(Note V 37)	(Note V 38)	(Note V 39)	(Note V 40)	(Note V 41)	(Note V 42)	(Note V 43)			
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										
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 other equity of associates and joint ventures	-	7,958,142	-	-	-	-	-	7,958,142	-	7,958,142
3) Profits appropriation										
(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

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

Consolidated Statement of Changes in Equity (Continued)

For the year ended 31 December 2020

Renminbi Yuan

2019

	Attributable to owners of the parent							Sub-total	Non-controlling interests	Total shareholders' equity
	Share capital (Note V.37)	Capital reserve (Note V.38)	Other comprehensive income (Note V.39)	Special reserve (Note V.40)	Surplus reserve (Note V.41)	General reserve (Note V.42)	Retained earnings (Note V.43)			
1. Balance at the beginning of the year	7,700,681,186	8,352,287,192	(112,702,163)	31,037,123	4,571,901,256	224,841,404	7,405,577,274	28,173,623,272	3,818,728,048	31,992,351,320
2. Increase/(decrease) during the year										
1) Total comprehensive income	-	-	12,941,359	-	-	-	1,128,148,980	1,141,090,339	585,768,889	1,726,859,228
2) Shareholders' contributions and reduction in										
(i) Capital invested by shareholders	-	-	-	-	-	-	-	-	58,375,000	58,375,000
(ii) Acquisition of non-controlling interests	-	1,212,569	-	-	-	-	-	1,212,569	(14,270,769)	(13,058,200)
3) Profits appropriation										
(i) Transfer to surplus reserve	-	-	-	-	79,351,238	-	(79,351,238)	-	-	-
(ii) Transfer to general risk reserve	-	-	-	-	-	100,944,918	(100,944,918)	-	-	-
(iii) Distribution to shareholders	-	-	-	-	-	-	(2,387,211,168)	(2,387,211,168)	(539,403,487)	(2,926,614,655)
4) Special reserve										
(i) Additions	-	-	-	123,900,345	-	-	-	123,900,345	11,467,106	135,367,451
(ii) Utilisations	-	-	-	(123,668,575)	-	-	-	(123,668,575)	(13,075,025)	(136,743,600)
(iii) Changes in the share of associates and joint ventures' special reserve, net	-	-	-	4,215,283	-	-	-	4,215,283	-	4,215,283
3. Balance at the end of the year	7,700,681,186	8,353,499,761	(99,760,804)	35,484,176	4,651,252,494	325,786,322	5,966,218,930	26,933,162,065	3,907,589,762	30,840,751,827

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

Renminbi Yuan

	Note V	2020	2019
1. Cash flows from operating activities			
Cash received from sale of goods and rendering of services		85,001,941,596	85,381,943,471
Tax refunds received		1,986,683	39,778,743
Net decrease in deposits in the central bank		–	270,559,928
Net increase in repurchase agreements		–	252,808,071
Net decrease in financial assets purchased under agreements to resell		1,023,246,427	63,112,150
Net increase in customer deposits and balances from banks and other financial institutions		–	5,549,252,469
Cash received for interest charges, fees and commissions		378,850,393	237,844,273
Cash received relating to other operating activities	61(1)	685,643,457	583,464,714
Sub-total of cash inflows		87,091,668,556	92,378,763,819
Cash paid for purchases of goods and services		(70,120,117,388)	(73,614,093,642)
Net decrease in deposits in the central bank		(226,335,280)	–
Net decrease in repurchase agreements		(1,188,099,504)	–
Net decrease in customer deposits and balances from banks and other financial institutions		(4,744,795,694)	–
Net increase in loans and advances to customers		(408,826,479)	(1,445,182,560)
Cash paid to or on behalf of employees		(4,736,858,780)	(5,624,533,684)
Taxes and surcharges paid		(2,270,765,693)	(2,835,616,971)
Cash paid for interest charges, fees and commissions		(144,512,677)	(115,077,983)
Cash paid relating to other operating activities	61(2)	(480,842,416)	(878,301,855)
Sub-total of cash outflows		(84,321,153,911)	(84,512,806,695)
Net cash flows from operating activities	62(1)	2,770,514,645	7,865,957,124
2. Cash flows from investing activities			
Cash received from disposal of investments		24,473,423,758	45,901,020,088
Cash received from investment income		216,975,852	273,187,446
Proceeds from disposal of items of property, plant and equipment, intangible assets, and other non-current assets		508,461,603	73,150,394
Sub-total of cash inflows		25,198,861,213	46,247,357,928

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

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2020

Renminbi Yuan

	Note V	2020	2019
2. Cash flows from investing activities (continued)			
Purchases of property, plant and equipment, intangible assets and other non-current assets		(7,027,769,955)	(4,851,962,970)
Cash paid for investments		(24,179,299,032)	(46,128,478,911)
Acquisition of non-controlling interests		—	(13,058,200)
Cash paid relating to other investing activities	61(3)	(73,705,396)	(47,067,231)
Sub-total of cash outflows		(31,280,774,383)	(51,040,567,312)
Net cash flows used in investing activities		(6,081,913,170)	(4,793,209,384)
3. Cash flows from financing activities			
Cash received from borrowings		17,988,437,837	17,391,616,546
Cash received from investors		13,125,000	58,375,000
Including: Capital injection from a subsidiary's non-controlling interests		13,125,000	58,375,000
Sub-total of cash inflows		18,001,562,837	17,449,991,546
Repayment of borrowings		(17,085,162,670)	(16,279,489,866)
Cash paid for distribution of dividends or profits and for interest expenses		(1,570,654,370)	(3,771,643,051)
Including: Dividends or profits paid to non-controlling interests by subsidiaries		(285,625,207)	(539,063,187)
Cash paid relating to other financing activities	61(4)	(54,484,769)	(221,551,502)
Sub-total of cash outflows		(18,710,301,809)	(20,272,684,419)
Net cash flows used in financing activities		(708,738,972)	(2,822,692,873)
4. Effect of foreign exchange rate changes on cash and cash equivalents		(95,916,296)	55,419,991
5. Net (decrease)/increase in cash and cash equivalents		(4,116,053,793)	305,474,858
Add: cash and cash equivalents at the beginning of the year		7,239,650,634	6,934,175,776
6. Cash and cash equivalents at the end of the year	62(2)	3,123,596,841	7,239,650,634

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

Statement of Financial Position

31 December 2020

Renminbi Yuan

ASSETS	Note XIV	31 December 2020	31 December 2019
CURRENT ASSETS			
Cash and bank balances		2,296,089,258	3,187,001,428
Financial assets held for trading		11,640,010	3,573,580
Trade receivables	1	2,355,816,934	3,154,416,565
Financing receivables		4,959,472,316	9,796,502,361
Prepayments		349,980,035	693,109,995
Other receivables	2	371,032,767	94,415,995
Inventories		7,272,793,836	6,633,161,943
Other current assets		359,808,604	354,016,165
Total current assets		17,976,633,760	23,916,198,032
NON-CURRENT ASSETS			
Long-term equity investments	3	11,761,010,351	11,477,691,872
Other equity instrument investments		304,681,987	275,508,859
Investment properties		62,504,615	64,570,817
Property, plant and equipment		22,530,651,256	22,357,559,485
Construction in progress		5,554,453,327	2,770,963,397
Right-of-use assets		348,919,252	368,857,495
Intangible assets		1,123,273,009	1,088,324,048
Deferred tax assets		104,388,391	125,314,560
Total non-current assets		41,789,882,188	38,528,790,533
TOTAL ASSETS		59,766,515,948	62,444,988,565

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

Statement of Financial Position (Continued)

31 December 2020

Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	31 December 2020	31 December 2019
CURRENT LIABILITIES		
Short-term loans	12,518,307,366	10,776,844,475
Financial liabilities held for trading	95,968,940	2,258,750
Notes payable	692,285,784	5,085,093,096
Trade payables	7,591,202,079	7,478,411,251
Contract liabilities	2,953,248,445	2,455,027,803
Payroll and employee benefits payable	325,256,459	540,612,797
Taxes payable	285,290,128	232,319,349
Other payables	3,726,054,061	3,793,893,919
Non-current liabilities due within one year	2,849,362,390	3,612,706,920
Other current liabilities	383,922,298	—
Total current liabilities	31,420,897,950	33,977,168,360
NON-CURRENT LIABILITIES		
Long-term loans	3,536,364,338	4,098,200,000
Lease liabilities	350,464,514	363,877,690
Long-term employee benefits payable	52,563,465	71,919,779
Deferred revenue	720,633,372	736,754,692
Total non-current liabilities	4,660,025,689	5,270,752,161
Total liabilities	36,080,923,639	39,247,920,521
SHAREHOLDERS' EQUITY		
Share capital	7,700,681,186	7,700,681,186
Capital reserve	8,365,975,619	8,358,017,477
Other comprehensive income	98,879,489	22,196,339
Special reserve	15,187,813	13,711,365
Surplus reserve	3,850,340,593	3,814,465,907
Retained earnings	3,654,527,609	3,287,995,770
Total shareholders' equity	23,685,592,309	23,197,068,044
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	59,766,515,948	62,444,988,565

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

Statement of Profit or Loss

For the year ended 31 December 2020

Renminbi Yuan

	Note XIV	2020	2019
Revenue	4	67,533,031,667	64,351,035,109
Less: Cost of sales	4	63,068,269,358	60,672,829,845
Taxes and surcharges		403,060,560	434,407,490
Selling expenses		393,481,977	396,816,540
General and administrative expenses		1,032,409,616	1,921,159,099
R&D expenses		1,371,832,597	704,163,255
Financial expenses		576,954,674	684,401,816
Including: Interest expense		650,709,978	713,486,648
Interest income		42,626,196	78,303,360
Add: Other income		51,083,735	85,785,078
Investment income	5	1,139,971,118	1,444,663,878
Including: Share of profits of associates and joint ventures		408,543,532	560,233,499
(Loss)/gain on the changes in fair value		(95,102,260)	6,945,620
Credit impairment (losses)/gains		(15,348,363)	25,141,942
Asset impairment losses		(912,541,490)	(862,906,925)
Gain from disposal of non-current assets		28,035,749	251,573,164
Operating profit		883,121,374	488,459,821
Add: Non-operating income		255,694,956	370,221,091
Less: Non-operating expenses		124,990,190	778,025
Profit before tax		1,013,826,140	857,902,887
Less: Income tax expense		(4,634,880)	64,390,503
Net profit		1,018,461,020	793,512,384
Categorised by operation continuity			
Net profit from continuing operations		1,018,461,020	793,512,384
Other comprehensive income, net of tax		76,683,150	9,289,872
Other comprehensive income that will not be reclassified to profit or loss:			
Changes in fair value of other equity instruments investments		76,683,150	9,289,872
Total comprehensive income		1,095,144,170	802,802,256

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

Statement of Changes in Equity

For the year ended 31 December 2020

Renminbi Yuan

2020

	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	Total shareholders' equity
1. Balance at the beginning of the year	7,700,681,186	8,358,017,477	22,196,339	13,711,365	3,814,465,907	3,287,995,770	23,197,068,044
2. Increase/(decrease) during the year							
1) Total comprehensive income	-	-	76,683,150	-	-	1,018,461,020	1,095,144,170
2) Capital contributions and reduction	-	7,958,142	-	-	-	-	7,958,142
3) Profit appropriation							
(i) Transfer to surplus reserves	-	-	-	-	35,874,686	(35,874,686)	-
(ii) Distribution to shareholders	-	-	-	-	-	(616,054,495)	(616,054,495)
4) Special reserve							
(i) Additions	-	-	-	76,206,903	-	-	76,206,903
(ii) Utilisation	-	-	-	(76,206,903)	-	-	(76,206,903)
(iii) Changes in the share of associates and joint ventures' special reserve, net	-	-	-	1,476,448	-	-	1,476,448
3. Balance at the end of the year	7,700,681,186	8,365,975,619	98,879,489	15,187,813	3,850,340,593	3,654,527,609	23,685,592,309

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

Statement of Changes in Equity (Continued)

For the year ended 31 December 2020

Renminbi Yuan

2019

	Share capital	Capital reserve	Other comprehensive income	Special reserve	Surplus reserve	Retained earnings	Total shareholders' equity
1. Balance at the beginning of the year	7,700,681,186	8,358,017,477	12,906,467	9,496,082	3,735,114,669	4,961,045,792	24,777,261,673
2. Increase/(decrease) during the year							
1) Total comprehensive income	-	-	9,289,872	-	-	793,512,384	802,802,256
2) Capital contributions and reduction	-	-	-	-	-	-	-
3) Profits appropriation							
(i) Transfer to surplus reserve	-	-	-	-	79,351,238	(79,351,238)	-
(ii) Distribution to shareholders	-	-	-	-	-	(2,387,211,168)	(2,387,211,168)
4) Special reserve							
(i) Additions	-	-	-	83,367,505	-	-	83,367,505
(ii) Utilisation	-	-	-	(83,367,505)	-	-	(83,367,505)
(iii) Changes in the share of associates and joint ventures' special reserve, net	-	-	-	4,215,283	-	-	4,215,283
3. Balance at the end of the year	7,700,681,186	8,358,017,477	22,196,339	13,711,365	3,814,465,907	3,287,995,770	23,197,068,044

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

Statement of Cash Flows

For the year ended 31 December 2020

Renminbi Yuan

	2020	2019
1. Cash flows from operating activities		
Cash received from sale of goods and rendering of services	66,469,946,858	66,365,520,791
Tax refunds received	20,721	33,929,000
Cash received relating to other operating activities	740,060,516	509,681,352
Sub-total of cash inflows	67,210,028,095	66,909,131,143
Cash paid for purchase of goods and services	(56,502,012,872)	(60,075,375,462)
Cash paid to or on behalf of employees	(4,414,224,258)	(4,951,959,643)
Taxes and surcharges paid	(829,317,606)	(1,228,624,433)
Cash paid relating to other operating activities	(189,116,938)	(561,574,931)
Sub-total of cash outflows	(61,934,671,674)	(66,817,534,469)
Net cash flows from operating activities	5,275,356,421	91,596,674
2. Cash flows from investing activities		
Cash received from disposal of investments	27,104,293	30,078,339
Cash received from investment income	894,023,000	1,117,902,569
Net cash received from disposal of property, plant and equipment, intangible assets and other long-term assets	161,595,974	63,965,116
Net cash received from disposal of subsidiaries and other business units	185,905,462	26,161,292
Sub-total of cash inflows	1,268,628,729	1,238,107,316
Purchase of property, plant and equipment, intangible assets and other non-current assets	(5,700,486,424)	(4,085,229,652)
Cash paid for investments	(21,371,823)	(235,776,280)
Net cash paid for acquisition of a subsidiary and other operating units	(231,899,000)	(316,678,450)
Cash paid relating to other investing activities	(73,705,397)	(47,067,231)
Sub-total of cash outflows	(6,027,462,644)	(4,684,751,613)
Net cash flows used in investing activities	(4,758,833,915)	(3,446,644,297)

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

Statement of Cash Flows (Continued)

For the year ended 31 December 2020

Renminbi Yuan

	2020	2019
3. Cash flows from financing activities		
Cash received from borrowings	17,870,202,893	13,717,960,986
Sub-total of cash inflows	17,870,202,893	13,717,960,986
Repayment of borrowings	(17,396,119,290)	(10,424,652,234)
Cash paid for the distribution of dividend or profits and for interest expenses	(1,242,014,560)	(3,124,629,414)
Cash paid relating to other financing activities	(265,106,834)	(31,123,524)
Sub-total of cash outflows	(18,903,240,684)	(13,580,405,172)
Net cash flows (used in)/generated from financing activities	(1,033,037,791)	137,555,814
4. Effect of foreign exchange rate changes on cash and cash equivalents	24,424,327	45,107,305
5. Decrease in cash and cash equivalents	(492,090,958)	(3,172,384,504)
Add: Cash and cash equivalents at the beginning of the year	2,652,770,395	5,825,154,899
6. Cash and cash equivalents at the end of the year	2,160,679,437	2,652,770,395

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

Notes to Financial Statements

For the year ended 31 December 2020

Renminbi Yuan

I. GENERAL INFORMATION OF THE GROUP

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

As of 31 December 2020, the Company had issued 7,700,680,000 shares in total, including ordinary A shares of 5,967,751,186 shares and ordinary H shares of 1,732,930,000 shares. The nominal value of each share is RMB1.

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

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

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

The financial statements were approved by the Board of Directors on 25 March 2021. According to the Articles of Association, the financial statements will be submitted for the approval of the Annual General Meeting.

The scope of the consolidated financial statements is determined on the control basis. The change in the scope of consolidation during the year is described in Note VI.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

II. BASIS OF PREPARATION

The financial statements are prepared in accordance with “China Accounting Standards for Business Enterprises – General Principles” and other issued application guidance, interpretations and other related regulations issued later (collectively known as “CAS”).

The financial statements are prepared on a going concern basis.

As of 31 December 2020, the net current liabilities of the Group amounted to RMB5,660,356,965. The directors of the Company have considered the availability of funding sources, including but not limited to unutilised banking facilities of RMB27 billion as at 31 December 2020 and the expected cash inflows from the operating activities in the upcoming 12 months. The Board of Directors of the Company believes that the Group has sufficient working capital to continue as a going concern for not less than 12 months after the end of the reporting period. Therefore, the Board of Directors of the Company continues to prepare the Group's financial statements for the year ended 31 December 2020 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 made in accordance with related regulations.

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The Group has determined the accounting policies and accounting estimates based on the characteristics of the operation, especially those related to provision for impairment of financial assets measured at amortised cost, valuation method of inventories, depreciation of property, plant and equipment, amortization of intangible assets, impairment of non-current assets excluding the financial instruments (other than goodwill), recognition of deferred tax assets, recognition and measurement of revenue, etc.

1. Statement of compliance with the CAS

The financial statements have been prepared in accordance with the CAS, and present truly and completely the financial position of the Company and the Group as of 31 December 2020, and the results of their operations and cash flows for the year ended 31 December 2020.

2. Accounting period

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

3. Reporting currency

Renminbi, in which the financial statements are presented, is used as the Group's recording and functional currency. All values are rounded to the nearest Renminbi Yuan ("RMB") except when otherwise indicated.

The Group's subsidiaries use their respective local currencies as the reporting currencies for recording purposes in accordance with their own operating environment, which are translated into Renminbi in the preparation of the consolidated financial statements.

4. Business combinations

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

Business combinations involving entities under common control

A business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. Under a business combination involving entities under common control, the involving entity (the acquirer) obtains control of another involving entity (the acquiree) on the combination date. The acquisition date is the date on which the combining entity effectively obtains control of the entity being combined.

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

4. Business combinations (Continued)

Business combination involving entities not under common control

A business combination involving entities not under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the business combination. Under a business combination involving entities not under common control, the involving entity (the acquirer) obtains control of other involving entities (the acquiree) on the acquisition date. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

The acquirer shall, at the acquisition date, recognise the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria at their fair values at the date of acquisition.

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

5. Consolidated financial statements

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

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

5. Consolidated financial statements (Continued)

Where the current loss assumed by non-controlling shareholders of a subsidiary exceeds the opening non-controlling interests, the balance offsets non-controlling interests.

For subsidiaries acquired through a business combination involving entities not under common control, the operating results and cash flows of the acquired company are included in the consolidated financial statements from the acquisition date until the date on which the Group ceases the control of the subsidiary. In preparing the consolidated financial statements, adjustments are made to the subsidiaries' financial statements based on fair values of the identifiable assets, liabilities and contingent liabilities at the acquisition date.

For subsidiaries acquired through a business combination involving entities under common control, the operating results and cash flows of a subsidiary are included in the consolidated financial statements from the beginning of the combination period. In preparing consolidated financial statements, adjustments are made to related items in prior years' financial statements, as if the combination had occurred from the date when the combining entities first came under control of the ultimate controlling party.

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

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

6. Joint arrangements and joint operations

A joint arrangement is classified as either a joint operation or a joint venture. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, arising from the joint arrangement. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture.

The joint arrangements of the Group are all joint ventures.

7. Cash and cash equivalents

Cash represents the cash on hand and deposits which are readily available for payment. Cash equivalents represent the Group's short term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

8. Foreign operations and foreign currency translation

The Group translates foreign currencies into the reporting currency when foreign currency transactions occur.

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

8. Foreign operations and foreign currency translation (Continued)

The Group translates functional currencies of overseas businesses into Renminbi when preparing the consolidated financial statements. All assets and liabilities are translated at the exchange rates ruling at the end of the reporting period; shareholders' equity, with the exception of retained earnings, are translated at the exchange rates ruling at the transaction date; all income and expense items in the income statement are translated at the average exchange rates during the period. Exchange differences arising from the translations mentioned above are recognised as other comprehensive income. When an overseas business is disposed of, the cumulative translation differences arising from the overseas business will be transferred to profit or loss in the period. In case of a partial disposal, only the proportionate share of the related exchange translation difference is transferred to profit or loss.

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

9. Financial instruments

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

Recognition and derecognition of financial instruments

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

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

- (1) The contractual rights to receive cash flows from the financial asset expire; or
- (2) It transfers the contractual rights to receive the cash flows of the financial asset, or assumes a contractual obligation to pay the cash flows to one or more recipients in a "transfer arrangement" and that (a) substantially transfers all the risks and rewards of ownership of the financial asset, or (b) neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, but abandons control of the financial asset.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (Continued)

Recognition and derecognition of financial instruments (Continued)

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

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

Classification and measurement of financial assets

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

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

For financial assets measured at fair value through profit or loss, the relevant transaction costs are charged to profit or loss; for other financial assets, the relevant transaction costs are recognised as initial investment costs.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (Continued)

Classification and measurement of financial assets (Continued)

The subsequent measurement of financial assets depending on their classifications as follows:

Debt instruments investment measured at amortised cost

A financial asset shall be measured at amortised cost if both of the following conditions are met: (a) the financial asset is held whose objective is to collect contractual cash flows and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. This type of financial asset using effective interest rate method to recognise interest income, the gain or loss generated by its' amortisation and impairment shall be accounted in the profit or loss for the year.

Debt instruments investment measured at fair value through other comprehensive income

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met: (a) the financial asset is held within a business model whose objective will be achieved by both collecting contractual cash flows and trading financial assets and; (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. This type of financial asset using effective interest rate method to recognise interest income. Except for the interest income, impairment losses and exchange differences shall be accounted in the profit or loss for the year, other changes in fair value shall be accounted in other comprehensive income. When the financial assets are derecognised, the cumulative gain or loss previously recognised in other comprehensive income shall be transferred to the profit or loss for the year.

Equity instruments investment measured at fair value through other comprehensive income

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (Continued)

Classification and measurement of financial assets (Continued)

The subsequent measurement of financial assets depending on their classifications as follows (continued):

Financial assets measured at fair value through profit or loss

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

Classification and measurement of financial liabilities

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

The subsequent measurement of financial liabilities depending on their classifications as follows:

Financial liabilities measured at fair value through profit or loss

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

Other financial liabilities

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (Continued)

Impairment of financial assets

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

For receivables that do not contain significant financing component, the Group adopts a simplified approach and measures the credit loss at an amount equal to lifetime expected credit losses.

For financial assets, loan commitments and financial guarantee contracts other than those adopting a simplified approach, the Group assesses whether their credit risk at each reporting date has increased significantly. If the financial assets whose credit risk has not increased significantly, it will be included in phase 1, and the Group measures the loss provision for those instruments at an amount equal to 12-month expected credit losses, and calculates interest income based on book value and actual interest rate; if the financial assets whose credit risk has increased significantly but without objective evidence for impairment after initial recognition, it will be included in phase 2, and the Group measures the loss provision of those instruments at an amount equal to lifetime expected credit losses, and calculates interest income based on book value and actual interest rate; if the financial assets that are evidently credit-impaired after initial recognition, they will be included in phase 3, and the Group measures the loss provision of those financial instruments at an amount equal to lifetime expected credit losses, and calculates interest income according to amortised cost and actual interest rate. For financial instruments with only low credit risk on the balance sheet date, the Group assumes that their credit risk has not increased significantly since the initial recognition.

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

For the disclosure of the Group's judgment criteria for the significant increase in credit risk, the definition of credit impaired assets, and the assumption of expected credit loss measurement, please refer to Note VIII.4.

When the Group expects to fail to collect or partially collect the contractual cash flows of financial assets, the Group will directly write off the book value of the financial assets.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (Continued)

Offsetting of financial instruments

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

Financial guarantee contracts

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

Derivative financial instruments

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

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

Transfer of financial assets

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (Continued)

Transfer of financial assets (Continued)

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

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

10. Inventories

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

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

Inventories are accounted for using the perpetual inventory system.

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

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Long-term equity investments

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

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Long-term equity investments (Continued)

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

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

The equity method is applied for long-term equity investments when the investees are jointly controlled or significantly influenced by the Group. Joint control is the agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Long-term equity investments (Continued)

When long-term equity investments are disposed of, the difference between the carrying amount and the actual proceeds received should be charged to profit or loss. For long-term equity investments under the equity method, if the method would not be adopted after the disposal, the basis of the accounting treatment on the related other comprehensive income under original equity method is the same as that on disposal of related assets or liabilities by the investee, the amount recognised in the equity on the changes in other equity movements except for the net profit or loss, other comprehensive income and profit distribution, should be all charged to the profit or loss for the year; if the equity method would continue to be adopted after the disposal, the basis of the accounting treatment on the related other comprehensive income under the original equity method is the same as that on disposal of related assets or liabilities by the investee, the amount recognised in the equity on the changes in other equity movements except for the net profit or loss, other comprehensive income and profit distribution, should be charged to profit or loss for the year in proportion.

If the Company loses control of an investee with joint control or significant influence retained after partial disposal of its shares, the equity investment should be accounted for as a long-term investment in accordance with the rules of conversion from the cost method to the equity method; if no joint control or significant influence was retained, the equity investment should be accounted as a financial asset. The difference between the fair value on the day of losing control and the book value is recognised in profit or loss.

12. Investment properties

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

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

The Group uses the cost model for subsequent measurement of investment properties and the estimated useful life is determined by the period that it can bring economic benefits to the Group. Depreciation is calculated on the straight-line basis to write off the cost of each item of investment properties over its estimated useful life of 30–50 years. The estimated residual value is 3% of the cost.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

13. Property, plant and equipment

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

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

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

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

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

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

14. Construction in progress

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

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

15. Borrowing costs

Borrowing costs are interests and other expenses arising from borrowings of the Group, including borrowing interest, amortization of discounts or premiums, ancillary expenses and exchange differences arising from foreign currency borrowings.

All the borrowing costs that are directly attributable to construction or production of all qualifying assets are capitalised and other borrowing costs are treated as an expense. A qualifying asset is defined as a property, plant and equipment, an investment property or inventory that necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs commences when:

- (1) Expenditures for the assets are incurred;
- (2) Borrowing costs are incurred; or
- (3) The acquisition and construction activities that are necessary to bring the assets to get ready for their intended use or sale have commenced.

The capitalisation of borrowing costs ceases when the asset being acquired or constructed is substantially ready for its intended use or sale and borrowing costs incurred thereafter are treated as an expense.

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

- (1) For specific borrowings, the borrowing costs eligible for capitalisation are the actual borrowing costs incurred during the current period deducted by any temporary interest or investment income.
- (2) For general borrowings, the borrowing costs eligible for capitalisation are determined by applying a capitalisation rate to the weighted average of capital expenditure that exceeds the specific borrowings.

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

16 Right-of-use assets

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

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

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

17 Intangible assets

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

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

17 Intangible assets (Continued)

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

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

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

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

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

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

18. Impairment of assets

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

The Group assesses whether any indicator of impairment exists as of the end of each reporting period, and, if yes, performs an impairment test by estimation of the asset's recoverable amount. For goodwill acquired in business combinations and intangible assets with indefinite lives, an annual impairment test is performed no matter whether there is any indicator of impairment. Intangible assets that not available for use are also tested for impairment annually.

An asset's recoverable amount is calculated as the higher of the asset's fair value less costs to sell and the present value of estimated future cash flows generated from the use of assets. The recoverable amount is calculated on individual basis unless it is not applicable, in which case the recoverable amount is determined for the asset group to which the asset belongs. An asset group is recognised based on whether the cash inflows generated by the asset group are largely independent to those of other assets or asset groups.

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

Impairment losses cannot be reversed in subsequent accounting periods.

19. Payroll and employee benefits payable

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

Short-term employee benefits payable

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

19. Payroll and employee benefits payable (Continued)

Post-employment benefit (defined contribution plans)

Expenditures for employees' endowment insurance managed by the local government and annuity plan established by the Group are capitalised in the related assets or charged to profit or loss.

Post-employment benefit (defined benefit plans)

The Group operates a defined benefit pension plan which requires contributions to be made to a separately administered fund. The benefits are unfunded. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method.

Remeasurements arising from defined benefit pension plans, comprising actuarial gains and losses, the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability) and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

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

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

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

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements;
- net interest expense or income comprising interest income on plan assets, interest expense on plan obligations and the interest influenced by the asset limit.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

19. Payroll and employee benefits payable (Continued)

Termination benefits

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

Other long-term employee benefits

Other long-term employee benefits apply the same recognition and measurement as for post-employment benefits but all changes in the carrying amount of liabilities for other long-term employment benefits are recognised in profit or loss.

20. Lease liabilities

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

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

21. Provisions

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

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

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

22. Repurchase and reverse repurchase transactions

Assets sold under agreements to repurchase at a specified future date (“repos”) are not derecognised from the statement of financial position. The corresponding cash received, including accrued interest, is recognised as “repurchase agreement” on the statement of financial position, reflecting the economic nature that such cash is a loan to the Group. The difference between the sale and repurchase prices is treated as an interest expense and is accrued over the life of the agreement using the effective interest rate method.

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

23. Revenue

Revenue from contracts with customers

Revenue is recognised when the Group has satisfied its performance obligations in the contract, that is, when the customer obtains control of the relevant goods or services. To obtain control of the relevant good and services is to have the ability to direct the use of, and obtain substantially all of the remaining benefits from of the relevant goods and services.

Contracts for the sale of goods

Contracts for the sale of goods between the Group and its customers usually only involve the performance obligations of the transferring of the goods. The Group generally recognises revenue based on the following considerations, taking into account the timing of control transfer. This includes obtaining the current collection rights of the goods, the transfer of the main risks and rewards of the ownership of the goods, the transfer of the legal ownership of the goods, the transfer of the physical assets of the goods, and the acceptance of the goods by the customer.

Contracts for the rendering of services

The service contract between the Group and its customers usually includes performance obligations for packaging, processing, technical consulting or technical services. As a result of the satisfaction of the performance obligation the Group, the customers obtain and consume the economic benefits of the services while the Group provides the services simultaneously. The Group is entitled to recover from the accumulative performance of the contract that has been completed to date, except when progress of the performance cannot be reasonably determined. The Group determines the progress of the performance of the services provided in accordance with the input method. When the progress of the performance cannot be reasonably determined, and the costs incurred by the Group are expected to be compensated, the revenue will be recognised based on the amount of costs incurred, until the progress of the performance can be reasonably determined.

Variable considerations

The contracts between the Group and its certain customers containing sales rebate arrangements (future price reductions based on cumulative sales volumes) which give rise to a variable consideration. The Group determines the best estimate of the variable consideration based on the expected value or the most probable value. However, the sales price including the variable consideration should not exceed the amount accumulatively recognised which is not likely to be significantly reversed when the uncertainty disappears.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

23. Revenue (Continued)

Revenue from contracts with customers (continued)

Sales involving rights of return

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

Significant financing component

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

Principal versus agent

The Group has the right to determine the price of the goods transferred, that is, the Group has control over the products before transferring the steel and other products to the customers, and thus the Group is considered as the principal and recognises revenue based on the total amount received or receivable. Otherwise, the Group is considered to be acting as an agent. As an agent, revenue shall be recognised at the amount of the commission or brokerage that is expected to be collected. The amount is determined based on the net amount of received or receivable deducting any amount payable to the third party, or based on a specific commission amount or proportion.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

23. Revenue (Continued)

Other revenue

Interest income

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

Lease income

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

24. Contract assets and contract liabilities

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

Contract assets

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

Contract liabilities

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

25. Government grants

Government grants are recognised in profit or loss, when they are highly probable to be received and all conditions are fulfilled. If a government grant is in form of monetary asset, it is measured at the amount received or receivable. If a government grant is in form of non-monetary asset, it is measured at fair value of the asset. If the fair value cannot be reliably determined, it is measured at the nominal amount.

Asset-related government grants are recognised when the government document designates that the government grants are used for constructing or forming long-term assets. If the government document is inexplicit, the Company should make a judgement based on the basic conditions to obtain the government grants, and recognises them as asset-related government grants if the conditions are to form long-term assets through construction or other method. Otherwise, the government grants should be income-related.

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

A government grant related to asset can be accounted by being recognised as deferred income, and amortised systematically and reasonably to profit or loss over the useful life of the related asset (government grants measured at the nominal amount should be recognised in profit or loss immediately for the period). When the asset is sold, transferred, discarded or destroyed within the useful life, the related deferred income should be recognised in profit or loss immediately.

For discounts appropriated to lending banks by the government, and the lending banks provide loans with policy preferential discounts, the Group accounts for the loans with the actual received amount, and calculates the relevant borrowing expenses based on principal and the preferential discounts of the loans.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

26. Income tax

Income tax comprises current tax and deferred tax, and is normally recognised as income or expense in profit or loss, except for goodwill generated in a business combination or items that have been recognised directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid according to the taxation laws and regulations.

Based on the differences between the carrying amount of an asset or liability in the statement of financial position and its tax base, and the differences between the carrying amounts of some items that have a tax base but are not recognised as assets and liabilities and their tax base, the Group adopts the liability method for the provision of deferred tax.

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

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

A deferred tax asset is recognised in respect of all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference will be utilised except those arising from the initial recognition of an asset or liability in a transaction which:

- (1) is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit; and
- (2) as to deductible temporary differences associated with subsidiaries, joint ventures and associates: a deferred tax asset is recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future, and taxable profit will be available against which the temporary difference can be utilised.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

26. Income tax (Continued)

At the end of each reporting period, deferred tax assets and liabilities are measured, based on taxation laws and regulations, at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, taking into account the income tax effect of expected asset realization or liability settlement at the end of each reporting period.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Deferred tax assets and liabilities should be offset and disclosed in net if and only if: the entity has a legally enforceable right to set off current tax and liabilities; and the deferred tax assets and liabilities concerned related to income taxes raised by the same authority on the same taxable entity, or taxable entities which intend, in each future period in which significant amounts of deferred tax are expected to be settled or recovered, to settle their current tax assets and liabilities either on a net basis or simultaneously.

27. Leases

Identification of leases

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

Identification of separate lease components

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

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

27. Leases (Continued)

Separating lease components from non-lease components

For a contract that contains both lease and non-lease components, the Group shall account for the lease and non-lease components separately as a lessor or a lessee.

Assessment of lease term

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

As a lessee

Please refer to Note III. 16 and Note III. 20 for the accounting policies for leases where the Group is a lessee.

Lease modifications

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

A lessee shall account for a lease modification as a separate lease if both:

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

27. Leases (Continued)

As a lessee (Continued)

Lease modifications (Continued)

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

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

- (a) decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease, and recognising the gain or loss relating to the partial or full termination of the lease shall be recognised in profit or loss.
- (b) making a corresponding adjustment to the right-of-use asset for all other lease modifications.

Short-term leases and leases of low-value assets

At the commencement date, the Group recognises leases that have a lease term of 12 months or less from the commencement date and without a purchase option as short-term leases and recognises leases for which the single leased new asset value is lower than RMB40,000 as leases of low-value assets. The sublet or expecting sublet of assets would not be recognised as lease of low-value assets for the original leases. The Group elects not to recognise right-of-use assets and lease liabilities for short-term leases and leases of low-value assets and recognises the lease payments associated with those leases as cost or in profit or loss on a straight-line basis.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

27. Leases (Continued)

As a lessor

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise, a lease is classified as an operating lease.

As an operating lease lessor

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

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

28. Profit distribution

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

29. Safety production reserve

Safety production reserve set aside in compliance with relevant regulations is included in the cost of relevant products or recognised in profit or loss for the period, and credited to the special reserve at the same time. When safety production reserve is utilised, it is accounted for based on whether a property, plant and equipment is generated or not: if the costs incurred can be categorised as expenditure, the costs incurred should be charged against the special reserve; if the reserve is used to build up property, plant and equipment, the costs should be charged to construction in progress, and reclassified to property, plant and equipment when the projects reach the status ready for the intended use. Meantime, expenditures in building up property, plant and equipment are directly charged against the special reserve with the accumulated depreciation recognised at the same amount.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. General reserve

According to the relevant policy of the MOF, Masteel Group Finance Co., Ltd. ("Masteel Finance") accrues the general reserve from net profit as profit distribution. Since 1 July 2012, the balance of the general reserve should not be less than 1.5% of the balance of the risk assets.

31. Fair value measurement

The Group measures listed equity instrument investments, financing receivables and financial assets/liabilities held for trading at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place in the principal market for the asset or liability or in the most advantageous market for the asset or liability when a principal market is absent. The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

31. Fair value measurement (Continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation at the end of each reporting period.

32. Significant accounting judgments and estimates

The preparation of the Group's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of provision, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgments

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

Going concern

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. Significant accounting judgments and estimates (Continued)

Judgments (Continued)

Operating lease – as lessor

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

Classification between investment properties and owner-occupied properties

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

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

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

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

As of 31 December 2020, the Group held 16.34% equity interests in Anhui Xinchuang Energy Saving and Environmental Protection Science and Technology Co., Ltd. ("Xinchuang Environmental Protection"). The Company designates one director and one supervisor to Xinchuang Environmental Protection according to the Articles of Association and the directors of the Company believe the Company can exercise significant influence over Xinchuang Environmental Protection, despite the equity share is under 20%. Thus, the Group accounts for the investment in Xinchuang Environmental Protection as an associate.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. Significant accounting judgments and estimates (Continued)

Judgments (Continued)

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

As of 31 December 2020, the Group held 18.19% equity interests in Phima Intelligence Technology Co., Ltd. ("Phima Intelligence"). The Company designates one director to Phima Intelligence according to the Articles of Association, and the director is nominated to be a member of the Audit Committee. The directors of the Company believe the Company can exercise significant influence over Phima Intelligence, despite the equity share is under 20%. Thus, the Group accounts for the investment in Phima Intelligence as an associate.

As of 31 December 2020, the Group held 18.31% equity interests in Ouyeel Blockchain Finance and Metal Recycling Resource Co., Ltd. ("Ouyeel Blockchain Finance"). The Company designates one director to Ouyeel Blockchain Finance according to the Articles of Association. The directors of the Company believe the Company can exercise significant influence over Ouyeel Blockchain Finance, despite the equity share is under 20%. Thus, the Company accounts for the investment in Ouyeel Blockchain Finance as an associate.

As of 31 December 2020, the Group held 11% equity interests in OBEI Co., Ltd. ("OBEI"). The Company designates one director to OBEI according to the Articles of Association. The directors of the Company believe the Company can exercise significant influence over OBEI, despite the equity share is under 20%. Thus, the Company accounts for the investment in OBEI as an associate.

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

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. Significant accounting judgments and estimates (Continued)

Judgments (Continued)

Business model

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

The characteristics of contractual cash flows

The classification of a financial asset at initial recognition depends on the characteristics of its contractual cash flows. This requires a determination of whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding. It requires judgement to determine whether the contractual cash flows differ significantly with benchmark cash flows when assessing the adjustment of the time value of money. For financial assets with characteristics of paying in advance, it requires judgement to determine whether the fair value of this characteristics is insignificant.

Estimation uncertainty

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

Impairment of financial assets

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. Significant accounting judgments and estimates (Continued)

Estimation uncertainty (Continued)

Impairment of non-financial assets (other than goodwill)

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

Deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary difference and unused tax credit can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with tax planning strategies.

Sales involving a right of return

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

Notes to the Financial Statements (Continued)

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

32. Significant accounting judgments and estimates (Continued)

Estimation uncertainty (Continued)

Constraint in variable consideration estimate

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

Lessee's incremental borrowing rate

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

Estimation of useful lives of property, plant and equipment

The Group's management determines the estimated useful life of its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions.

Estimation of inventories under net realisable value

Management reviews the condition of inventories (including spare parts) of the Group and their net realisable values and makes provision accordingly. Net realisable value of inventories is the estimated based on the expected selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of a similar nature. Management reassesses the estimation at the end of each reporting period.

Notes to the Financial Statements (Continued)

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III. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

33. Changes in accounting policies and estimates

Changes in accounting policies

According to the requirements of “*Interpretation of Accounting Standards for Business Enterprises No. 13*”, from 1 January 2020, the following parties that were not previously treated as related parties shall be regarded as related parties: joint ventures and their subsidiaries or associates and their subsidiaries of other member units (including the parent company and subsidiaries) of the enterprise group to which the Company belongs. The change of accounting policy affects the judgment of related parties and the disclosures of related party transactions of the Group, and the comparative data is not adjusted retroactively according to the convergence provisions.

IV. TAX

1. The principal kinds of taxes and related tax rates

Value-added tax	The output VAT rate of domestic sales is 13%. VAT payable is the net difference between output VAT and deductible input VAT. According to national tax regulations, the Company adopted the “Exempt, Offset, Refund” arrangements for VAT in export sales with the refund rates of 10% to 13%.
Income tax	The Group's subsidiaries, Mascometal Co.,Ltd.(“Mascometal”) and Baowu Group Masteel Rail Transportation Material Technology Co., Ltd. (“Masteel Transportation Material”) are recognised as high-tech enterprises, which adopted a preferential tax rate and are subject to corporate income tax (“CIT”) at a rate of 15% on their taxable profits. Apart from the above two subsidiaries, the Group and other subsidiaries located in mainland China are subject to CIT at a rate of 25% on their taxable profits.

Notes to the Financial Statements (Continued)

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IV. TAX (CONTINUED)

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

Maanshan Iron & Steel (HK) Limited ("Ma Steel (HK)") was established and registered in Hong Kong (China), and the applicable income tax rate is 16.5%. Maanshan Iron and Steel (Australia) Proprietary Limited ("Ma Steel (Australia)") was established and registered in Australia, and the applicable income tax rate is 30%. MG Trading and Development GmbH ("MG Trading") was established and registered in Germany, and the applicable income tax rate is 30%. MG-VALDUNES S.A.S was established and registered in France, and the applicable income tax rate is 28%. MASTEEL AMERICA INC ("Masteel America") was established and registered in the United States, and the applicable income tax rate is 30%. Masteel Middle East General Industrial ("Masteel Middle East") was established and registered in Dubai, and the applicable income tax rate is 0%.

Land appreciation tax	Payable based on appreciation of land use right and building at a tax rate of 30%-60% as a result of the transfer of ownership.
City construction and maintenance tax	Payable based on 5% to 7% of the turnover taxes to be paid.
Education surcharge	Payable based on 3% of the turnover taxes to be paid.
Local education surcharge	Payable based on 2% of the turnover taxes to be paid.
Property tax	Payable based on a certain percentage of the cost of real estate with legal title in accordance with relevant regulations.
Environment protection tax	Payable based on the actual air pollution generated with RMB1.2 per pollution equivalent; payable based on the actual water pollution generated with RMB1.4 per water equivalent.
Other taxes	In accordance with tax laws and other relevant regulations.

Notes to the Financial Statements (Continued)

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IV. TAX (CONTINUED)

2. Tax preference

Mascometal, a subsidiary of the Group, was recognised as a high-tech enterprise in 2020. The certificate number is GR202034001447, and the issuance date is 17 August 2020. According to “Measures for Administration of the Recognition of Hi-tech Enterprises” and “Law of the People’s Republic of China on Enterprise Income Tax”, the preferential income tax rate of 15% is applicable for three years from 2020.

Masteel Transportation Material, a subsidiary of the Group, was recognised as a high-tech enterprise in 2020. The certificate number is GR202034003728, and the issuance date is 30 October 2020. According to “Measures for Administration of the Recognition of Hi-tech Enterprises” and “Law of the People’s Republic of China on Enterprise Income Tax”, the preferential income tax rate of 15% is applicable for three years from 2020.

V. MAJOR NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash and bank balances

	31 December 2020	31 December 2019
Cash on hand	190,580	46,737
Bank balances	3,221,279,761	7,343,105,580
Other monetary assets	1,185,390,370	1,461,248,595
Mandatory reserves of Masteel Finance deposited in the central bank	939,248,063	712,912,783
	5,346,108,774	9,517,313,695
Including: Restricted amount due to mortgage, pledge or freeze	1,185,390,370	1,461,248,595

Notes to the Financial Statements (Continued)

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

1. Cash and bank balances (Continued)

As of 31 December 2020, the Group had cash and bank balances amounting to RMB633,402,172 that have been deposited outside the PRC (31 December 2019: RMB870,697,419).

Cash deposited in current accounts earns interest at floating interest rates. The terms of time deposits are from three months, six months, nine months, one year to three years respectively, depending on the cash flow demand of the Group. Such deposits earn interest at the respective bank deposit rates. As of 31 December 2020, the Group had time deposits amounting to RMB97,873,500 (31 December 2019: RMB103,501,683) with terms over three months.

2. Financial assets held for trading

	31 December 2020	31 December 2019
Financial assets at fair value through profit or loss		
Derivative financial assets	11,640,010	3,573,580
Futures contracts		
Debt instrument investments	2,017,317,047	2,122,538,614
	2,028,957,057	2,126,112,194

As of 31 December 2020, the fair value of futures contracts held by the Group was determined by the settlement price of the Dalian Commodity Exchange, Shanghai Commodity Exchange and Zhengzhou Commodity Exchange on the last trading date in 2020.

As of 31 December 2020, the Group's debt instrument investments were mainly investments in financial and trust products. There was no material restriction on the realization of these investments.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

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

3. Trade receivables

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

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

	31 December 2020	31 December 2019
Within one year	1,029,732,092	1,076,796,471
One to two years	22,158,556	14,798,803
Two to three years	10,688,621	26,523,395
Over three years	42,043,744	27,217,799
	1,104,623,013	1,145,336,468
Less: Provisions for bad debts	61,016,972	52,406,346
	1,043,606,041	1,092,930,122

The balances of trade receivables are analysed as follows:

	31 December 2020				Book value	31 December 2019				Book value
	Book value Amount	Ratio (%)	Provision for bad debts Amount	Ratio (%)		Book value Amount	Ratio (%)	Provision for bad debts Amount	Ratio (%)	
Assessed bad debt provision individually	-	-	-	-	-	-	-	-	-	-
Assessed bad debt provision in portfolios based on credit risk characteristics	1,104,623,013	100	(61,016,972)	6	1,043,606,041	1,145,336,468	100	(52,406,346)	5	1,092,930,122
	1,104,623,013	100	(61,016,972)		1,043,606,041	1,145,336,468	100	(52,406,346)		1,092,930,122

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

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

3. Trade receivables (Continued)

Provision for bad debts of trade receivable of the Group analysed by credit risk characteristics is disclosed as follows:

	31 December 2020			31 December 2019		
	Carrying amount expected to default	Expected credit loss ratio (%)	Expected credit loss	Carrying amount expected to default	Expected credit loss ratio (%)	Expected credit loss
Within one year	1,029,732,092	1	(10,297,321)	1,076,796,471	1	(10,767,965)
One to two years	22,158,556	16	(3,545,369)	14,798,803	15	(2,219,820)
Two to three years	10,688,621	48	(5,130,538)	26,523,395	46	(12,200,762)
Over three years	42,043,744	100	(42,043,744)	27,217,799	100	(27,217,799)
	1,104,623,013		(61,016,972)	1,145,336,468		(52,406,346)

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

	Opening balance	Increase during the year	Reversal during the year	Write-back due to disposal of a subsidiary	Other changes	Closing balance
2020	52,406,346	24,617,062	(16,615,257)	–	608,821	61,016,972
2019	72,710,696	–	(20,274,936)	–	(29,414)	52,406,346

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

Notes to the Financial Statements (Continued)

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

3. Trade receivables (Continued)

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

31 December 2020	Relationship with the Group	Ending balance	Ageing	Percentage of trade receivables	Ending balance of bad debts provision
Company 1	Third party	94,930,141	Within 1 year	9%	(949,301)
Company 2	Third party	71,049,610	Within 1 year	6%	(710,496)
Company 3	Third party	60,991,574	Within 1 year	6%	(609,916)
Company 4	Third party	49,318,672	Within 1 year	4%	(493,187)
			Within 3 years and over 3 years		
Company 5	Third party	48,312,244		4%	(23,462,514)
		324,602,241		29%	(26,225,414)

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

As of 31 December 2020, the Group had no assets or liabilities derived from transferring trade receivables in which the Group was continuingly involved (31 December 2019: Nil).

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

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

4. Financial receivables

	31 December 2020	31 December 2019
Bank acceptance notes	7,072,160,166	11,097,821,345
Commercial acceptance notes	—	878,076
	7,072,160,166	11,098,699,421

As of 31 December 2020, the Group pledged the bank acceptance notes of RMB 108,365,962 (31 December 2019: RMB127,316,634) to obtain a short-term loan, and there were no bank acceptance notes pledged (31 December 2019: RMB4,470,011,632) to issue notes payable.

The undue notes endorsed or discounted were as follows :

	31 December 2020		31 December 2019	
	Derecognised	Not derecognised	Derecognised	Not derecognised
Bank acceptance notes	8,889,821,875	157,975,562	2,076,771,934	127,789,539

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

The Group derecognised notes receivable discounted to financial institutions amounting to RMB1,589,777,784 (2019: RMB4,189,003,767), and recognised discount expense amounting to RMB20,100,719 (2019: RMB49,959,470).

Notes to the Financial Statements (Continued)

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

5. Prepayments

Aging analysis of the prepayments is as follows:

	31 December 2020		31 December 2019	
	Book value	Ratio (%)	Book value	Ratio (%)
Within one year	737,480,610	98	946,842,275	96
One to two years	17,859,793	2	27,222,230	3
Two to three years	—	—	88,508	—
Over three years	—	—	7,290,562	1
	755,340,403	100	981,443,575	100

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

The top five prepayments classified by debtors are as follows:

31 December 2020	Relationship with the Group	Ending balance	Aging	Percentage of prepayments
Company 1	Third party	245,961,459	Within 1 year	33%
Company 2	Third party	49,523,710	Within 1 year	7%
Company 3	Third party	38,240,773	Within 1 year	5%
Company 4	Third party	34,054,174	Within 1 year	5%
Company 5	Third party	28,746,332	Within 1 year	4%
		396,526,448		54%

Notes to the Financial Statements (Continued)

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

5. Prepayments (Continued)

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

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

6. Other receivables

	31 December 2020	31 December 2019
Interest receivable	83,808	257,956
Dividends receivable	33,247,960	—
Other receivables	393,054,594	156,033,895
	426,386,362	156,291,851

Interest receivable

	31 December 2020	31 December 2019
Interest from time deposits	83,808	257,956

Notes to the Financial Statements (Continued)

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

6. Other receivables (Continued)

Dividends receivable

	31 December 2020	31 December 2019
Associate – Ma-Steel OCI Chemical	3,312,407	–
Associate – Ouyeel Blockchain Finance	29,935,553	–
	33,247,960	–

Other receivables

Aging analysis of other receivables is as follows:

	31 December 2020	31 December 2019
Within one year	397,461,827	111,650,679
One to two years	6,131,217	44,736,427
Two to three years	802,911	146,600
Over three years	418,427,843	418,435,047
	822,823,798	574,968,753
Less: Provision for bad debts	429,769,204	418,934,858
	393,054,594	156,033,895

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

6. Other receivables (Continued)

Other receivables (Continued)

Other receivables analysed by nature were as follows:

	31 December 2020	31 December 2019
Due from trading companies	542,930,681	417,751,118
Deposit for steel futures	120,846,925	47,141,529
Prepaid import tariff and VAT deposit	105,140,963	32,041,791
Tax refunds	237,911	237,911
Transferring of assets	—	43,454,334
Others	53,667,318	34,342,070
	822,823,798	574,968,753
Less: Provision for bad debts	429,769,204	418,934,858
	393,054,594	156,033,895

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

6. Other receivables (Continued)

Other receivables (Continued)

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

2020

	Phase I 12-month expected credit losses	Phase II Lifetime expected credit losses	Phase III Credit-impaired financial assets (Lifetime expected credit losses)	Total
Opening balance	228,189	15,389,042	403,317,627	418,934,858
Changes due to the opening balance	(2,241)	2,241	—	—
– Shift to Phase II	(2,241)	2,241	—	—
– Shift to Phase III	—	—	—	—
– Back to Phase II	—	—	—	—
– Back to Phase I	—	—	—	—
Accrual	889,181	954,297	8,981,456	10,824,934
Reversal	—	—	—	—
Other changes	9,412	—	—	9,412
Closing balance	1,124,541	16,345,580	412,299,083	429,769,204

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

6. Other receivables (Continued)

Other receivables (Continued)

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

2019

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

6. Other receivables (Continued)

Other receivables (Continued)

The movement of provisions for bad debts against other receivables were as follows:

	Balance at the beginning of the year	Provided	Turn-back	Write-off	Exchange gains and losses	Balance at the end of the year
2020	418,934,858	10,824,934	–	–	9,412	429,769,204
2019	416,361,533	4,218,900	(1,644,146)	–	(1,429)	418,934,858

As of 31 December 2020, the top five other receivables were as follows:

	Carrying amount	Ratio in other receivables (%)	Nature	Aging	Provision for bad debts
Company 1	132,058,434	16	Due from trading companies	Over 3 years	(132,058,434)
Company 2	127,685,368	16	Due from trading companies	Over 3 years	(127,685,368)
Company 3	117,250,400	14	Due from trading companies	Within one year	–
Company 4	64,936,247	8	Deposit for steel futures	Within one year	–
Company 5	60,939,960	7	Due from trading companies	Over 3 years	(60,939,960)
	502,870,409	61			(320,683,762)

Notes to the Financial Statements (Continued)

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Renminbi Yuan

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

6. Other receivables (Continued)

Other receivables (Continued)

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

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

Notes to the Financial Statements (Continued)

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Renminbi Yuan

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

6. Other receivables (Continued)

Other receivables (continued)

As of 31 December 2020, the government grants receivable were as follows:

	Government grant project	Balance	Aging	Expected receiving time, amount and basis
Other receivables due from Taibai Town Government	Policy return from 2004 to 2009	237,911	Over three years	Note

As of 31 December 2019, the government grants receivable were as follows:

	Government grant project	Balance	Aging	Expected receiving time, amount and basis
Other receivables due from Taibai Town Government	Policy return from 2004 to 2009	237,911	Over three years	Note

Note: The balance is the government grant received by a subsidiary named Anhui Changjiang Iron and Steel Co., Ltd. ("Anhui Changjiang Iron and Steel") in 2009 from the Town Government of Taibai, Dangtu in Anhui Province because of its timely and full tax payments between 2004 and 2009. This government grant was recorded as non-operating income in 2009, and the remaining amount was expected to collect in 2021.

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

Notes to the Financial Statements (Continued)

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Renminbi Yuan

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

7. Inventories

	31 December 2020			31 December 2019		
	Book amount	Provision for impairment	Carrying amount	Book amount	Provision for impairment	Carrying amount
Raw materials	5,424,896,934	(73,479,440)	5,351,417,494	5,436,379,019	(85,611,330)	5,350,767,689
Work in progress	1,170,707,153	(19,797,548)	1,150,909,605	1,369,764,747	(42,078,481)	1,327,686,266
Finished goods	3,220,415,514	(64,728,353)	3,155,687,161	3,029,789,651	(92,523,279)	2,937,266,372
Spare parts	1,143,506,516	(134,701,194)	1,008,805,322	1,160,103,515	(61,776,506)	1,098,327,009
Others	233,474,649	–	233,474,649	233,802,883	–	233,802,883
	11,193,000,766	(292,706,535)	10,900,294,231	11,229,839,815	(281,989,596)	10,947,850,219

The movements of impairment provision against inventories were as follows:

2020

	Opening balance	Provided	Decrease		Closing balance
			Reversal or write-off	Exchange gains or losses	
Raw materials	85,611,330	76,088,373	(88,528,355)	308,092	73,479,440
Work in progress	42,078,481	16,430,090	(38,912,857)	201,834	19,797,548
Finished goods	92,523,279	51,033,109	(78,962,328)	134,293	64,728,353
Spare parts	61,776,506	74,648,700	(1,787,188)	63,176	134,701,194
	281,989,596	218,200,272	(208,190,728)	707,395	292,706,535

Notes to the Financial Statements (Continued)

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

7. Inventories (Continued)

The movements of impairment provision against inventories were as follows: (continued)

2019

Opening balance	Opening balance	Provided	Decrease		Closing balance
			Reversal or write-off	Exchange gains or losses	
Raw materials	306,614,876	181,126,047	(402,125,569)	(4,024)	85,611,330
Work in progress	157,296,973	36,309,939	(151,521,025)	(7,406)	42,078,481
Finished goods	269,855,384	67,553,388	(244,882,678)	(2,815)	92,523,279
Spare parts	65,356,757	624,264	(4,203,100)	(1,415)	61,776,506
	799,123,990	285,613,638	(802,732,372)	(15,660)	281,989,596

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

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

8. Financial assets purchased under agreements to resell

	31 December 2020	31 December 2019
Bonds	1,346,743,604	2,369,990,031
Less: Provision for impairment	18,164	23,277
	1,346,725,440	2,369,966,754

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

9. Loans and advances to customers

	31 December 2020	31 December 2019
Loans	2,983,414,614	2,581,278,897
Discounted notes	1,795,992,095	1,786,640,104
Factoring	—	2,661,229
	4,779,406,709	4,370,580,230
Less: Bad debts provision for loans and advances to customers	143,340,270	114,165,040
	4,636,066,439	4,256,415,190

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

	31 December 2020	31 December 2019
Unsecured loans	4,749,355,483	4,156,918,916
Guaranteed loans	—	60,075,236
Mortgage loans	—	20,028,754
Pledged loans	30,051,226	133,557,324
	4,779,406,709	4,370,580,230

All customers related to loans and advances are the Holding and its subsidiaries. The Group applies the “expected credit loss (“ECL”) model” to evaluate the credit losses of loans and advances to customers. As of 31 December 2020, there was no non-performing loan in the Group’s loans and advances to customers.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

9. Loans and advances to customers (Continued)

The movements of provisions for bad debts against loans and advances to customers during 2020 are as follows:

	Phase I 12-month expected credit losses	Phase II Lifetime expected credit losses	Phase III Credit-impaired financial assets (lifetime expected credit losses)	Total
Opening balance	114,165,040	–	–	114,165,040
Changes due to the opening balance	–	–	–	–
– Shift to Phase II	–	–	–	–
– Shift to Phase III	–	–	–	–
– Back to Phase II	–	–	–	–
– Back to Phase I	–	–	–	–
Accrual	29,175,230	–	–	29,175,230
Reversal	–	–	–	–
Closing balance	143,340,270	–	–	143,340,270

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

9. Loans and advances to customers (Continued)

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

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

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

10. Other current assets

	31 December 2020	31 December 2019
Prepaid income tax	281,840,409	282,233,649
Deductible value added tax	435,459,098	510,579,510
Debt instrument investments (note)	3,263,926,755	3,182,221,639
	3,981,226,262	3,975,034,798

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

	31 December 2020			31 December 2019		
	Book amount	Provision for impairment	Carrying amount	Book amount	Provision for impairment	Carrying amount
Interbank deposits	3,264,636,713	(709,958)	3,263,926,755	3,182,574,639	(353,000)	3,182,221,639

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

10. Other current assets (Continued)

The movements of provisions for bad debts against debt instrument investments in 2020 are as follows:

	Phase I 12-month expected credit losses	Phase II Lifetime expected credit losses	Phase III Credit-impaired financial assets (lifetime expected credit losses)	Total
Opening balance	353,000	–	–	353,000
Changes due to the opening balance	–	–	–	–
– Shift to Phase II	–	–	–	–
– Shift to Phase III	–	–	–	–
– Back to Phase II	–	–	–	–
– Back to Phase I	–	–	–	–
Provided	356,958	–	–	356,958
Reversal	–	–	–	–
Closing balance	709,958	–	–	709,958

The movements of provisions for bad debts against debt instrument investments in 2019 are as follows:

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

11. Long-term equity investments

31 December 2020

	Opening balance	Movements during the year							Closing balance	Impairment at the end of the year
		Increase	Decrease	Investment income under the equity method	Other comprehensive income	Other equity movement	Cash dividend declared	Provision for impairment		
Joint ventures										
Maanshan BOC-Ma Steel Gases Company Limited ("BOC-Ma Steel")	271,695,413	-	-	98,790,021	-	-	(72,000,000)	-	298,485,434	-
Masteel-CMI International Training Centre Co., Ltd. ("Masteel-CMI") (Note 1)	501,306	-	(501,306)	-	-	-	-	-	-	-
Associates										
Henan JinMa Energy Co., Ltd. (Henan JinMa Energy)	707,573,964	-	-	121,038,941	-	1,450,390	(57,600,000)	-	772,463,295	-
Shenglong Chemical Co., Ltd. ("Shenglong Chemical")	816,220,485	-	-	93,477,209	-	1,296,496	-	-	910,994,190	-
Xinchuang Environmental Protection Ma-Steel OCI Chemical Co., Ltd. ("Ma- Steel OCI Chemical") (Note 2)	66,964,108	-	-	15,362,859	-	(578,635)	(5,130,576)	-	76,617,756	-
Ma Steel (Shanghai) Commercial Factoring Co., Ltd. ("Ma-Steel Commercial Factoring")	147,887,236	-	(144,360,372)	2,886,158	-	899,385	(7,312,407)	-	-	-
Ma Steel (Shanghai) Financial Leasing Co., Ltd. ("Ma-Steel Financial Leasing") (Note 3)	157,570,298	-	-	3,714,912	-	-	(2,978,314)	-	158,306,896	-
Anhui Magang Chemicals & Energy Technology Co., Ltd. ("Magang Chemicals & Energy")	85,759,551	-	(81,424,965)	1,053,858	-	-	(5,388,444)	-	-	-
Anhui Masteel K.Wah New Building Materials Co., Ltd. ("Masteel K. Wah")	659,192,523	-	-	32,731,236	-	2,714,893	(29,778,833)	-	664,859,819	-
Ouyeel Blockchain Finance (Note 4)	103,703,230	-	-	19,691,935	-	-	(20,259,254)	-	103,135,911	-
Phima Intelligence	327,305,595	-	-	20,831,209	-	7,958,142	(40,573,053)	-	315,521,893	-
OBEI (Note 5)	201,845,959	-	-	4,504,092	-	-	(4,927,238)	-	201,422,813	-
	-	192,345,404	-	19,052	-	-	-	-	192,364,456	-
	3,546,219,668	192,345,404	(226,286,643)	414,101,482	-	13,740,671	(245,948,119)	-	3,694,172,463	-

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

Notes to the Financial Statements (Continued)

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

11. Long-term equity investments (Continued)

31 December 2019

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

11. Long-term equity investments (Continued)

Note 1: Masteel-CMI, the Group's joint venture, was deregistered in 2020.

Note 2: The 37th meeting of the 9th session of the Board of Directors approved the Company's transfer of 40% shares of Ma-Steel OCI Chemical to Magang Chemicals & Energy. On 21 September 2020, the equity transfer agreement was signed by the Company and Magang Chemicals & Energy. In November 2020, the equity transfer was completed.

Note 3: The 38th meeting of the 9th session of the Board of Directors approved that Huabao Duding (Shanghai) Financial Leasing Co., Ltd. ("Huabao Duding"), a subsidiary of the Company's ultimate controlling shareholder China Baowu, absorbs and merges with Ma-Steel Financial Leasing. In November 2020, the acquisition and merger was completed by Huabao Duding and Ma-steel Financial Leasing, and the Group's equity share decreased from 25% in Ma-steel Financial Leasing to 4.319% in Huabao Duding. According to the articles of association of Huabao Duding, the Group does not have the right to designate directors, and exercises no significant influence on Huabao Duding. Therefore, the Group accounts for the investment in Huabao Duding as an other equity instrument investment, measured at fair value.

Note 4: On 29 February 2020, Masteel Scrap was renamed as Ouyeel Blockchain Finance. On 14 July 2020, China Baowu, the Holding, the Company and Ouyeel Blockchain Finance signed a capital injection agreement, of which China Baowu and the Holding injected capital of RMB1 billion to Ouyeel Blockchain Finance in a non-public agreement, of which China Baowu injected capital of RMB200 million, the Holding injected capital of RMB800 million, and the Company gave up the right of capital injection. Upon the completion of capital injection, China Baowu's equity share is 11.86%, the Holding's equity share increased from 55% to 69.83%, and the Company's equity share decreased from 45% to 18.31%. The Company still designates one director to Ouyeel Blockchain Finance according to the Articles of Association. The directors of the Company believe the Company can exercise significant influence over Ouyeel Blockchain Finance, despite the equity share is under 20%. Thus, the Company accounts for the investment in Ouyeel Blockchain Finance as an associate.

Note 5: The 37th meeting of the 9th Board of Directors approved the Company to establish OBEI together with China Baowu and its subsidiary companies. Among them, the Company subscribed 440 million shares at the consideration of RMB440 million, accounting for 11% of the equity share, the contributions were agreed to be paid mainly by inventories and the remaining part would be supplemented with cash. On 30 November 2020, the Company made a capital contribution to OBEI with the inventories at its fair value of RMB192,345,404, and the remaining capital contribution was expected to be paid in 2021. The directors of the Company believe the Company can exercise significant influence over OBEI, despite the equity share is under 20%. Thus, the Company accounts for the investment in OBEI as an associate.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

12. Other equity instrument investments

31 December 2020

	Cost	Changes in fair value accumulated in other comprehensive income	Provision for impairment	Fair value	Dividend Equity instruments derecognised in the year	Equity instruments held
Henan Longyu Energy Co., Ltd. ("Henan Longyu")	10,000,000	26,271,740	–	36,271,740	–	–
China MCC17 Group Co., Ltd. ("MCC17")	8,554,800	52,312,173	–	60,866,973	–	(2,880,000)
Shanghai LuoJing Ore Quay Co., Ltd. ("Shanghai LuoJing") (Note 1)	88,767,360	–	(58,130,360)	30,637,000	–	–
Beijing Zhonglian Steel Ecommerce Co., Ltd. ("Zhonglian Steel")	1,000,000	(517,739)	–	482,261	–	–
Anshan Huatai CDQ Engineering Technology Co., Ltd. ("Anshan Huatai")	400,000	796,509	–	1,196,509	–	(100,000)
CFHI (Group) Maanshan Heavy Industry Co., Ltd. ("CFHI Maanshan") (Note 2)	16,030,500	–	(14,940,712)	1,089,788	–	–
Guoqi (Beijing) Lightweight of Automotive Technology Institute Co., Ltd. ("Guoqi Institute")	3,000,000	141,005	–	3,141,005	–	–
Linhan Coking	114,500,456	56,496,255	–	170,996,711	–	(5,400,000)
Masteel Lihua Metal Resources Co. Ltd ("Masteel Lihua")	3,000,000	164,369	–	3,164,369	–	–
Huabao Duding (Note 3)	82,951,875	–	–	82,951,875	–	–
	328,204,991	135,664,312	(73,071,072)	390,798,231	–	(8,380,000)

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

12. Other equity instrument investments (Continued)

31 December 2019

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

12. Other equity instruments investments (Continued)

As neither the Group participate in the daily operating activities of the above investees, has intention of receiving contractual cash flows, nor does hold them for trading, the above mentioned investments were designated as financial assets measured at fair value through other comprehensive income.

Note 1: In recent years, environment policy restrictions have been exercising negative influence on the business of Shanghai Luojing. Shanghai Luojing is considering a strategic transformation. In consideration of its sharp and non-transient drop of fair value, management identified an impairment loss of RMB58,130,360 during the year ended 31 December 2020 as a result of the impairment testing.

Note 2: CFHI Maanshan had ceased its operation activities and entered into a liquidation process. According to the result of impairment testing on 31 December 2020, management identified an impairment of RMB14,940,712 to this investment.

Note 3: Please refer to Note V.11 for details.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

13. Investment properties

Investment properties measured using the cost method:

2020

	Plant and buildings
Cost:	
Opening balance	77,630,089
Addition	—
Transferred from property, plant and equipment	(327,547)
Closing balance	77,302,542
Accumulated depreciation:	
Opening balance	12,932,401
Provided	2,066,202
Transferred from property, plant and equipment	(200,676)
Closing balance	14,797,927
Provision for impairment:	
Opening and closing balance	—
Net carrying amount:	
At the ending of the year	62,504,615
At the beginning of the year	64,697,688

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

13. Investment properties (Continued)

Investment properties measured using the cost method: (Continued)

2019

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

14. Property, plant and equipment

	31 December 2020	31 December 2019
Property, plant and equipment	29,554,236,140	29,884,178,547
Property, plant and equipment to be disposed of	10,352,310	161,565,127
	29,564,588,450	30,045,743,674

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

14. Property, plant and equipment (Continued)

Property, plant and equipment

2020

	Plant and buildings	Machinery and equipment	Motor vehicles	Office equipment	Land (Note 1)	Total
Cost:						
At the beginning of the year	27,778,584,942	54,360,555,164	289,052,719	343,207,235	10,980,501	82,782,380,561
Addition	8,766,260	33,051,439	4,958,820	1,408,498	–	48,185,017
Transferred from construction in progress (Note V.15)	687,651,225	2,791,345,062	6,352,215	–	–	3,485,348,502
Reclassification	55,557,927	(64,529,042)	7,090,085	1,881,030	–	–
Disposal	(494,824,231)	(1,429,673,914)	(47,919,406)	(4,415,078)	–	(1,976,832,629)
Transferred from investment properties	327,547	–	–	–	–	327,547
Exchange realignment	331,644	4,929,284	236,216	169,491	294,340	5,960,975
At the end of the year	28,036,395,314	55,695,677,993	259,770,649	342,251,176	11,274,841	84,345,369,973
Accumulated depreciation:						
At the beginning of the year	13,726,165,335	38,553,487,839	213,840,621	261,651,415	–	52,755,145,210
Provided	692,036,440	2,332,999,126	17,352,159	20,257,532	–	3,062,645,257
Reclassification	14,652,267	(16,982,183)	2,006,591	323,325	–	–
Disposal	(348,122,371)	(1,142,494,164)	(42,089,436)	(2,770,358)	–	(1,535,476,329)
Transferred from investment properties	200,676	–	–	–	–	200,676
Exchange realignment	143,162	654,745	851,449	386,236	–	2,035,592
At the end of the year	14,085,075,509	39,727,665,363	191,961,384	279,848,150	–	54,284,550,406
Impairment:						
At the beginning of the year	14,834,602	125,396,018	2,466,591	359,593	–	143,056,804
Provided (Note 2)	91,230,102	395,930,616	60,161	–	–	487,220,879
Decrease	(57,914,918)	(68,622,205)	(60,161)	–	–	(126,597,284)
Exchange realignment	258,533	2,569,032	65,824	9,639	–	2,903,028
At the end of the year	48,408,319	455,273,461	2,532,415	369,232	–	506,583,427
Net carrying amount:						
At the end of the year	13,902,911,486	15,512,739,169	65,276,850	62,033,794	11,274,841	29,554,236,140
At the beginning of the year	14,037,585,005	15,681,671,307	72,745,507	81,196,227	10,980,501	29,884,178,547

Notes to the Financial Statements (Continued)

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

14. Property, plant and equipment (Continued)

Property, plant and equipment (Continued)

2019

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

Notes to the Financial Statements (Continued)

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Renminbi Yuan

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

14. Property, plant and equipment (Continued)

Property, plant and equipment (Continued)

Note 1: Land in property, plant and equipment is the land ownership purchased by MG-VALDUNES, a subsidiary of the Group.

Note 2: According to the Group's future production and operation plan, certain property, plant and equipment are going to be shut down. Therefore, the Group recognised an impairment of RMB360,623,595 to these property, plant and equipment, including plant and buildings, machinery and equipment, etc. The recoverable amounts of the CGUs were determined with cash flow forecast method according to the fiscal budget approved by management. Other key assumptions used in the impairment test include future sales, production costs, residual value, discount rates and etc. Management determined the above key assumptions based on historical experience and market development prediction. Management adopted 11% as the discount rate when determining the present value of the expected future cash flows of the asset group.

In addition, the Group recognised an impairment of RMB126,597,284 for the property, plant and equipment that had been shut down during the year based on the expected recoverable value, and then transferred the net value of the property, plant and equipment to property, plant and equipment to be disposed of.

As of 31 December 2020, certificates of ownership in respect of 46 buildings of the Group in Mainland China, mainly used for production and operation, with an aggregate cost of RMB1,116,201,510 (31 December 2019: RMB1,085,291,593), have not been obtained from the relevant government authorities. The directors represented that the Group was in the process of obtaining the relevant certificates, and this will not have any significant adverse impact on the Group's operations.

As of 31 December 2020, the Group had no idle property, plant and equipment (31 December 2019: Nil).

Property, plant and equipment to be disposed of

	31 December 2020	31 December 2019
Plant and buildings	1,304,152	121,927,480
Machinery and equipment	6,986,846	39,630,874
Motor vehicles	2,061,312	6,773
	10,352,310	161,565,127

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

15. Construction in progress

	31 December 2020	31 December 2019
Construction in progress	6,980,279,959	3,259,704,984
Construction materials	—	—
	6,980,279,959	3,259,704,984

Construction in progress

	31 December 2020			31 December 2019		
	Carrying amount	Provision for impairment	Carrying amount	Carrying amount	Provision for impairment	Carrying amount
Product quality projects	1,846,460,111	—	1,846,460,111	1,620,800,177	—	1,620,800,177
Energy-saving and environmental protection projects	3,210,490,390	—	3,210,490,390	829,167,194	—	829,167,194
Equipment advancement and other modification projects	1,078,736,694	—	1,078,736,694	615,667,734	—	615,667,734
Other projects	844,592,764	—	844,592,764	194,069,879	—	194,069,879
Total	6,980,279,959	—	6,980,279,959	3,259,704,984	—	3,259,704,984

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

15. Construction in progress (Continued)

In 2020, the movements of significant projects were as follows:

Name of projects	Budget RMB'000	Opening balance RMB	Addition RMB	Transferred to property, plant and equipment (Note V.14) RMB	Transferred to intangible assets (Note V.17) RMB	Closing balance RMB	Source of fund	The proportion of projects investment accounted for budget (%)	Percentage of completion (%)	Capitalised interest accumulated RMB	Capitalised interest in current year RMB	Capitalised interest rate in the current year (%)
Product quality projects	11,484,437	1,620,800,177	3,233,874,368	(3,008,214,434)	-	1,846,460,111	Internally financed	42%	42%	-	-	-
Energy-saving and environmental protection projects	7,277,788	829,167,194	2,628,153,336	(246,830,140)	-	3,210,490,390	Internally financed	48%	48%	-	-	-
Equipment advancement and other modification projects	4,109,859	615,667,734	633,779,805	(170,710,845)	-	1,078,736,694	Internally financed	30%	30%	-	-	-
Other projects	N/A	194,069,879	710,801,568	(59,593,083)	(685,600)	844,592,764	Internally financed	N/A	N/A	-	-	-
		3,259,704,984	7,206,609,077	(3,485,348,502)	(685,600)	6,980,279,959						
Less: Impairment		-	-	-	-	-						
		3,259,704,984	7,206,609,077	(3,485,348,502)	(685,600)	6,980,279,959				-	-	

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

Name of projects	Budget RMB'000	Opening balance RMB	Addition RMB	Transferred to property, plant and equipment (Note V.14) RMB	Transferred to intangible assets (Note V.17) RMB	Closing balance RMB	Source of fund	The proportion of projects investment accounted for budget (%)	Percentage of completion (%)	Capitalised interest accumulated RMB	Capitalised interest in current year RMB	Capitalised interest rate in the current year (%)
Product quality projects	9,446,025	317,713,236	1,910,638,534	(607,551,593)	-	1,620,800,177	Internally financed/loan	51%	51%	11,446,953	-	-
Energy-saving and environmental protection projects	5,860,750	427,718,198	981,690,495	(580,247,499)	-	829,167,194	Internally financed/loan	42%	42%	4,816,770	-	-
Equipment advancement and other modification projects	1,809,246	665,964,168	620,343,297	(670,639,731)	-	615,667,734	Internally financed/loan	79%	79%	7,597,740	-	-
Other projects	N/A	251,276,475	87,022,694	(143,224,407)	(1,004,883)	194,069,879	Internally financed/loan	N/A	N/A	3,005,256	-	-
		1,662,672,077	3,599,701,020	(2,001,663,230)	(1,004,883)	3,259,704,984						
Less: Impairment		-	-	-	-	-						
		1,662,672,077	3,599,701,020	(2,001,663,230)	(1,004,883)	3,259,704,984				26,866,719	-	

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

16. Right-of-use assets

2020

	Plant and buildings	Motor vehicles	Land use rights	Total
Cost				
At the beginning of the year	423,945,762	15,681,935	3,578,032	443,205,729
Addition	—	—	—	—
Disposal	—	—	—	—
At the end of the year	423,945,762	15,681,935	3,578,032	443,205,729
Accumulated depreciation:				
At the beginning of the year	22,663,474	1,568,193	94,159	24,325,826
Provided	22,684,761	1,568,193	154,569	24,407,523
Disposal	—	—	—	—
At the end of the year	45,348,235	3,136,386	248,728	48,733,349
Impairment:				
At the beginning of the year and at the end of the year	—	—	—	—
Net carrying amount:				
At the end of the year	378,597,527	12,545,549	3,329,304	394,472,380
At the beginning of the year	401,282,288	14,113,742	3,483,873	418,879,903

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

16. Right-of-use assets (Continued)

2019

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

17. Intangible assets

2020

	Concession rights (Note 1)	Land use rights (Note 2)	Mining rights	Patent	Total
Cost:					
At the beginning of the year	152,483,993	2,646,285,974	135,387,958	2,301,173	2,936,459,098
Addition	–	92,259,706	–	–	92,259,706
Transferred from construction in progress	–	685,600	–	–	685,600
Disposal	–	(148,654,313)	–	–	(148,654,313)
Exchange realignment	–	–	3,658,909	61,687	3,720,596
At the end of the year	152,483,993	2,590,576,967	139,046,867	2,362,860	2,884,470,687
Accumulated amortization:					
At the beginning of the year	48,864,604	777,863,644	135,387,958	1,215,930	963,332,136
Provided	6,489,181	68,614,108	–	496,740	75,600,029
Disposal	–	(39,277,386)	–	–	(39,277,386)
Exchange realignment	–	–	3,658,909	32,593	3,691,502
At the end of the year	55,353,785	807,200,366	139,046,867	1,745,263	1,003,346,281
Impairment:					
At the beginning of the year and at the end of the year	–	–	–	–	–
Net carrying amount:					
At the end of the year	97,130,208	1,783,376,601	–	617,597	1,881,124,406
At the beginning of the year	103,619,389	1,868,422,330	–	1,085,243	1,973,126,962

The intangible assets without the property right certificate are as follows:

	31 December 2020	31 December 2019	Reasons for not completing the Property Ownership Certificate
Land use right	41,704,663	67,274,194	The relevant materials for applying the certificate have not been obtained

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

17. Intangible assets (continued)

2019

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

17. Intangible assets (Continued)

Note 1: The concession right is owned by a subsidiary of the Company, Maanshan Iron & Steel (Hefei) Industrial Water Supply Co., Ltd. ("Hefei Water Supply"). On 18 May 2011, Hefei Water Supply obtained a concession right by signing the "Concession Arrangement for Hefei Circle Economy Park Industrial Water Supply" (the "Arrangement") with the Administrative Committee of Hefei Circle Economic Park (the "Park") through open tender. According to the Arrangement, Hefei Water Supply has the right to receive fees from water users in the Park by providing principal services including: industrial water supply, and designing, constructing, occupying, operating and maintaining the industrial water treatment plant, water abstraction and pipe networks. The infrastructure construction contract was applied, and no construction service revenue was recognised. According to the agreement, the payment for the project during the construction was recognised as an intangible assets. The specified concession service period is 25 years. Hefei Water Supply is obliged to transfer all infrastructures to the grantor, the Administrative Committee of Hefei Circle Economic Park, at the end of the period of the Arrangement with a smooth operation guaranteed.

Note 2: On 28 February 2014, Ma Steel (Hefei), the Company's controlling subsidiary, and Hefei Land Reserve Center signed "Contract for Recovery of Hefei State-owned Construction Land", and dealt with Hefei Land Reserve Center to recover 3,377.9 mu land and buildings, located in Yaohai district, Hefei, with an consideration of RMB1.239 billion. In November 2020, Ma Steel (Hefei) and Hefei Land Reserve Center, Hefei East New Center Construction Management Office signed "Land Management and Protection Transfer Agreement" and agreed to transfer the reserved land by the current situation. As of December 2020, Ma Steel (Hefei) had completed all of the land transfer, and received the remaining disposal consideration of RMB278 million. In 2020, Ma Steel (Hefei) disposed property, plant and equipment with an carrying amount of RMB122 million, and related intangible assets with an carrying amount of RMB100 million, recognised a gain from disposal of assets of RMB574 million.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

18. Deferred tax assets/liabilities

Deferred tax assets and deferred liabilities before being offset:

	31 December 2020		31 December 2019	
	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	Deferred tax assets
Deferred tax assets				
Asset impairment provision	149,502,912	38,038,481	137,238,701	34,997,160
Sales incentive	213,495,927	53,373,982	196,627,803	49,156,951
Payroll payable	44,698,138	11,703,372	61,739,642	15,954,083
Government grants	271,367,195	67,841,799	287,866,829	71,966,707
Others	260,630,154	65,847,239	190,622,445	49,590,203
	939,694,326	236,804,873	874,095,420	221,665,104

	31 December 2020		31 December 2019	
	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities
Deferred tax liabilities				
Fair value adjustments related to business combinations not under common control	75,737,356	18,934,339	86,001,300	21,500,325
Changes in fair value of futures	—	—	1,191,700	297,925
Changes in fair value of other equity instrument investments	135,664,312	33,916,078	33,323,392	8,330,848
	211,401,668	52,850,417	120,516,392	30,129,098

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

18. Deferred tax assets/liabilities (Continued)

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

	31 December 2020		31 December 2019	
	Offset amount	Net amount	Offset amount	Net amount
Deferred tax assets	33,916,078	202,888,795	8,628,773	213,036,331
Deferred tax liabilities	33,916,078	18,934,339	8,628,773	21,500,325

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

	31 December 2020	31 December 2019
Deductible temporary differences	3,785,264,977	3,111,806,061
Deductible tax losses	1,220,966,171	2,313,774,566
	5,006,231,148	5,425,580,627

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

	31 December 2020	31 December 2019
To expire in 2020	—	883,722,592
To expire in 2021	65,700,348	67,022,420
To expire in 2022	6,894,359	3,886,270
To expire in 2023	12,362,353	136,799,743
To expire in 2024	646,845,203	890,783,630
To expire in 2025 and subsequent years (Note)	489,163,908	331,559,911
Total	1,220,966,171	2,313,774,566

Note: As of 31 December 2020, overseas subsidiaries of the Company have deductible tax losses amounting to RMB474,280,535 (2019: RMB332,192,579) without an expiration date.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

18. Deferred tax assets/liabilities (continued)

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

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

	31 December 2020	31 December 2019
Taxable temporary differences (Note)	1,646,064,334	1,640,610,958

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

19. Deposits and balances from banks and other financial institutions

	31 December 2020	31 December 2019
Domestic bank deposits	—	400,031,889

20. Customer deposits

	31 December 2020	31 December 2019
Demand deposits	3,287,215,937	9,495,412,157
Notice deposits	1,066,778,296	756,045,669
Time deposits	2,266,137,964	713,438,176
	6,620,132,197	10,964,896,002

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

21. Repurchase agreements

	31 December 2020	31 December 2019
Notes	—	400,115,076
Bonds	198,480,944	986,465,372
	198,480,944	1,386,580,448

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

22. Short-term loans

	31 December 2020	31 December 2019
Pledged loans (Note 1)	108,365,962	127,316,634
Unsecured loans	11,369,236,466	10,220,434,950
Inward documentary notes and letters of credit	1,107,332,759	2,532,301,575
	12,584,935,187	12,880,053,159

Note 1: As of 31 December 2020, the Group obtained the bank loan of RMB108,365,962 (31 December 2019: RMB127,316,634) by pledging bank acceptance notes.

As of 31 December 2020, the interest rates of the above short-term loans ranged from 0.690%-4.350% (31 December 2019: 2.480%-4.570%).

As of 31 December 2020, the Group had no overdue short-term loans.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

23. Financial liabilities held for trading

	31 December 2020	31 December 2019
Derivative financial liabilities -		
Forward foreign exchange contracts	95,968,940	2,258,750

As of 31 December 2020, the fair value of foreign exchange forward contracts held by the Group is determined based on the forward foreign exchange rate on the last trading day of 2020.

24. Notes payable

	31 December 2020	31 December 2019
Bank acceptance notes	3,297,446,207	7,313,729,148

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

25. Trade payables

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

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

	31 December 2020	31 December 2019
Within one year	7,561,813,731	5,994,021,801
One to two years	29,631,818	114,525,131
Two to three years	10,103,644	10,584,079
Over three years	10,926,981	11,195,995
	7,612,476,174	6,130,327,006

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

As of 31 December 2020, the material trade payables aged over one year were as follows :

	Amount due	Reason for non-settlement
Company 1	3,783,021	Note
Company 2	3,009,265	Note
Company 3	2,804,129	Note
Company 4	2,164,336	Note
Company 5	1,758,310	Note
	13,519,061	

Note: The Group's trade payables aged over one year are mainly because of not due for settlement.

Notes to the Financial Statements (Continued)

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

26. Contract liabilities

	31 December 2020	31 December 2019
Advances from customers	4,377,105,559	3,765,254,551

As of 31 December of 2020, contract liabilities aged over one year amounting to RMB31,818,182 (31 December 2019: RMB29,509,316), were mainly due to the contracts that were not fully executed.

27. Payroll and employee benefits payable

2020

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Short-term employee benefits	419,534,907	3,944,087,156	3,883,166,625	480,455,438
Post-employment benefits (defined contribution plans)	13,380,705	467,271,302	451,521,984	29,130,023
Supplementary retirement benefits due within one year (i) (Note V.35)	1,175,285	2,170,341	1,175,285	2,170,341
One-off termination compensation(ii)	221,209,046	177,756,341	380,619,766	18,345,621
Early retirement benefits due within one year (Note V.35)	36,676,995	19,246,713	36,676,995	19,246,713
	691,976,938	4,610,531,853	4,753,160,655	549,348,136

Notes to the Financial Statements (Continued)

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Renminbi Yuan

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

27. Payroll and employee benefits payable (Continued)

2019

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Short-term employee benefits	487,882,993	3,872,052,254	3,940,400,340	419,534,907
Post-employment benefits (defined contribution plans)	8,374,667	646,382,753	641,376,715	13,380,705
Supplementary retirement benefits due within one year (i) (Note V.35)	1,020,924	1,175,285	1,020,924	1,175,285
One-off termination compensation (ii)	–	1,186,857,044	965,647,998	221,209,046
Early retirement benefits due within one year (Note V.35)	66,364,324	36,676,995	66,364,324	36,676,995
	563,642,908	5,743,144,331	5,614,810,301	691,976,938

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

27. Payroll and employee benefits payable (Continued)

Short-term employee benefits

2020

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Salaries, bonuses and subsidies	347,961,358	3,201,455,599	3,120,643,968	428,772,989
Welfare	40,041,384	141,986,900	168,134,215	13,894,069
Social insurance	16,836	204,465,091	197,108,109	7,373,818
Including: Medical insurance	10,626	189,326,738	182,451,660	6,885,704
Work-related injury insurance	4,274	11,136,591	10,788,097	352,768
Maternity insurance	1,936	4,001,762	3,868,352	135,346
Housing fund	24,055,257	322,319,367	326,472,337	19,902,287
Labor union fee and employee education fee	7,460,072	73,860,199	70,807,996	10,512,275
	419,534,907	3,944,087,156	3,883,166,625	480,455,438

2019

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

27. Payroll and employee benefits payable (Continued)

Defined contribution plans:

2020

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Pension insurance	4,839,066	358,505,873	347,690,003	15,654,936
Unemployment insurance	911	10,288,785	9,681,972	607,724
Supplementary pension scheme	8,540,728	98,476,644	94,150,009	12,867,363
	13,380,705	467,271,302	451,521,984	29,130,023

2019

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

As of 31 December 2020 and 31 December 2019, the balance of payroll and employee benefits payable had not included performance-based wages.

In addition to the basic social endowment insurance, employees of the Group (including employees of the Company and some wholly-owned subsidiaries) had participated in the established retirement benefit contribution plan (hereinafter referred to as the 'Annuity Plan') established by the Group. The employees who participated in the Annuity Plan used the bases of social insurance premiums as their deposit base. The deposit rates of the Group and employees were 5% and 1%, respectively.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

28. Taxes payable

	31 December 2020	31 December 2019
Value-added tax	35,921,953	91,030,703
Corporate income tax	223,110,128	183,442,321
Land use tax	104,028,865	89,246,979
Personal income tax	8,849,660	13,428,147
Water conservancy funds	141,317,556	108,057,922
City construction and maintenance tax	4,217,499	7,410,424
Environment protection tax	11,561,885	11,000,000
Other taxes	40,752,181	43,592,922
	569,759,727	547,209,418

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

29. Other payables

	31 December 2020	31 December 2019
Interest payables	—	67,341,709
Dividends payable	6,612,733	6,953,033
Other payables	4,116,877,515	4,220,201,537
	4,123,490,248	4,294,496,279

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

29. Other payables (Continued)

Interest payables

	31 December 2020	31 December 2019
Interest payables for short-term loans	–	57,831,510
Instalment interest payables for long-term loans repayable on the due date	–	9,510,199
	–	67,341,709

As of 31 December 2020, there was no overdue interest payable.

Dividends payable

	31 December 2020	31 December 2019
Dividends paid	6,612,733	6,953,033

As of 31 December 2020, due to the unclaimed dividends declared from the years of 2007 to 2011, the Group has accumulated unpaid dividends payable over one year amounting to RMB6,612,733.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

29. Other payables (Continued)

Other payables

	31 December 2020	31 December 2019
Payable for forfeiting	2,087,767,846	2,355,550,174
Special funds (Note 1)	760,608,867	663,706,807
Payable for construction, maintenance and inspection fees	300,478,896	334,123,176
Sales incentives	383,306,198	327,435,827
Employee settlement for productivity shutting down	152,568,484	152,568,484
Tax risk provision	85,000,000	85,000,000
Social welfare and housing fund payable	30,199,399	43,146,483
Service fees payable	27,632,877	23,119,427
Accrued interest for letters of credit	3,391,483	3,609,646
Others	285,923,465	231,941,513
	4,116,877,515	4,220,201,537

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

29. Other payables (Continued)

Other payables (Continued)

At of 31 December 2020, significant other payables aged over one year were as follows :

	Amount payable	Reason for non-settlement
Company 1	663,706,807	Note
Company 2	152,568,484	Note
Company 3	85,000,000	Note
Company 4	8,000,000	Note
Company 5	6,440,000	Note
	915,715,291	

Note: The Group's other payables aged over one year were mainly special funds, employee settlement for productivity shutting down and tax risk provision. Since the project did not meet the terms of settlement, the payments were not settled.

30. Non-current liabilities due within one year

	31 December 2020	31 December 2019
Long-term loans due within one year (Note V.33)	2,555,949,215	1,529,940,232
Lease liabilities due within one year (Note V.34)	16,143,630	16,261,266
Long-term payables due within one year	—	130,867,400
	2,572,092,845	1,677,068,898

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

31. Accrued liabilities

2020

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Pending litigation or arbitration	4,225,995	7,139,096	2,554,846	8,810,245
Pending onerous contract (Note)	16,341,471	—	1,521,381	14,820,090
Others	2,097,209	2,635,972	1,395,263	3,337,918
	22,664,675	9,775,068	5,471,490	26,968,253

2019

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

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

32. Other current liabilities

	31 December 2020	31 December 2019
Advances for output tax	569,023,723	–

33. Long-term loans

	31 December 2020	31 December 2019
Guaranteed loans (Note)	44,000,000	916,344,832
Unsecured loans	6,048,313,553	4,081,795,400
	6,092,313,553	4,998,140,232
Less: Long-term loans due within one year (Note V.30)	2,555,949,215	1,529,940,232
	3,536,364,338	3,468,200,000

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

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

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

	31 December 2020	31 December 2019
Within one year or on demand (Note V.30)	2,555,949,215	1,529,940,232
One to two years (inclusive)	1,250,000,000	3,350,000,000
Two to three years (inclusive)	2,229,164,338	50,000,000
Three to five years (inclusive)	44,000,000	–
Over five years	13,200,000	68,200,000
	6,092,313,553	4,998,140,232

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

34. Lease liabilities

	31 December 2020	31 December 2019
Plant and buildings	394,485,318	409,710,810
Motor vehicles	13,132,819	14,438,861
Land use rights	3,509,166	3,544,430
	411,127,303	427,694,101
Less: Lease liabilities due within one year (Note V.30)	16,143,630	16,261,266
	394,983,673	411,432,835

35. Long-term payroll and employee benefits payable

	31 December 2020	31 December 2019
1. Early retirement benefits (Note 1)	74,969,837	115,529,167
Less: Early retirement benefits due within one year	19,246,713	36,676,995
2. Supplementary retirement benefit (Note 2)	25,943,263	23,650,816
Less: Supplementary retirement benefit due within one year	2,170,341	1,175,285
	79,496,046	101,327,703

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

35. Long-term payroll and employee benefits payable (Continued)

Note 1: Early retirement benefits

2020	Opening balance	Increase during the year	Unrecognized financing expense	Decrease during the year	Closing balance	Less: Due within one year	Closing balance
Early retirement benefits	115,529,167	9,425,059	2,718,207	52,702,596	74,969,837	19,246,713	55,723,124

Note 2: Supplementary retirement benefits

2020	Opening balance	Increase during the year	Decrease during the year	Closing balance	Less: Due within one year	Closing balance
Supplementary retirement benefits	23,650,816	3,467,732	1,175,285	25,943,263	2,170,341	23,772,922

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

35. Long-term payroll and employee benefits payable (Continued)

Early retirement benefits expected to be paid by the Group:

	31 December 2020	31 December 2019
Undiscounted value		
Within one year	19,246,713	36,676,995
One to two years	16,134,657	20,171,395
Two to three years	14,611,344	17,557,912
Over three years	30,102,329	48,966,278
	80,095,043	123,372,580
Financing expense unrecognised	(5,125,206)	(7,843,413)
	74,969,837	115,529,167
Less: Due within one year	19,246,713	36,676,995
	55,723,124	78,852,172

An early retirement benefit scheme was implemented by the Group due to the implementation of the human resource optimisation policy, which allowed qualified employees to early retire on a voluntary basis. The Group undertakes the obligation to pay the early retirement employees' living expenses for one to ten years in the future. The Group calculated the amounts of monthly payments to employees participating in the early retirement plan based on an internally decided standard, and the Group is also responsible for social insurance and housing fund in accordance with local social security requirement. The Group forecasted the amount of early retirement benefits needed to be paid in the future years using a growth rate of 3% which is based on the average growth rate of CPI. When deciding the payment responsibility in the future for the employees participating in the early retirement plan, the Group adjusted the payment responsibility based on the average mortality of Chinese people from "China Life Insurance Mortality Table (2010 to 2013)". The adjusted payment responsibility was discounted by the treasury bond rate of 31 December 2020 and accounted for in general and administrative expenses. As of 31 December 2020, the current portion of the payment responsibility that would be paid with 12 months was accounted for in short-term employee benefits.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

36. Deferred revenue

2020

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Compensation of land purchasing and storage (Note)	525,206,124	278,107,198	803,313,322	–
Government grants	877,077,563	57,574,528	61,702,810	872,949,281
	1,402,283,687	335,681,726	865,016,132	872,949,281

2019

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

36. Deferred revenue (Continued)

As of 31 December 2020, liabilities related to government grants were as follows:

	Opening balance	Increase during the year	Included in other income	Closing balance	Related to assets/ income
Subsidy funds for 4# blast furnace project	167,238,659	–	(8,624,004)	158,614,655	assets
Technological transformation fund for Phase II silicon steel	73,041,669	–	(4,400,000)	68,641,669	assets
Subsidy for the hot-rolled 1580 project	32,868,750	–	(1,980,000)	30,888,750	assets
New-zone Thermal Power Plant CCPP system engineering	18,129,972	–	(4,312,000)	13,817,972	assets
EMU steel wheel production line project	28,374,990	–	(2,200,000)	26,174,990	assets
Environmental subsidy funds for flue gas desulfurization and 135 MW thermal power	11,244,500	–	(567,600)	10,676,900	assets
Subsidy for a thin plate project	44,729,530	–	(4,728,493)	40,001,037	assets
Environmental funds for desulfurization project of 3rd iron plant's flue gas (BOT)	11,697,759	–	(590,484)	11,107,275	assets
Alloy bar production line refinement project of electric furnace plant	30,381,720	–	(1,483,680)	28,898,040	assets
Subsidy for Maanshan railway industry (Maanshan)	24,136,100	–	(2,100,000)	22,036,100	assets
Comprehensive utilization of gas for power generation of a thermal power plant	21,426,823	–	(1,090,760)	20,336,063	assets
Intelligent manufacturing special fund	16,626,561	–	(1,373,439)	15,253,122	assets
Subsidies for galvanization projects	11,563,083	–	(906,908)	10,656,175	assets
Special fund for the strong foundation project of the Ministry of Industry and Information Technology	22,580,000	–	–	22,580,000	assets
Coking plant 8# coke oven flue gas desulfurisation and denitration project	–	1,280,000	(28,160)	1,251,840	assets

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

36. Deferred revenue (Continued)

As of 31 December 2020, liabilities related to government grants were as follows: (Continued)

	Opening balance	Increase during the year	Included in other income	Closing balance	Related to assets/ income
Transformation of flue gas desulfurization and denitrification of 3# sintering machine in the southern ironmaking area	–	5,000,000	(18,333)	4,981,667	assets
Special fund for the environmental protection improvement and reconstruction project of a comprehensive stockyard	–	6,400,000	–	6,400,000	assets
Transformation project of dedusting facilities in a blast furnace tapping yard and ore trough of Anhui Changjiang Iron and Steel	–	3,200,000	(336,023)	2,863,977	assets
Desulfurization and denitration system engineering of sintering machine in Anhui Changjiang Iron and Steel	–	8,540,000	–	8,540,000	assets
Others	363,037,447	33,154,528	(26,962,926)	369,229,049	assets
Total	877,077,563	57,574,528	(61,702,810)	872,949,281	

Note: The compensation for disposal of land use rights was counted into deferred income, which was received from Hefei Land Reserve Center by Ma Steel (Hefei). The remaining land has been delivered in 2020, and the relevant deferred income has been transferred into gain from disposal of assets.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

36. Deferred revenue (Continued)

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

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

37. Share capital

31 December 2020

Registered, issued and fully paid	Opening balance		Increase/(decrease) during the year			Closing balance	
	Number of shares	Percentage (%)	Shares issued	Others	Sub-total	Number of shares	Percentage (%)
A. Shares with selling restrictions							
1. State-owned shares	-	-	-	-	-	-	-
2. State-owned legal person shares	-	-	-	-	-	-	-
3. Other domestically owned shares	-	-	-	-	-	-	-
Including: Shares owned by domestic natural persons	-	-	-	-	-	-	-
Sub-total	-	-	-	-	-	-	-
B. Shares without selling restrictions							
1. A shares	5,967,751,186	77.5	-	-	-	5,967,751,186	77.5
2. H shares	1,732,930,000	22.5	-	-	-	1,732,930,000	22.5
Sub-total	7,700,681,186	100.0	-	-	-	7,700,681,186	100.0
C. Total	7,700,681,186	100.0	-	-	-	7,700,681,186	100.0

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

37. Share capital (Continued)

31 December 2019

Registered, issued and fully paid	Opening balance		Increase/(decrease) during the year			Closing balance	
	Number of shares	Percentage (%)	Shares issued	Others	Sub-total	Number of shares	Percentage (%)
A. Shares with selling restrictions							
1. State-owned shares	-	-	-	-	-	-	-
2. State-owned legal person shares	-	-	-	-	-	-	-
3. Other domestically owned shares	-	-	-	-	-	-	-
Including: Shares owned by domestic natural persons	-	-	-	-	-	-	-
Sub-total	-	-	-	-	-	-	-
B. Shares without selling restrictions							
1. A shares	5,967,751,186	77.5	-	-	-	5,967,751,186	77.5
2. H shares	1,732,930,000	22.5	-	-	-	1,732,930,000	22.5
Sub-total	7,700,681,186	100.0	-	-	-	7,700,681,186	100.0
C. Total	7,700,681,186	100.0	-	-	-	7,700,681,186	100.0

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

38. Capital reserve

31 December 2020

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium	8,333,840,683	–	–	8,333,840,683
Others (Note)	19,659,078	7,958,142	–	27,617,220
Total	8,353,499,761	7,958,142	–	8,361,457,903

Note: The increased share premium in the current year was due to the other equity changes caused by equity dilution of Ouyeel Blockchain Finance, the Company's joint venture.

31 December 2019

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

39. Other comprehensive income

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

	1 January 2019	Increase/ (decrease)	31 December 2019	Increase/ (decrease)	31 December 2020
Other comprehensive income that may not be reclassified to profit or loss:					
Change in fair value of other equity instrument investments	15,651,936	9,340,609	24,992,545	76,755,689	101,748,234
Other comprehensive income that will be reclassified to profit or loss:					
Other comprehensive income to be reclassified to profit or loss under the equity method	(2,745,469)	–	(2,745,469)	–	(2,745,469)
Exchange differences arising from foreign currency translation	(125,608,630)	3,600,750	(122,007,880)	(146,668)	(122,154,548)
	(112,702,163)	12,941,359	(99,760,804)	76,609,021	(23,151,783)

Notes to the Financial Statements (Continued)

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Renminbi Yuan

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

39. Other comprehensive income (Continued)

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

2020

	Amount before tax	Less: charged to other comprehensive income before and reclassified to profit or loss in the current year	Less: charged to other comprehensive income before and reclassified to retained earnings in the current year	Less: income tax	Attributable to owners of the parent	Attributable to non-controlling interests
Other comprehensive income that may not be reclassified to profit or loss:						
Change in fair value of other equity instrument investments	29,269,847	73,071,072	-	(25,585,230)	76,755,689	-
Other comprehensive income that will be reclassified to profit or loss:						
Other comprehensive income using the equity method that may be reclassified to profit and loss	-	-	-	-	-	-
Exchange differences arising from foreign currency translation	(146,668)	-	-	-	(146,668)	-
	29,123,179	73,071,072	-	(25,585,230)	76,609,021	-

Notes to the Financial Statements (Continued)

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

39. Other comprehensive income (Continued)

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

2019

	Amount before tax	Less: charged to other comprehensive income before and reclassified to profit or loss in the current year	Less: charged to other comprehensive income before and reclassified to retained earnings in the current year	Less: income tax	Attributable to owners of the parent	Attributable to non- controlling interests
Other comprehensive income that may not be reclassified to profit or loss:						
Change in fair value of other equity instrument investments	12,454,145	-	-	(3,113,536)	9,340,609	-
Other comprehensive income that will be reclassified to profit or loss:						
Other comprehensive income using the equity method that may be reclassified to profit and loss	-	-	-	-	-	-
Exchange differences arising from foreign currency translation	3,600,750	-	-	-	3,600,750	-
	16,054,895	-	-	(3,113,536)	12,941,359	-

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

40. Special reserve

2020

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Safety fund	35,484,176	103,187,073	(101,375,635)	37,295,614

2019

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

Special reserve is the safety fund accrued according to the article of [2012] No.16 "The regulation on the accrual and usage of enterprise's safety production fee", carried out by the Ministry of Finance and State Administration of Work Safety on 14 February 2012. The fees are mainly related to the industries of mining, gas, communication and transportation, metallurgy, manufacturing, and construction services.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

41. Surplus reserve

2020

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Statutory reserve (Note i)	3,960,901,258	35,874,686	—	3,996,775,944
Discretionary surplus reserve (Note ii)	529,154,989	—	—	529,154,989
Reserve fund (Note iii)	95,685,328	—	—	95,685,328
Enterprise expansion fund (Note iii)	65,510,919	—	—	65,510,919
	4,651,252,494	35,874,686	—	4,687,127,180

2019

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

- (i) In accordance with the Company Law of the PRC and the Articles of Association of the Company, the Company is required to allocate 10% of its profit after tax, as determined in accordance with the CAS and related regulations applicable to these companies, to the statutory reserve (the "SR") until such reserve reaches 50% of the registered capital of these companies. Part of the SR may be capitalised as these companies' share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital of these companies.
- (ii) The Company is authorised to allocate the discretionary surplus reserve from profit after tax after the allocation of the statutory reserve. Upon the approval of the board, the discretionary surplus reserve can be used to cover losses or increase capital.
- (iii) Upon the approval of the board, these subsidiaries are required to allocate certain of their profit after tax as determined in accordance with the CAS and related regulations to the enterprise expansion fund and the reserve fund. The allocation rates are determined by their respective boards of directors.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

42. General reserve

	31 December 2020	31 December 2019
General reserve (Note)	248,156,969	325,786,322

Note: According to the relevant policy of the MOF, Masteel Finance accrues the general reserve from net profit as profit distribution. The balance of the general reserve should not be less than 1.5% of the balance of the risk assets.

43. Retained earnings

	2020	2019
Retained earnings at beginning of the year	5,966,218,930	7,405,577,274
Net profit attributable to owners of the parent	1,982,638,821	1,128,148,980
Less: Transfer to surplus reserve	35,874,686	79,351,238
Transfer to general reserve	(77,629,353)	100,944,918
Distribute to shareholders (Note V.64)	616,054,495	2,387,211,168
Retained earnings at the end of the year	7,374,557,923	5,966,218,930

44. Revenue and cost of sales

	2020		2019	
	Revenue	Cost of sales	Revenue	Cost of sales
Principal operating income	80,184,384,897	72,337,967,928	77,158,249,628	70,327,320,806
Other operating income	1,429,766,286	1,297,276,347	1,104,596,376	988,161,109
	81,614,151,183	73,635,244,275	78,262,846,004	71,315,481,915

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

44. Revenue and cost of sales (Continued)

Revenue is presented as follows:

	2020	2019
Revenue from contracts with customers	81,208,129,331	78,021,403,864
Rental income	27,171,458	3,847,825
Interest income	378,850,394	237,594,315
	81,614,151,183	78,262,846,004

Timing of revenue recognition from contracts with customers:

	2020	2019
At a point in time		
Sale of steel products	74,870,888,468	71,759,528,213
Sales of other products	6,085,120,923	5,995,406,150
Over time		
Processing	169,274,142	160,134,559
Agency commission	—	22,590,195
Packaging services	55,980,132	53,978,920
Others	26,865,666	29,765,827
	81,208,129,331	78,021,403,864

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

	2020	2019
Revenue from contracts with customers	3,300,265,491	3,543,085,084

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

44. Revenue and cost of sales (Continued)

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

	2020	2019
Within one year	4,377,105,559	3,765,254,551

Note: For the sale of products, the Group satisfies a performance obligation when the customer obtains the control of the relevant products, and for provision 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 give rise to 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 recognised which is not likely to be significantly reversed when the uncertainty disappears.

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

45. Taxes and surcharges

	2020	2019
City construction and maintenance tax	80,782,454	105,334,902
Land usage tax	96,691,806	94,444,558
Education surcharge	58,817,434	78,139,540
Property tax	107,115,588	107,876,642
Environment protection tax	57,723,717	51,543,042
Stamp duty	51,690,891	50,409,999
Water conservancy funds	61,407,743	61,518,656
Other taxes	22,300,702	31,248,364
	536,530,335	580,515,703

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

46. Selling expenses

	2020	2019
Transportation fees	802,681,961	775,184,975
Employee benefits	120,725,529	91,093,389
Insurance premium	15,081,019	17,794,180
Others	71,521,823	65,771,689
	1,010,010,332	949,844,233

47. General and administrative expenses

	2020	2019
Employee benefits	746,374,035	567,739,419
Employee termination benefits	181,334,667	1,163,531,268
Office expenses	259,818,320	350,989,956
Rental fees	7,227,368	13,438,813
Amortization of intangible assets	48,120,509	46,395,298
Depreciation of property, plant and equipment	82,881,926	65,148,789
Travel and entertainment expenses	19,503,828	25,482,839
Maintenance expenses	78,652,759	70,821,946
Auditor's remuneration	9,498,256	7,505,525
Others	83,215,464	67,878,874
	1,516,627,132	2,378,932,727

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

48. R&D expenses

	2020	2019
Fuel and power expenses	1,162,206,609	280,057,611
Employee benefits	299,325,030	283,196,814
Depreciation of property, plant and equipment	190,242,412	168,392,728
Testing and processing expenses	47,282,407	38,528,487
Outsourced research expenses	55,879,139	38,916,060
Others	58,241,240	37,380,655
	1,813,176,837	846,472,355

49. Financial expenses

	2020	2019
Interest expense (Note)	643,235,325	788,151,024
Less: Interest income	43,291,465	79,269,218
Less: Capitalised interest	—	—
Exchange (gain)/loss	(64,724,018)	42,953,057
Others	18,356,742	32,976,365
	553,576,584	784,811,228

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

50. Other income

	2020	2019
Government grants related to daily operating activities	86,480,514	116,281,524
Refund of withholding personal income tax commission	499,352	1,091,815
	86,979,866	117,373,339

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

50. Other income (Continued)

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

	2020	2019	Related to assets/income
Refund of land usage tax	1,326,610	37,312,042	income
Special subsidies for science and technology	—	5,133,290	income
Tax refund of financial settlement account	140,000	130,000	income
Settlement support incentive fund	810,000	270,000	income
Advanced enterprises rising and energy-saving technology reform fund	1,225,000	2,801,250	income
Industrial policy award	1,500,000	—	income
Construction funds of strength manufacturing provinces	1,000,000	—	income
Preferential tax policies for development zones	3,625,865	—	income
Industrial export subsidy	1,398,000	—	income
Special fund for development of Maanshan Bureau of Commerce	3,734,600	—	income
Intelligent manufacturing special fund	1,373,439	1,373,439	assets
Subsidy fund for 4# blast furnace project	8,624,004	8,624,004	assets
Subsidy for a thin plate project	4,728,493	4,728,493	assets
Technological transformation fund for phase II silicon steel	4,400,000	4,400,000	assets
New-zone thermal power plant CAPP system engineering	4,312,000	4,312,000	assets
EMU steel wheel production line project	2,200,000	2,200,000	assets
Subsidy for the hot-rolled 1580 project	1,980,000	1,980,000	assets
Engineering of alloy bar finishing production line in electric furnace plant	1,483,680	1,483,680	assets
Comprehensive utilization of gas for power generation of a thermal power plant	1,090,760	1,090,760	assets

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

50. Other income (Continued)

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

	2020	2019	Related to assets/income
Subsidy for Maanshan railway industry (Maanshan)	2,100,000	1,008,000	assets
Subsidies for galvanization projects	906,908	868,751	assets
Environmental funds for desulfurization project of 3rd iron plant's flue gas (BOT)	590,484	590,484	assets
Environmental subsidy funds for flue gas desulfurization and 135 MW thermal power	567,600	567,600	assets
Coking plant No.8 coke oven flue gas desulfurization and denitration project	28,160	—	assets
Transformation of flue gas desulfurization and denitrification of No.3 sintering machine in southern ironmaking area	18,333	—	assets
Transformation project of dedusting facilities in blast furnace tapping yard and ore trough of Changgang	336,023	—	assets
Other grants related to income	10,017,629	10,950,248	income
Other grants related to assets	26,962,926	26,457,483	assets
	86,480,514	116,281,524	

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

51. Investment income

	2020	2019
Investment income from long-term equity investments under the equity method	414,021,154	575,520,895
Gain/(loss) from disposal of associates	19,108,539	(16,052)
Gain from dividend income of other equity investments in duration	8,380,000	—
Gain from disposal of financial assets held for trading	92,154,957	171,766,855
Gain from disposal of debt instrument investments	—	67,796,079
	533,664,650	815,067,777

52. (Loss)/gain on the changes in fair value

	2020	2019
Financial assets held for trading	21,016,294	3,844,525
Including: Derivative financial instruments	(1,392,070)	1,191,700
Financial liabilities held for trading	(93,710,190)	5,753,920
	(72,693,896)	9,598,445

53. Credit impairment losses

	2020	2019
Bad debt impairment	48,001,969	16,365,291
Debt instrument investment impairment	356,958	(88,104)
Provision – loan commitment	(77,814)	115,473
Impairment losses for financial assets purchased under agreement to resell	(5,113)	(799,795)
	48,276,000	15,592,865

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

54. Impairment losses Asset impairment losses

	2020	2019
Provision for inventories	210,488,500	285,613,638
Impairment of property, plant and equipment (Note)	487,220,879	138,984,935
Impairment of other equity instrument investments	73,071,072	–
	770,780,451	424,598,573

Note: According to the Group's future production and operation plan, the Group recognised an impairment of RMB487,220,879 for the property, plant and equipment that had been shut down or to be shut down in the future, please refer to Note V.14 for details.

55. Gain/(loss) from disposal of assets

	2020	2019
Gain/(loss) on disposal of property, plant and equipment	66,506,223	(77,442,073)
Gain on disposal of intangible assets	522,568,733	383,722
	589,074,956	(77,058,351)

56. Non-operating income

	2020	2019	Included in 2020 non- recurring gains and losses
Government grants not related to the ordinary course of business	381,601,233	462,733,716	381,601,233
Others	20,975,788	7,180,250	20,975,788
	402,577,021	469,913,966	402,577,021

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

56. Non-operating income (Continued)

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

	2020	2019
Employees stabilisation allowance	—	179,977,500
Compensation for settlement of employees	236,486,123	175,955,283
Grants for reduction of overcapacity	—	95,885,000
Compensation for "Three Supplies and Property Management" ("三供一業")	13,689,408	10,705,600
Compensation for shutdown of Ma Steel (Hefei)	130,867,400	—
Others	558,302	210,333
	381,601,233	462,733,716

57. Non-operating expenses

	2020	2019	Included in 2020 non-recurring gains and losses
Charity donation	2,362,220	609,449	2,362,220
Penalty expenditure	4,227,080	864,215	4,227,080
Compensation for sales	—	1,103,530	—
Scrap losses of property, plant and equipment	177,364,028	—	177,364,028
Others	4,711,989	1,158,677	4,711,989
	188,665,317	3,735,871	188,665,317

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

58. Expenses classified by nature

Supplemental information for the Group's cost of sales, selling expenses, general and administrative expenses and R&D expenses is presented below by nature:

	2020	2019
Raw materials and consumables used	64,735,528,032	60,907,662,751
Changes in inventories of finished goods and work in progress	(192,047,223)	(96,939,444)
Employee benefits	4,602,007,590	5,707,413,358
Depreciation and amortisation	3,164,719,011	3,318,980,376
Transport and inspection fees	1,678,186,823	1,675,297,977
Repair and maintenance expenses	1,967,466,459	2,071,332,224
Testing and processing expenses	47,282,407	38,528,487
Outsourced research expenses	55,879,139	38,916,060
Office expenses	286,810,079	378,191,691
Others	1,629,226,259	1,451,347,750
	77,975,058,576	75,490,731,230

59. Income tax expense

	2020	2019
Mainland China current income tax expense	493,938,520	504,353,061
Hong Kong current income tax expense	12,217,437	8,519,080
Overseas current income tax expense	14,735,133	14,054,819
Deferred tax expense	(18,003,680)	56,910,881
	502,887,410	583,837,841

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

59. Income tax expense (Continued)

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

	2020	2019
Profit before tax	3,080,866,517	2,297,755,710
Tax at the applicable tax rate of 25% (Note)	770,216,629	574,438,928
Effect of different tax rates of subsidiaries	(9,220,416)	(6,325,547)
Non-deductible expenses	18,696,718	24,823,810
Adjustments in respect of current income tax of previous periods	(12,046,686)	–
Other tax preference	(154,660,118)	(132,030,610)
Income not subject to tax	(13,647,332)	(9,677,236)
Unrecognised deductible temporary difference and tax losses	222,652,274	300,068,716
Utilised previous years' tax losses	(215,578,288)	(25,572,453)
Share of profit or loss of joint ventures and associates	(103,525,371)	(141,887,767)
Tax charge at the Group's effective rate	502,887,410	583,837,841
The Group's effective rate	16%	25%

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

60. Earnings per share

	2020 cent/share	2019 cent/share
Basic earnings per share		
Continuing operations	25.75	14.65
Diluted earnings per share		
Continuing operations	25.75	14.65

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 ended 2020 and 2019, the Company did not have any dilutive items that should adjust the basic earnings per share.

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

	2020	2019
Earnings		
Profit attributable to owners of the parent		
Continuing operations	1,982,638,821	1,128,148,980
Number of shares		
Weighted average number of ordinary shares		
in issue during the year	7,700,681,186	7,700,681,186

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

61. Notes to the statement of cash flows

	2020	2019
(1) Cash received relating to other operating activities:		
Government grants	80,864,901	125,837,147
Employee relocation compensation received from the government	236,486,123	175,955,283
Stabilisation allowance	—	179,977,500
Compensation for “Three Supplies and Property Management”(“三供一業”)	13,689,408	10,705,600
Interest income	43,089,692	66,658,239
Decrease in deposits of notes, letters of credit and guarantees	275,858,225	—
Others	35,655,108	24,330,945
	685,643,457	583,464,714
(2) Cash paid relating to other operating activities:		
Increase in deposit for notes, credit and guarantee	—	439,636,364
Office expenses	50,001,914	35,102,777
Safety fund	118,562,107	136,743,600
Bank charges	17,578,872	32,187,323
Travel and entertainment expenses	31,141,445	42,561,689
Insurance expenses	28,291,194	28,736,161
Environmental improvement fee	33,833,912	14,674,982
Research and development expenses	58,241,240	37,380,655
Others	143,191,732	111,278,304
	480,842,416	878,301,855
(3) Cash paid relating to other investing activities:		
Payment of steel futures deposits	73,705,396	47,067,231
(4) Cash received relating to other financing activities:		
Withholding shareholder's personal income tax	—	105,205,310
Shareholder's loan	—	79,132,600
Lease liability expenditure	35,534,097	37,213,592
Notes discounted	18,950,672	—
	54,484,769	221,551,502

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

62. Supplements to the statement of cash flows

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

	2020	2019
Net profit	2,577,979,107	1,713,917,869
Add: Provision for asset impairment losses	819,134,265	440,075,965
Loan commitment expected losses	(77,814)	115,473
Depreciation of property, plant and equipment	3,062,645,257	3,237,381,042
Amortisation of right-of-use assets	24,407,523	24,488,467
Amortisation of intangible assets	75,600,029	55,333,695
Amortisation of investment properties	2,066,202	1,777,172
Amortisation of deferred revenue	(61,702,810)	(59,684,694)
Disposal (gain)/loss on property, plant and equipment, intangible assets and other long-term assets	(589,074,956)	77,058,351
Increase in special reserve	334,990	231,770
Financial expenses	578,309,534	818,493,103
Investment income	(533,664,650)	(815,067,777)
Loss/(gain) on fair value changes	72,693,896	(9,598,445)
(Increase)/decrease in deferred tax assets	(15,437,694)	62,590,403
Decrease in deferred tax liabilities	(2,565,986)	(5,679,522)
Increase in inventories	(337,827,737)	(179,529,449)
Decrease/(increase) in receivables from operating activities	4,376,423,378	(7,844,167,761)
(Decrease)/increase in payables from operating activities	(7,278,727,889)	10,348,221,462
Net cash flows from operating activities	2,770,514,645	7,865,957,124
Endorsement of bank acceptance bills received for the sale of goods and the provision of services	16,727,181,017	1,775,655,720

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

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

(2) Cash and cash equivalents

Net changes of cash and cash equivalents:

	2020	2019
Ending balance of cash	3,123,596,841	7,239,650,634
Less: Opening balance of cash	7,239,650,634	6,934,175,776
Add: Ending balance of cash equivalents	—	—
Less: Opening balance of cash equivalents	—	—
Net (decrease)/increase in cash and cash equivalents	(4,116,053,793)	305,474,858

	31 December 2020	31 December 2019
Cash		
Including: Cash on hand	190,580	46,737
Balances in banks without restrictions	3,123,406,261	7,239,603,897
Ending balance of cash and cash equivalents	3,123,596,841	7,239,650,634

Notes to the Financial Statements (Continued)

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

63. Restricted assets

	31 December 2020	31 December 2019	
Cash and bank balances(Note V.1)	2,124,638,433	2,174,161,378	(i)
Financing receivables (Note V.4)	108,365,962	4,597,328,266	(ii)
	2,233,004,395	6,771,489,644	

- (i) As of 31 December 2020, the Group's restricted cash and bank balances included cash deposits as collateral amounting to RMB1,185,390,370 (31 December 2019: RMB1,461,248,595) pledged as security for trade facilities and performance for bank acceptance notes, letters of credit and guarantees, and mandatory reserves with the central bank of RMB939,248,063 (31 December 2019: RMB712,912,783).
- (ii) As of 31 December 2020, the Group pledged the bank acceptance notes of RMB108,365,962 (31 December 2019: RMB127,316,634) to obtain a short-term loan, and there were no bank acceptance notes pledged (31 December 2019: RMB4,470,011,632) to issue notes payable.

64. Dividends

According to the "2019 Annual Profit Distribution Plan" approved by the Group's 2019 Annual General Meeting on 29 June 2020, the Group would distribute dividends to all shareholders at RMB0.08 per share (tax included) (2019: RMB0.31 per share) for 7,700,681,186 shares amounting to RMB616,054,495 (2019: RMB2,387,211,168). The dividends had been paid in 2020 and were included in the financial statements.

On 25 March 2021, the 42nd meeting of the 9th session of the board of directors of the Company approved the 2020 final cash dividend of RMB0.13 (tax included) per share to shareholders for 7,700,681,186 shares amounting to RMB1,001,088,554. The profit distribution plan will be submitted for approval in the annual general meeting of the Company. Before the approval of the 2020 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 the Financial Statements (Continued)

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

65. Monetary items denominated in foreign currencies

	31 December 2020			31 December 2019		
	Original currency	Exchange rate	RMB	Original currency	Exchange rate	RMB
Cash and bank balances						
USD	151,691,652	6.5249	989,772,860	312,056,626	6.9762	2,176,969,434
EUR	30,217,787	8.0250	242,497,741	14,492,810	7.8155	113,268,557
AUD	37,229,891	5.0163	186,756,302	50,452,679	4.8843	246,426,020
HKD	39,630,345	0.8416	33,352,898	3,302,983	0.8958	2,958,812
CAD	2,094,874	5.1161	10,717,585	212,334	5.1739	1,098,595
AED	660,940	1.7761	1,173,896	2,444,163	1.8992	4,641,954
ZAR	1,269,433	0.4458	565,913	80,459	0.4943	39,771
GBP	177	8.8903	1,574	16,492	9.1501	150,903
JPY	3,983	0.0632	252	–	0.0641	–
			1,464,839,021			2,545,554,046
Financial assets held for trading						
EUR	–	8.0250	–	2,255,765	7.8155	17,629,931
Trade receivables						
EUR	19,255,534	8.0250	154,525,660	23,173,880	7.8155	181,115,459
USD	19,346,045	6.5249	126,231,009	5,338,324	6.9762	37,241,216
AUD	478,917	5.0163	2,402,391	838,833	4.8843	4,097,112
HKD	108,778	0.8416	91,548	–	0.8958	–
AED	1,279	1.7761	2,272	–	1.8992	–
			283,252,880			222,453,787
Other receivables						
EUR	1,196,972	8.0250	9,605,700	958,419	7.8155	7,490,524
HKD	533,765	0.8416	449,217	595,565	0.8958	533,507
AED	19,758	1.7761	35,092	19,758	1.8992	37,524
USD	4,151	6.5249	27,085	4,151	6.9762	28,958
AUD	21	5.0163	105	21	4.8843	103
			10,117,199			8,090,616

Notes to the Financial Statements (Continued)

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

65. Monetary items denominated in foreign currencies (Continued)

	31 December 2020			31 December 2019		
	Original currency	Exchange rate	RMB	Original currency	Exchange rate	RMB
Trade payables						
EUR	10,747,471	8.0250	86,248,455	11,250,195	7.8155	87,925,899
USD	103,504	6.5249	675,353	–	6.9762	–
AUD	45,600	5.0163	228,743	–	4.8843	–
AED	–	1.7761	–	5,000	1.8992	9,496
			87,152,551			87,935,395
Other payables						
AUD	11,380	5.0163	57,085	45,600	4.8843	222,724
HKD	4,029,613	0.8416	3,391,322	4,029,523	0.8958	3,609,647
EUR	1,745,367	8.0250	14,006,570	1,546,627	7.8155	12,087,663
USD	319,969,325	6.5249	2,087,767,849	337,655,195	6.9762	2,355,550,171
AED	32,500	1.7761	57,723	–	1.8992	–
			2,105,280,549			2,371,470,205
Short-term loan						
USD	272,281,371	6.5249	1,776,608,718	210,921,764	6.9762	1,471,432,410
Long-term loan due within one year						
USD	–	6.5249	–	24,360,000	6.9762	169,940,232

Notes to the Financial Statements (Continued)

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VI. CHANGE IN THE SCOPE OF CONSOLIDATION

1. Newly established subsidiary

For the year ended 31 December 2020, the Company established the following subsidiary, and has included it in the scope of consolidation since then.

	Date of establishment	Registered capital RMB	Percentage of equity	Investment form	Capital paid as of the year end RMB
Anhui Masteel Gas Technology Co., Ltd. (Note)	December 2020	270,000,000	100%	Physical assets and cash	0

Note: On 21 September 2020, upon the approval by the 37st meeting of the 9th Board of Directors of the Company, the Company established Anhui Masteel Gas Technology Co., Ltd. ("Masteel Gas"), which is a wholly-owned subsidiary. The registered capital of Masteel Gas is RMB270 million. As of 31 December 2020, Masteel Gas has completed its registration, but the Company has not injected capital yet.

2. Disposal of a subsidiary

For the year ended 31 December 2020, there was no disposal of a subsidiary.

3. Changes in scope of consolidation for other reasons

In 2020, changes in scope of consolidation for other reasons are as follows:

Names of subsidiaries	Changes of consolidation scope
Masteel (Wuhan) Iron and Steel Sales Co., Ltd. ("Masteel Wuhan Sales")	Deregistration
Masteel Oubang Color-coated Technology Co., Ltd. ("Masteel Oubang Color-coated")	Deregistration
Maanshan Meite Metallurgical Power Technology Co., Ltd. ("Meite Metallurgical Power")	Deregistration

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

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VII. INTERESTS IN OTHER ENTITIES

1. Interests in subsidiaries

Details of the subsidiaries are as follows:

	Place of operation	Place of registration	Business nature	Paid-in capital	Percentage of equity (%)	
					Direct	Indirect
Subsidiaries acquired by establishment or investment						
Ma Steel (Wuhu) Processing and Distribution Co., Ltd. ("Ma Steel (Wuhu)")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB35,000,000	70	30
Ma Steel (Cihu) Processing and Distribution Co., Ltd. ("Ma Steel (Cihu)")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB30,000,000	92	–
Ma Steel (Guangzhou) Processing and Distribution Co., Ltd. ("Ma Steel (Guangzhou)")	Guangdong, PRC	Guangdong, PRC	Manufacturing	RMB120,000,000	74.99	–
Ma Steel (HK)	Hong Kong, PRC	Hong Kong, PRC	Trading	HKD350,000,000	100	–
Holly Industrial Co., Ltd. ("Holly Industrial")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB30,000,000	71	29
Ma Steel (Jinhua) Processing and Distribution Co., Ltd. ("Ma Steel Jinhua")	Zhejiang, PRC	Zhejiang, PRC	Manufacturing	RMB120,000,000	75	–
MG Trading	Germany	Germany	Trading	EUR153,388	100	–
Ma Steel (Australia)	Australia	Australia	Mining	AUD21,737,900	100	–
Ma Steel (Hefei)	Anhui, PRC	Anhui, PRC	Manufacturing	RMB2,500,000,000	71	–
Ma Steel (Hefei) Processing and Distribution Co., Ltd. ("Ma Steel (Hefei) Processing")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB120,000,000	67	28
Ma Steel (Wuhu) Material Technique Co. Ltd. ("Wuhu Technique")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB150,000,000	71	–
Maanshan (Chongqing) Material Technology Co., Ltd. ("Chongqing Material")	Chongqing, PRC	Chongqing, PRC	Manufacturing	RMB250,000,000	70	–
Hefei Water Supply	Anhui, PRC	Anhui, PRC	Manufacturing	RMB50,000,000	–	100
Ma Steel (Hefei) Steel Plates Co., Ltd. ("Hefei Steel Plates")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB2,000,000,000	–	100
Ma Steel (Hefei) Materials Technology Co., Ltd. ("Hefei Materials")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB200,000,000	70	–
Ma' anshan (Hangzhou) Iron and Steel Sales Co., Ltd. ("Ma Steel Hangzhou Sales")	Zhejiang, PRC	Zhejiang, PRC	Trading	RMB10,000,000	100	–
Ma' anshan (Wuxi) Iron and Steel Sales Co., Ltd. ("Ma Steel Wuxi Sales")	Jiangsu, PRC	Jiangsu, PRC	Trading	RMB10,000,000	100	–
Maanshan (Nanjing) Iron and Steel Sales Co., Ltd. ("Ma Steel Nanjing Sales")	Jiangsu, PRC	Jiangsu, PRC	Trading	RMB10,000,000	100	–
Maanshan (Shanghai) Iron and Steel Sales Co., Ltd. ("Ma Steel Shanghai Sales")	Shanghai, PRC	Shanghai, PRC	Trading	RMB10,000,000	100	–

Notes to the Financial Statements (Continued)

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VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in subsidiaries (Continued)

Details of the subsidiaries are as follows (Continued):

	Place of operation	Place of registration	Business nature	Paid-in capital	Percentage of equity (%)	
					Direct	Indirect
Subsidiaries acquired by establishment or investment (continued):						
Anhui Chang Jiang Iron and Steel Trading Co., Ltd., Hefei ("Chang Jiang Iron and Steel, Hefei")	Anhui, PRC	Anhui, PRC	Trading	RMB30,000,000	–	100
Anhui Chang Jiang Iron and Steel Trading Co., Ltd., Nanjing ("Chang Jiang Iron and Steel, Nanjing")	Jiangsu, PRC	Jiangsu, PRC	Trading	RMB30,000,000	–	100
Maanshan Chang Jiang Iron and Steel Trading Co., Ltd. ("Chang Jiang Iron and Steel Trading")	Anhui, PRC	Anhui, PRC	Trading	RMB30,000,000	–	100
MG-VALDUNES (Note 1)	France	France	Manufacturing	EUR150,200,000	100	–
Masteel America	USA	USA	Service industry	USD500,000	100	–
Anhui Ma Steel Antirust Material Technology Co., Ltd. ("Ma Steel Antirust")	Anhui, PRC	Anhui, PRC	Manufacturing	RMB10,000,000	51	–
Ma Steel MiddleEast	Dubai	Dubai	Trading	AED4,000,000	100	–
Maanshan (Changchun) Iron and Steel Sales Co., Ltd. ("Changchun Sales")	Jilin, PRC	Jilin, PRC	Trading	RMB10,000,000	100	–
Masteel (Wuhan) Material Technology Co., Ltd. ("Wuhan Material") (Note 2)	Hubei, PRC	Hubei, PRC	Manufacturing	RMB250,000,000	85	–
Magang Hongfei Electricity Power Co., Ltd. ("Magang Hongfei")	Anhui, PRC	Anhui, PRC	power industry	RMB100,000,000	51	–
Masteel Gas (Note VI. 1)	Anhui, PRC	Anhui, PRC	Manufacturing	RMB270,000,000	100	–
Subsidiaries acquired not under common control						
Masteel (Yangzhou) Processing and Distribution Co., Ltd. ("Masteel (Yangzhou) Processing")	Jiangsu, PRC	Jiangsu, PRC	Manufacturing	USD20,000,000	71	–
Anhui Changjiang Iron and Steel	Anhui, PRC	Anhui, PRC	Manufacturing	RMB1,200,000,000	55	–
Ma-Steel Rail Transportation Co., Ltd. ("Ma-Steel Rail Transportation") (Note 3)	Anhui, PRC	Anhui, PRC	Manufacturing	RMB1,486,296,194	100	–
Mascometal Co.,Ltd.("Mascometal")	Anhui, PRC	Anhui, PRC	Manufacturing	EUR32,000,000	66	–
Subsidiaries acquired under common control						
Masteel Finance	Anhui, PRC	Anhui, PRC	Financial services	RMB2,000,000,000	91	–

Notes to the Financial Statements (Continued)

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VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in subsidiaries (Continued)

Details of the subsidiaries are as follows (Continued):

Note 1: In October 2020, the Company injected capital amounting to EUR20,000,000 (equivalent to RMB157,524,000) to MG-VALDUNES.

Note 2: In 2018, the Company established Wuhan Material with a registered capital of RMB250,000,000 with Wuhan Huanchuang Yian Economic Development Co., Ltd. and Hubei Donganyuan Trading Industry Co., Ltd. and invested RMB212,500,000, RMB25,000,000 and RMB12,500,000, and held 85%, 10% and 5% of equity interest, respectively. The Company completed the first phase of capital contribution of RMB31,875,000 in 2018, completed the second phase of capital contribution of RMB53,125,000 in 2019, and completed the third phase of capital contribution of RMB74,375,000 in 2020.

Note 3: On 7 April 2020, Masteel Rail Transit Equipment Co., Ltd. was renamed as Masteel Transportation Material.

Note 4: The above companies incorporated in China are all limited companies.

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

The proportion of equity held by non-controlling interests:

	31 December 2020	31 December 2019
Anhui Chang Jiang Iron and Steel	45%	45%
Ma Steel (Hefei)	29%	29%
Masteel Finance	9%	9%

Notes to the Financial Statements (Continued)

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VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in subsidiaries (Continued)

Profit or loss attributable to non-controlling interests:

	2020	2019
Anhui Changjiang Iron and Steel	359,428,701	520,722,532
Ma Steel (Hefei)	197,588,702	32,683,122
Masteel Finance	24,939,506	25,284,692

Dividends paid to non-controlling interests:

	2020	2019
Anhui Changjiang Iron and Steel	270,000,000	513,000,000
Ma Steel (Hefei)	—	—
Masteel Finance	6,835,590	9,397,887

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

	31 December 2020	31 December 2019
Anhui Changjiang Iron and Steel	2,579,098,511	2,493,476,559
Ma Steel (Hefei)	872,102,909	673,809,772
Masteel Finance	301,329,617	283,225,701

Notes to the Financial Statements (Continued)

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VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in subsidiaries (Continued)

The summarised financial information of the above subsidiaries is as follows. The amounts listed below are the amounts before group intra-elimination.

	Anhui Changjiang Iron and Steel	Ma steel (Hefei)	Masteel Finance
2020			
Current assets	6,112,819,520	2,022,010,684	13,959,235,216
Non-current assets	4,749,944,904	2,780,333,415	3,326,033,658
Total assets	10,862,764,424	4,802,344,099	17,285,268,874
Current liabilities	(5,084,339,773)	(1,724,491,374)	(13,915,854,891)
Non-current liabilities	(47,094,626)	(70,601,316)	(21,307,128)
Total liabilities	(5,131,434,399)	(1,795,092,690)	(13,937,162,019)
Revenue	15,831,921,317	5,229,833,552	455,897,604
Net profit	798,730,447	681,340,350	277,105,622
Total comprehensive income	798,730,447	681,340,350	277,105,622
Net cash flows from operating activities	1,076,704,713	472,600,215	3,023,178,655

Notes to the Financial Statements (Continued)

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Renminbi Yuan

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

1. Interests in subsidiaries (Continued)

The summarised financial information of the above subsidiaries is as follows. The amounts listed below are the amounts before group intra-elimination. (Continued)

	Anhui Changjiang Iron and Steel	Ma steel (Hefei)	Masteel Finance
2019			
Current assets	6,418,062,041	1,670,195,156	18,661,684,721
Non-current assets	4,075,753,165	3,139,504,112	3,247,078,627
Total assets	10,493,815,206	4,809,699,268	21,908,763,348
Current liabilities	(4,929,808,639)	(1,883,412,083)	(18,739,550,955)
Non-current liabilities	(22,947,546)	(602,805,212)	(22,260,160)
Total liabilities	(4,952,756,185)	(2,486,217,295)	(18,761,811,115)
Revenue	16,021,280,559	4,680,562,702	418,345,785
Net profit	1,157,161,183	112,700,421	280,941,022
Total comprehensive income	1,157,161,183	112,700,421	280,941,022
Net cash flows from operating activities	475,050,895	423,131,207	3,700,421,491

Notes to the Financial Statements (Continued)

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VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Interests in joint ventures and associates

	Place of operation	Place of registration	Business nature	Registered capital	Percentage of equity (%)		Accounting method
					Direct	Indirect	
Joint ventures							
BOC-Ma Steel	Anhui, PRC	Anhui, PRC	Manufacturing	RMB468,000,000	50	–	Equity method
Associates							
JinMa Energy	Henan, PRC	Henan, PRC	Manufacturing	RMB535,421,000	26.89	–	Equity method
Shenglong Chemical	Shandong, PRC	Shandong, PRC	Manufacturing	RMB568,800,000	31.99	–	Equity method
Xinchuang Environmental Protection (Note 1)	Anhui, PRC	Anhui, PRC	Service industry	RMB122,381,990	16.34	–	Equity method
Ma-steel Commercial Factoring	Shanghai, PRC	Shanghai, PRC	Service industry	RMB600,000,000	25	–	Equity method
Ouyeel Blockchain Finance (Note 2)	Anhui, PRC	Anhui, PRC	Trade circulation	RMB983,216,400	18.31	–	Equity method
Masteel K. Wah	Anhui, PRC	Anhui, PRC	Manufacturing	USD19,574,333	30	–	Equity method
Magang Chemicals & Energy	Anhui, PRC	Anhui, PRC	Manufacturing	RMB1,333,333,333	45	–	Equity method
Phima Intelligence (Note 3)	Anhui, PRC	Anhui, PRC	Information technology service industry	RMB361,093,720	–	18.19	Equity method
OBEI (Note 4)	Shanghai, PRC	Shanghai, PRC	Trade circulation	RMB4,000,000,000	11	–	Equity method

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Interests in joint ventures and associates (Continued)

- Note 1: As of 31 December 2020, the Group held 16.34% equity interests of Xinchuang Environmental Protection. The directors believed that the Company was able to exercise significant influence over Xinchuang Environmental Protection through one director and one supervisor designated by the Company in Xinchuang Environmental Protection, although the equity interests in it was less than 20%. Thus, the equity investment in Xinchuang Environmental Protection was accounted as an associate.
- Note 2: As of 31 December 2020, the Group held 18.31% equity interests of Ouyeel Blockchain Finance. The directors believed that the Company was able to exercise significant influence over Ouyeel Blockchain Finance through one director designated by the Company in Ouyeel Blockchain Finance, although the equity interest in it was less than 20%. Thus, the equity investment in Ouyeel Blockchain Finance was accounted for as an associate.
- Note 3: As of 31 December 2020, the Group held 18.19% equity interests of Phima Intelligence. The directors believed that the Company was able to exercise significant influence over Phima Intelligence through one director designated by the Company and the director and the director was nominated as a member of supervisor board in Phima Intelligence, although the equity interests in it was less than 20%. Thus, the equity investment in Phima Intelligence was accounted for as an associate.
- Note 4: As of 31 December 2020, the Group held 11% equity interests of OBEI. The directors believed that the Company was able to exercise significant influence over OBEI through one director designated by the Company in OBEI, although the equity interest in it was less than 20%. Thus, the equity investment in OBEI was accounted for as an associate.

Notes to the Financial Statements (Continued)

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Renminbi Yuan

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Interests in joint ventures and associates (Continued)

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

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

	2020	2019
Current assets	542,221,622	420,129,331
Non-current assets	134,380,064	188,936,797
Total assets	676,601,686	609,066,128
Current liabilities	79,630,819	60,768,847
Non-current liabilities	—	4,906,456
Total liabilities	79,630,819	65,675,303
Equity attributable to owners of the parent	596,970,867	543,390,825
The Group's share of net assets	298,485,434	271,695,413
Adjustment	—	—
The carrying value of the investment	298,485,434	271,695,413
Revenue	596,736,110	559,414,407
Income tax expense	67,256,917	59,136,383
Net profit	197,580,042	177,212,912
Other comprehensive income	—	—
Total comprehensive income	197,580,042	177,212,912
Dividends received	72,000,000	85,000,000

Notes to the Financial Statements (Continued)

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VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Interests in joint ventures and associates (Continued)

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

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

Henan JinMa Energy	2020	2019
Current assets	3,466,688,858	3,389,213,000
Non-current assets	2,834,569,781	2,100,891,000
Total assets	6,301,258,639	5,490,104,000
Current liabilities	1,836,790,076	1,675,050,000
Non-current liabilities	507,753,477	413,610,000
Total liabilities	2,344,543,553	2,088,660,000
Non-controlling interests	1,084,036,413	767,603,000
Equity attributable to owners of the parent	2,872,678,673	2,633,841,000
The Group's share of net assets	772,463,295	707,573,964
Adjustment	—	—
The carrying value of the investment	772,463,295	707,573,964
Revenue	7,852,503,934	7,585,190,000
Income tax expenses	196,110,725	201,767,000
Net profit	475,458,763	628,466,000
Total comprehensive income	475,458,763	629,380,000
Dividends received	57,600,000	64,800,000

Notes to the Financial Statements (Continued)

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VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Interests in joint ventures and associates (Continued)

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

Shenglong Chemical	2020	2019
Current assets	2,207,517,672	1,776,227,037
Non-current assets	1,551,752,727	1,488,260,340
Total assets	3,759,270,399	3,264,487,377
Current liabilities	872,452,512	704,936,856
Non-current liabilities	39,071,122	8,064,165
Total liabilities	911,523,634	713,001,021
Non-controlling interests	—	—
Equity attributable to owners of the parent	2,847,746,765	2,551,486,356
The Group's share of net assets	910,994,190	816,220,485
Adjustment	—	—
The carrying value of the investment	910,994,190	816,220,485
Revenue	4,493,324,291	5,738,658,043
Income tax expense	84,972,167	149,245,965
Net profit	292,207,593	508,977,899
Total comprehensive income	292,207,593	508,977,899
Dividends received	—	79,982,419

Notes to the Financial Statements (Continued)

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VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Interests in joint ventures and associates (Continued)

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

Magang Chemicals & Energy	2020	2019
Current assets	730,435,276	726,468,354
Non-current assets	1,118,747,341	992,609,756
Total assets	1,849,182,617	1,719,078,110
Current liabilities	92,618,001	91,299,697
Non-current liabilities	8,692,220	—
Total liabilities	101,310,221	91,299,697
Non-controlling interests	268,999,992	161,500,000
Equity attributable to owners of the parent	1,478,872,404	1,466,278,413
The Group's share of net assets	665,492,582	659,825,286
Adjustment	(632,763)	(632,763)
The carrying value of the investment	664,859,819	659,192,523
Revenue	2,204,768,430	2,811,704,314
Income tax expense	21,758,975	39,148,882
Net profit	72,736,080	131,538,940
Total comprehensive income	72,736,080	131,538,940
Dividends received	29,778,833	—

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Interests in joint ventures and associates (Continued)

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

Ouyeel Blockchain Finance	2020	2019
Current assets	8,110,500,640	3,918,291,645
Non-current assets	652,996,063	223,913,087
Total assets	8,763,496,703	4,142,204,732
Current liabilities	6,083,575,678	3,113,527,232
Non-current liabilities	176,439,952	–
Total liabilities	6,260,015,630	3,113,527,232
Non-controlling interests	814,534,448	315,277,881
Equity attributable to owners of the parent	1,688,946,625	713,399,619
The Group's share of net assets	309,246,127	321,029,829
Adjustment	6,275,766	6,275,766
The carrying value of the investment	315,521,893	327,305,595
Revenue	35,461,865,022	14,730,698,395
Income tax expense	94,649,544	48,855,077
Net profit	295,634,481	157,781,556
Total comprehensive income	295,634,481	157,781,556
Dividends received	40,573,053	–

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Interests in joint ventures and associates (Continued)

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

	2020	2019
Joint ventures		
The carrying value of the Group's investments	—	501,306
Total shown as below (calculated according to the respective equity holding percentage)		
Net loss	—	(429)
Other comprehensive income	—	—
Total comprehensive income	—	(429)
	2020	2019
Associates		
The carrying value of the Group's investments	731,847,832	763,730,382
Total shown as below (calculated according to the respective equity holding percentage)		
Net profit	47,232,866	56,137,211
Other comprehensive income	—	—
Total comprehensive income	47,232,866	56,137,211

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS

1. Classification of financial instruments

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

31 December 2020

Financial assets

	Financial assets at fair value through profit or loss		Financial assets measured at amortised cost	Financial assets at fair value through other comprehensive income		Total
	According to Standard	Designated		According to Standard	Designated	
Cash and bank balances	-	-	5,346,108,774	-	-	5,346,108,774
Financial assets held for trading	2,028,957,057	-	-	-	-	2,028,957,057
Trade receivables	-	-	1,043,606,041	-	-	1,043,606,041
Financing receivables	-	-	-	7,072,160,166	-	7,072,160,166
Other receivables	-	-	404,691,801	-	-	404,691,801
Financial assets purchased under agreements to resell	-	-	1,346,725,440	-	-	1,346,725,440
Loans and advances to customers	-	-	4,636,066,439	-	-	4,636,066,439
Debt instrument investments	-	-	3,263,926,755	-	-	3,263,926,755
Other equity instrument investments	-	-	-	-	390,798,231	390,798,231
	2,028,957,057	-	16,041,125,250	7,072,160,166	390,798,231	25,533,040,704

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

1. Classification of financial instruments (Continued)

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

31 December 2020 (Continued)

Financial liabilities

	Financial liabilities at fair value through profit or loss		Financial liabilities at amortised cost	Total
	According to Standard	Designated		
Deposits and balances from banks and other financial institutions	—	—	6,620,132,197	6,620,132,197
Repurchase agreements	—	—	198,480,944	198,480,944
Short-term loans	—	—	12,584,935,187	12,584,935,187
Financial liabilities held for trading	95,968,940	—	—	95,968,940
Notes payable	—	—	3,297,446,207	3,297,446,207
Trade payables	—	—	7,612,476,174	7,612,476,174
Other payables	—	—	4,119,253,844	4,119,253,844
Non-current liabilities due within one year	—	—	2,572,092,845	2,572,092,845
Long-term loans	—	—	3,536,364,338	3,536,364,338
Lease liabilities	—	—	394,983,673	394,983,673
	95,968,940	—	40,936,165,409	41,032,134,349

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

1. Classification of financial instruments (Continued)

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

31 December 2019

Financial assets

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

1. Classification of financial instruments (Continued)

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

31 December 2019 (Continued)

Financial liabilities

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

2. Offsetting of financial instruments

In 2020, there were no offsetting arrangements for accounts receivable (2019: Nil).

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

3. Transfer of financial assets

Financial assets transferred but not yet fully derecognised

As of 31 December 2020, the Group endorsed (but not yet fully derecognised) bank acceptance notes to its suppliers with a carrying amount of RMB49,609,600 for settlement of trade payables (31 December 2019: RMB472,905), and the bank acceptance notes discounted to banks which were not derecognised amounted to RMB108,365,962 (31 December 2019: RMB127,316,634). As of 31 December 2020, their maturity period ranged from 1 to 12 months. Pursuant to the relevant provisions of “Law of Negotiable Instruments”, the holders of commercial instruments shall have the right of recourse against the Group (“Continuing Involvement”) if the relevant acceptance bank defaults. As the Group was of the opinion that the Group had retained substantially all their risks and rewards, including the default risk associated, the Group continued to recognise them and the settled the accounts payable or short-term borrowings associated therewith. After the endorsement or discount, the Group no longer reserved the rights to use them, including the rights to sell, transfer or pledge to any other third party. As of 31 December 2020, the carrying amount of trade payables settled by the Group through them amounted to RMB49,609,600 (31 December 2019: RMB472,905). As of 31 December 2020, the short term loans obtained from the pledge of notes receivable amounted to RMB108,365,962 (31 December 2019: RMB127,316,634).

Transferred financial assets fully derecognised but with continuing involvement

As of 31 December 2020, the Group endorsed (and fully derecognised) bank acceptance notes to its suppliers with a carrying amount of RMB8,039,033,075 (31 December 2019: RMB898,350,720) for settlement of trade payables, and the bank acceptance notes discounted to banks which were fully derecognised amounted to RMB850,788,800 (31 December 2019: RMB1,178,421,214). As of 31 December 2020, their maturity period ranged from 1 to 6 months. Pursuant to the relevant provisions of “Law of Negotiable Instruments”, the holders of commercial instruments shall have the right of recourse against the Group (“Continuing Involvement”) if the relevant acceptance bank defaults. As the Group was of the opinion that the Group had transferred substantially all their risks and rewards, the Group had derecognised them and then settled account payables associated therewith.

In 2020, no gain or loss was recognised on the date of transfer. No income or expense was recognised for the current year or on an accumulative basis as a result of the Group's Continuing Involvement in the derecognised financial assets. Endorsements were incurred basically evenly during the year.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Financial instrument risks

The Group faced several kinds of financial instrument risks in its daily operation, mainly including credit risk, liquidity risk and market risk (including interest rate risk and foreign currency risk). The Group's principal financial instruments are comprised of cash and bank balances, financial assets held for trading, debt instrument investments interest-bearing bank borrowings, notes and trade receivables, financial receivables, notes and trade payables, etc. The Group's risk management strategies to lower such risks are outlined below.

The Board of Directors is responsible for planning and establishing the Group's risk management framework, formulating the Group's risk management policies and related guidelines, and supervising the implementation of risk management measures. The Group has formulated risk management policies to identify and analyse the risks it faces. These risk management policies specify specific risks, covering market risks, credit risks and liquidity risk management. The Group regularly evaluates changes in the market environment and business activities of the Group to determine whether to update risk management policies and systems. The risk management of the Group shall be carried out by the Risk Management Committee in accordance with the policies approved by the Board of Directors. The Risk Management Committee identifies, evaluates and evades related risks through close cooperation with other business units of the Group. The internal audit department of the Group conducts regular audits on risk management control and procedures and reports the results to the Group's Audit Committee.

The Group disperses the risk of financial instruments through appropriate diversification of investment and business portfolios, and reduces the risk of focusing on any single industry, specific region or specific counterparty by formulating corresponding risk management policies.

Credit risk

The Group trades only with recognised and creditworthy parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, notes and trade receivables balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

Since the trading counterparties of cash and bank balances, bank acceptance notes receivable and financial assets held for trading are banks with good reputation and high credit rank, these financial instruments face lower credit risk.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Financial instrument risks (Continued)

Credit risk (Continued)

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

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

Since the Group trades only with recognised and creditworthy parties, there is no requirement for collateral. Credit risk is managed according to analysis by customer, counterparty, geographical region and industry intensively. At the end of the reporting period, the Group had certain concentrations of credit risk as 9% (2019: 13%) and 29% (2019: 38%) of the Group's trade receivables were due from the Group's largest customer and five largest customers in terms of trade receivables respectively. The Group did not hold any collateral or credit enhancements for the balance of trade receivables.

Measurement of expected credit losses

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

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

- Phase 1: Financial instruments whose credit risk have not increased significantly will be included in phase 1, and the Group measures the loss provision for those instruments at an amount equal to 12-month expected credit losses.
- Phase 2: Financial instruments whose credit risk have increased significantly but without objective evidence for impairment will be included in phase 2, and the Group measures the loss provision of those instruments at an amount equal to lifetime expected credit losses.
- Phase 3: Financial instruments that is evidently credit-impaired at the financial position date will be included in phase 3 and the Group measures the loss provision of those financial instruments at an amount equal to lifetime expected credit losses.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Financial instruments risk (Continued)

Credit risk (Continued)

Measurement of expected credit losses (Continued)

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

Criteria for significant increase in credit risk

At each financial position date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. To make the assessment, the Group shall consider reasonable and supportable information that is available without undue cost or effort, including qualitative and quantitative analysis of the Group's historical statistics, external credit risk rate and forecasting information. On an individual basis or a collective basis for financial instruments with shared credit risk characteristics, the Group compares the default risks of financial instruments at financial position date and the default risks at initial recognition to determine the change of default risk of financial instruments in the expected lifetime.

One or several of the following quantitative, qualitative or maximum criteria are triggered, the Group determines the credit risk of a financial instruments has increased significantly:

Quantitative criteria:

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

Qualitative criteria:

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

Maximum criteria:

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Financial instruments risk (Continued)

Credit risk (Continued)

Definition of credit-impaired financial assets

When considering whether credit impairment has incurred, the Group will consider both quantitative and qualitative factors, which agrees with the goal of the Group's credit risk management. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event-instead, the combined effect of several events may have caused financial assets to become credit-impaired.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Financial instruments risk (Continued)

Credit risk (Continued)

Parameters of expected credit losses measurement

Depending on whether credit risk has increased significantly or whether impairment has occurred, the Group measures loss allowance for different instruments at an amount equal to 12-month expected credit losses or equal to lifetime expected credit losses. The key parameters for measuring expected credit losses include default probability, default loss rate and default risk exposure. Based on the external credit rate applied in credit risk management, the Group will consider the quantitative analysis of historical statistics (such as the credit rate of the counter party, the guarantee method, the nature of collateral and the repayment style), as well as forecast information to establish the model for default probability, default loss rate and default risk exposure.

Definition:

- Default probability is probability that a debtor fails to fulfil its repayment duty in 12 months or in the rest of the expected lifetime. The Group's default probability is based on an external credit rate and adjusted by carefully choosing forecasting information to reflect debtors' probability of default under current macro-economy conditions;
- Default loss rate is the Group's expectation on the level of loss if default risk exposed and caused losses. Default loss rate varies with the types of trading counterparty, the ways of recourse and priority and the nature of collaterals. Default loss rate is the loss percentage of exposure when default incurs and is calculated based on 12-month expected credit losses or lifetime expected credit losses;
- Default risk exposure is the amount to be recovered by the Group when default incurs during the next 12 months or the rest of the expected lifetime.

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

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Financial instruments risk (Continued)

Credit risk (Continued)

The credit risk level of the Group has not changed compared with last year. The quantitative information of credit risk exposure generated by trade receivables and other receivables are disclosed in Note V.3 and 6.

The carrying amount of financial assets by the credit risk level is disclosed as follows:

31 December 2020

	Carrying amount (unsecured)		Carrying amount (secured)	
	12-month Expected credit losses	Lifetime Expected credit losses	12-month Expected credit losses	Lifetime Expected credit losses
Loans	2,864,838,087	—	29,100,263	—
Discounted notes	1,742,128,089	—	—	—
Financial assets purchased under agreements to resell	1,346,725,440	—	—	—
Debt instrument investments	3,263,926,755	—	—	—
	9,217,618,371	—	29,100,263	—

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Financial instruments risk (Continued)

Credit risk (Continued)

The carrying amount of financial assets by the credit risk level is disclosed as follows (continued):

31 December 2019

	Carrying amount (unsecured)		Carrying amount (secured)	
	12-month Expected credit losses	Lifetime Expected credit losses	12-month Expected credit losses	Lifetime Expected credit losses
Loans	2,362,695,268	–	151,157,385	–
Discounted notes	1,683,047,996	–	56,922,827	–
Factoring	2,591,714	–	–	–
Financial assets purchased under agreements to resell	2,369,966,754	–	–	–
Debt instrument investments	3,182,221,639	–	–	–
	9,600,523,371	–	208,080,212	–

Liquidity risk

The Group applies a liquidity planning tool to manage liquidity risk of funding shortfalls, which takes both maturity of financial instruments and estimated operating cash flows of the Group into consideration.

The Group's aim is to balance the sustainability and flexibility of the financing through interest-bearing loans and other instruments. As of 31 December 2020, 90% of the Group's debts were due within 1 year (31 December 2019: 90%).

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Financial instruments risk (Continued)

Liquidity risk (Continued)

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

31 December 2020

	Within 1 year	1-2 years	2-3 years	3-5 years	Over 5 years	Total
Customer deposits	6,620,132,197	-	-	-	-	6,620,132,197
Repurchase agreements	198,480,944	-	-	-	-	198,480,944
Short-term loans	12,584,935,187	-	-	-	-	12,584,935,187
Financial liabilities held for trading	95,968,940	-	-	-	-	95,968,940
Notes payable	3,297,446,207	-	-	-	-	3,297,446,207
Trade payables	7,612,476,174	-	-	-	-	7,612,476,174
Other payables	4,119,253,844	-	-	-	-	4,119,253,844
Non-current liabilities due within one year	2,572,092,845	-	-	-	-	2,572,092,845
Long-term loans	293,483,247	1,323,522,262	2,276,297,101	44,536,800	13,613,600	3,951,453,010
Lease liabilities	19,977,760	35,713,579	35,713,579	71,427,158	439,705,451	602,537,527
Total	37,414,247,345	1,359,235,841	2,312,010,680	115,963,958	453,319,051	41,654,776,875

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Financial instruments risk (Continued)

Liquidity risk (Continued)

A liquidity analysis of the undiscounted contract cash flows of the financial liabilities is as shown in the table below: (continued)

31 December 2019

	Within 1 year	1-2 years	2-3 years	3-5 years	Over 5 years	Total
Deposits and balances from banks and other financial institutions	400,031,889	-	-	-	-	400,031,889
Customer deposits	10,964,896,002	-	-	-	-	10,964,896,002
Repurchase agreements	1,386,580,448	-	-	-	-	1,386,580,448
Short-term loans	12,880,053,159	-	-	-	-	12,880,053,159
Financial liabilities held for trading	2,258,750	-	-	-	-	2,258,750
Notes payable	7,313,729,148	-	-	-	-	7,313,729,148
Trade payables	6,130,327,006	-	-	-	-	6,130,327,006
Other payables	3,350,074,505	-	-	-	-	3,350,074,505
Non-current liabilities due within one year	1,677,068,898	-	-	-	-	1,677,068,898
Long-term loans	402,402,355	3,410,193,042	52,044,688	669,167	69,388,000	3,934,697,252
Lease liabilities	20,783,485	36,170,655	35,713,579	71,427,158	475,419,030	639,513,907
Total	44,528,205,645	3,446,363,697	87,758,267	72,096,325	544,807,030	48,679,230,964

Market risk

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with a floating interest rate.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Financial instruments risk (Continued)

Market risk (Continued)

Interest rate risk (Continued)

The following table demonstrates the sensitivity to a reasonably possible change in market interest rates, with all other variables held constant, of the Group's net profit/(loss) (through the impact on floating rate borrowings).

	Increase/(decrease) in basis points	Increase/(decrease) in net profit
2020		
RMB	50	(18,626,556)
USD	50	(609,118)
RMB	(50)	18,626,556
USD	(50)	609,118
2019		
RMB	50	(21,048,208)
USD	50	(244,936)
RMB	(50)	21,048,208
USD	(50)	244,936

Exchange rate risk

The Group faces transactional foreign currency risk. This risk arises from the sales and purchases carried out by operating units which were denominated in currencies other than its functional currencies.

The business of the Group are principally located in the PRC. While most of the transactions are conducted in Renminbi, certain of its sales, purchases and borrowings are denominated in United States dollars, Euros and Australian dollars. Fluctuations of the exchange rates of Renminbi against these foreign currencies can affect the Group's results of operations.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Financial instruments risk (Continued)

Market risk (Continued)

Exchange rate risk (Continued)

In addition, the Group has exposure to foreign exchange risks arising from foreign currency borrowings. The Group uses foreign exchange forward contracts to reduce exchange rate exposure.

The carrying amounts and related maximum exposure to foreign currency risk of Group's cash, financial assets held for trading, trade receivables, other receivables, short term loans, trade payables, other payables and long-term loans are stated in Note V.65 to the financial statements.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the exchange rates of the USD, EUR, AUD and HKD with all other variables held constant, of the Group's net profit and equity (due to changes in the fair values of monetary assets and liabilities):

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in net profit	Increase/ (decrease) in other comprehensive income	Increase/ (decrease) in equity
2020				
Depreciation of RMB against USD	1%	(13,820,032)	50,755	(13,769,277)
Depreciation of RMB against EUR	1%	1,080,906	3,880,097	4,961,003
Depreciation of RMB against AUD	1%	–	2,009,923	2,009,923
Depreciation of RMB against HKD	1%	212,719	4,643,229	4,855,948
Appreciation of RMB against USD	(1%)	13,820,032	(50,755)	13,769,277
Appreciation of RMB against EUR	(1%)	(1,080,906)	(3,880,097)	(4,961,003)
Appreciation of RMB against AUD	(1%)	–	(2,009,923)	(2,009,923)
Appreciation of RMB against HKD	(1%)	(212,719)	(4,643,229)	(4,855,948)

Notes to the Financial Statements (Continued)

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Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

4. Financial instruments risk (Continued)

Market risk (Continued)

Exchange rate risk (Continued)

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the exchange rates of the USD, EUR, AUD and HKD with all other variables held constant, of the Group's net profit and equity (due to changes in the fair values of monetary assets and liabilities: (continued)

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in net profit	Increase/ (decrease) in other comprehensive income	Increase/ (decrease) in equity
2019				
Depreciation of RMB against USD	1%	(13,427,388)	56,559	(13,370,829)
Depreciation of RMB against EUR	1%	202,601	3,295,788	3,498,389
Depreciation of RMB against AUD	1%	–	2,691,228	2,691,228
Depreciation of RMB against HKD	1%	99	4,317,923	4,318,022
Appreciation of RMB against USD	(1%)	13,427,388	(56,559)	13,370,829
Appreciation of RMB against EUR	(1%)	(202,601)	(3,295,788)	(3,498,389)
Appreciation of RMB against AUD	(1%)	–	(2,691,228)	(2,691,228)
Appreciation of RMB against HKD	(1%)	(99)	(4,317,923)	(4,318,022)

5. Capital management

The main objectives of the Group's capital management are to ensure the Group's ability to continue operations and to maintain healthy capital ratios in order to support business growth and maximise shareholders' value.

The Group manages its capital structure and makes adjustments according to changes in economic conditions and the risk characteristics of the relevant assets. In order to maintain or adjust the capital structure, the Group may adjust the distribution of profits to shareholders, return capital to shareholders or issue new shares. The Group is not subject to externally imposed capital requirements constraints. For the years of 2020 and 2019, capital management objectives, policies or procedures of the Group did not change.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

VIII. RISKS RELATED TO FINANCIAL INSTRUMENTS (CONTINUED)

5. Capital management (continued)

The Group uses a gearing ratio to manage its capital. The gearing ratio refers to the percentage of net debt versus total capital attributable to owners of the parent plus net debt, and the target gearing ratio for the Group is between 50% and 70%. Net debt includes customer deposits, bank loans, notes payable, trade payables, payroll and employee benefits payable, and other payables etc., minus cash. Capital refers to total capital attributable to owners of the parent. The Group's gearing ratio at the end of the reporting period was as follows:

	31 December 2020	31 December 2019
Deposits and balances from banks and other institutions	—	400,031,889
Customer deposits	6,620,132,197	10,964,896,002
Repurchase agreements	198,480,944	1,386,580,448
Short-term loans	12,584,935,187	12,880,053,159
Financial liabilities held for trading	95,968,940	2,258,750
Notes payable	3,297,446,207	7,313,729,148
Trade payables	7,612,476,174	6,130,327,006
Payroll and employee benefits payable	549,348,136	691,976,938
Other payables	4,123,490,248	4,294,496,279
Other current liabilities	569,023,723	—
Non-current liabilities due within one year	2,572,092,845	1,677,068,898
Long-term loans	3,536,364,338	3,468,200,000
Lease liabilities	394,983,673	411,432,835
Long-term employee benefits payable	79,496,046	101,327,703
Less: Cash and bank balances	5,346,108,774	9,517,313,695
Net liabilities	36,888,129,884	40,205,065,360
Capital attributable to owners of the parent	28,386,124,992	26,933,162,065
Capital and net liabilities	65,274,254,876	67,138,227,425
Gearing ratio	57%	60%

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

IX. DISCLOSURE OF FAIR VALUE

1. Financial assets and liabilities measured at fair value

31 December 2020

	Inputs used for fair value measurement			Total
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	
Financial assets				
Recurring fair value measurement for				
Financial assets held for trading	11,640,010	–	2,017,317,047	2,028,957,057
Financing receivables	–	7,072,160,166	–	7,072,160,166
Other equity instrument investments	–	300,451,194	90,347,037	390,798,231
	11,640,010	7,372,611,360	2,107,664,084	9,491,915,454
Financial liabilities				
Recurring fair value measurement for				
Financial liabilities held for trading	95,968,940	–	–	95,968,940

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

IX. DISCLOSURE OF FAIR VALUE (CONTINUED)

1. Financial assets and liabilities measured at fair value (Continued)

31 December 2019

	Inputs used for fair value measurement			Total
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	
Financial assets				
Recurring fair value measurement for				
Financial assets held for trading	103,763,821	–	2,022,348,373	2,126,112,194
Financing receivables	–	11,098,699,421	–	11,098,699,421
Other equity instruments investments	–	267,217,945	11,358,564	278,576,509
	103,763,821	11,365,917,366	2,033,706,937	13,503,388,124
Financial liabilities				
Recurring fair value measurement for				
Financial liabilities held for trading	2,258,750	–	–	2,258,750

The Group's level 1 fair value measurement items mainly include funds, forward foreign exchange contracts and futures contracts. The fair value of the funds was determined by the net value reported by the fund manager plus the fund shares that the Group held on the last trading day of 2020. The fair value of forward foreign exchange contracts was determined by the forward foreign exchange rate on the last trading day of 2020. The fair value of the future contracts was determined by the settlement price of the Dalian Commodity Exchange, Shanghai Commodity Exchange and Zhengzhou Commodity Exchange on the last trading day of the year 2020.

The Group's level 2 fair value measurement items mainly include unlisted equity investment and debt investments. The fair value of the unlisted equity investments was determined by the comparable company multiplier method based on the financial statement information of these unlisted companies as of 31 December 2020 and the information of the comparable listed companies in the same industry. Financing receivables measured at fair value through other comprehensive income was discounted by the market interest rate.

The Group's level 3 fair value measurement items mainly include financial products, trust products and unlisted equity investment not available for the comparable company multiplier method. The fair value of financial products and trust products is determined by the discounted cash flow model, with consideration of the initial transaction prices, near-term transactions of the same or similar financial instruments, or transactions of comparable financial instruments between the third parties. If necessary, the assessment model will be adjusted according to delays, early redemption, liquidity, default risk, and changes in the market, economic or specific circumstances. The fair value of the unlisted equity instrument investments not available for the comparable company multiplier method were determined by the net asset basis method as of 31 December 2020.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

IX. DISCLOSURE OF FAIR VALUE (CONTINUED)

2. Financial assets and liabilities disclosed at fair value

31 December 2020

	Inputs used for fair value measurement			Total
	Quoted prices in active markets	Significant observable inputs	Significant unobservable inputs	
	Level 1	Level 2	Level 3	
Financial liabilities				
Long-term loans	–	3,671,337,168	–	3,671,337,168
Lease liabilities	–	394,983,673	–	394,983,673
	–	4,066,320,841	–	4,066,320,841

31 December 2019

	Inputs used for fair value measurement			Total
	Quoted prices in active markets	Significant observable inputs	Significant unobservable inputs	
	Level 1	Level 2	Level 3	
Financial liabilities				
Long-term loans	–	3,638,179,673	–	3,638,179,673
Lease liabilities	–	411,432,835	–	411,432,835
	–	4,049,612,508	–	4,049,612,508

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

IX. DISCLOSURE OF FAIR VALUE (CONTINUED)

3. Valuation of fair value

Fair value of financial instruments

The carrying amounts and fair values of the Group's financial instruments are as follows, excluding lease liabilities and financial instruments of which the difference between the fair values and carrying amounts is very little:

	Carrying amounts		Fair values	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Financial liabilities				
Long-term loans	3,536,364,338	3,468,200,000	3,671,337,168	3,638,179,673

Management has assessed the fair value of cash and bank balances, trade receivables, other receivables, debt instruments investments, financial assets purchased under agreements to resell, loans and advances to customers, notes payable, trade payables, other payables, customer deposits, repurchase agreements, short-term loans, non-current liabilities due within one year and other current liabilities, etc. Since the residual terms of the abovementioned items were relatively short, the fair values were similar to the carrying amounts.

The policies and procedures for accounting for financial instruments at fair value are developed by the Group's finance team led by the finance manager. The Group's finance team reports directly to the financial officer and the Audit Committee. At each balance sheet date, the finance team analyses changes in the value of financial instruments and determines the main applicable inputs to the valuation. Valuations are subject to the approval of the financial officer. The finance team discusses the valuation process and results twice a year with the Audit Committee for interim and annual financial reporting.

The fair value of the financial assets and liabilities is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. The following methods and assumptions are used in estimating fair value.

The method of discounted cash flows is adopted to determine the fair value of lease liabilities and long-term loans, in which the market return rate of other financial instruments with similar contract terms, credit risk, remaining maturity and yield characteristics is used as the discount rate. As of 31 December 2020, the default risk for the long-term loans was evaluated as not significant.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

X. RELATED PARTY RELATIONSHIP AND RELATED PARTY TRANSACTIONS

1. Parent company

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

The Company is ultimately controlled by China Baowu.

2. Subsidiaries

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

3. Associates and joint ventures

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

4. Other related parties

Name	Relationship with the Company
Magang (Group) Investment Co., Ltd.	Controlled by the Holding
Magang (Group) Logistics Co., Ltd.	Controlled by the Holding
Anhui Masteel Logistics Container Intermodal Transport Co., Ltd.	Controlled by the Holding
Magang (Group) Holding Company Limited Assets Management Company	Controlled by the Holding
Magang (Group) Holding Company Limited Cable TV Center	Controlled by the Holding
Magang (Group) Holding Company Limited Magang Press	Controlled by the Holding
Anhui Masteel Mining Resources Group Co., Ltd.	Controlled by the Holding
Magang (Group) Holding Company Limited Nanshan Mining Company	Controlled by the Holding
Magang (Group) Holding Company Limited Gushan Mining Company	Controlled by the Holding
Magang (Group) Holding Company Limited Taochong Mining Company	Controlled by the Holding
Magang (Group) Holding Company Limited Qiangyang Cloud Mine	Controlled by the Holding
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	Controlled by the Holding
Anhui Masteel Luo He Mining Co., Ltd.	Controlled by the Holding
Magang Group Biding and Consulting Co., Ltd.	Controlled by the Holding
Masteel Engineering Technology(Group) Co., Ltd. (Renamed as: Baowu Heavy Industry Co., Ltd., Note 1)	Controlled by the Holding
Phima Intelligence	Controlled by the Holding
Anhui Xiangdun Information Technology Co., Ltd.	Controlled by the Holding
Anhui Xiangyun Technology Co., Ltd.	Controlled by the Holding
Shenzhen Yuexinma Information and Technology Co., Ltd.	Controlled by the Holding
Masteel Group Design and Research Institute Co., Ltd.	Controlled by the Holding
Maanshan Masteel Yan Tu Construction Survey Mining Co., Ltd.	Controlled by the Holding
Masteel Group Mapping Co., Ltd.	Controlled by the Holding
Masteel Heavy Machinery Manufacturing Co., Ltd.	Controlled by the Holding
Anhui Masteel Dongli Transmission Equipment Co., Ltd.	Controlled by the Holding
Masteel Transportation Equipment Manufacturing Co., Ltd.	Controlled by the Holding

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

4. Other related parties (Continued)

Name	Relationship with the Company
Anhui Masteel Surface Technology Co., Ltd.	Controlled by the Holding
Shanghai Maanshan Iron & Steel Electrical and Mechanical Technology Co., Ltd.	Controlled by the Holding
Anhui Masteel Equipment Maintenance Co, Ltd.	Controlled by the Holding
Masteel Group Kang Tai Land Development Co., Ltd.	Controlled by the Holding
Maanshan Yu Tai Property Management Co., Ltd.	Controlled by the Holding
Masteel Group Kang Cheng Building and Installing Co., Ltd.	Controlled by the Holding
Anhui Maanshan Iron & Steel Metallurgical Industry Technical Service Co., Ltd.	Controlled by the Holding
Maanshan Bo Li Construction Supervising Co., Ltd.	Controlled by the Holding
Maanshan Jia Hua Commodity Concrete Co., Ltd.	Controlled by the Holding
Xinchuang Environmental Protection	Controlled by the Holding
Masteel Automobile Transportation Service Co., Ltd.	Controlled by the Holding
Ma Steel International Trade and Economic Co., Ltd.	Controlled by the Holding
Maanshan Masteel Electric Repair Co., Ltd.	Controlled by the Holding
Maanshan Used Vehicle Trading Centre Co., Ltd.	Controlled by the Holding
Ma Steel Powder Metallurgy Co., Ltd.	Controlled by the Holding
Anhui Zhonglian Shipping Co., Ltd.	Controlled by the Holding
Maanshan Masteel Huayang Equipment Diagnosis Engineering Co., Ltd.	Controlled by the Holding
Anhui Vocational College of Metallurgy and Technology	Controlled by the Holding
Ma Steel (Hefei) Logistics Co., Ltd.	Controlled by the Holding
Maanshan Xinchuangbaineng Energy Technology Co., Ltd.	Controlled by the Holding
Masteel Lihua Metal Resources Co., Ltd.	Controlled by the Holding
Anhui Masteel ChangRan Energy Co. Ltd.	Controlled by the Holding
Anhui Jiangnan Iron and Steel Material Quality Monitoring and Testing Co., Ltd.	Controlled by the Holding
Shanghai Masteel International Trade and Economic Co., Ltd.	Controlled by the Holding
Shanxi Fuma Carbon Material Technology Co. Ltd.	Controlled by the Holding
Masteel Fuyuan Metal Resources Co., Ltd.	Controlled by the Holding
Masteel Zhixin Resources Technology Co. Ltd.	Controlled by the Holding
Maanshan Chenma Hydrogen Energy Technology Co., Ltd.	Controlled by the Holding

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

4. Other related parties (Continued)

Name	Relationship with the Company
Anhui Masteel Dangerous Goods Transportation Co., Ltd.	Controlled by the Holding
Shenzhen Yue Hai Masteel Industry Co., Ltd.	Controlled by the Holding
Anhui Masteel Xinba Environmental Co., Ltd.	Controlled by the Holding
Guizhou Xinchuan Environmental Protections Co., Ltd.	Controlled by the Holding
Maanshan Iron & Steel Motor Vehicle Recycling Technology Co., Ltd.	Controlled by the Holding
Shanghai MaSteel Engineering Technology Co., Ltd.	Controlled by the Holding
AI Robot (Shanghai) Co., Ltd.	Controlled by the Holding
Yangtze River Delta (Hefei) Digital Technology Co., Ltd.	Controlled by the Holding
Masteel Refractory Materials Co., Ltd.	Controlled by the Holding
Anhui Masteel Advanced Technician School	Controlled by the Holding
Meitai Macao Commercial Service offshore Co. Ltd.	Controlled by the Holding
Masteel Chengxing Metal Resources Co. Ltd.	Controlled by the Holding
Ouyeel (Jingjiang) Blockchain Finance and Metal Recycling Resources Co., Ltd.	Controlled by the Holding
LiaoNing Jiheyuan Renewable Resources Co., Ltd.	Controlled by the Holding
Ouyeel (Pingxiang) Blockchain Finance and Metal Recycling Resources Co., Ltd.	Controlled by the Holding
Anhui Masteel Mining Resources Group Taochong Mining Co., Ltd.	Controlled by the Holding
Anhui BRC & Masteel Weldmesh Co., Ltd.	Joint venture of the Holding
Ruitai Masteel New Material Technology Co., Ltd.	Associate of the Holding
Ma Steel Gongchang United Roller Co., Ltd.	Associate of the Holding
Maanshan Jiangnan Chemical Industry Co., Ltd.	Associate of the Holding
Tongling Yuanda Limestone Mining Co. Ltd.	Associate of the Holding
Maanshan Mine Research Institute Blasting Engineering Co., Ltd.	Associate of the Holding
China Logistics Hefei Co., Ltd.	Associate of the Holding

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

4. Other related parties (Continued)

Name	Relationship with the Company
Maanshan China-Japan Resource Regeneration Technology Co., Ltd.	Associate of the Holding
Maanshan Iron Construction Group Co., Ltd.	Associate of the Holding
Anhui Nanda Mastee Environment Technology Co., Ltd.	Associate of the Holding
Maanshan Zhongye Huaxin Water Environment Control Co., Ltd.	Associate of the Holding
Suzhou Suma Industry Development Co., Ltd.	Associate of the Holding
Anhui Keda Electricity Selling Co., Ltd. (Renamed as: Anhui Keda Smart Energy Technology Co., Ltd., Note 2)	Associate of the Holding
Anhui Huasu Co., Ltd.	Associate of the Holding
China Railway Resources Technology Co., Ltd.	Associate of the Holding
Ma-Steel OCI Chemical Co., Ltd. (Note 3)	Associate of the Holding
China Baowu Steel Group Co., Ltd.	Ultimate controlling party
Baoshan Iron & Steel Co., Ltd.	Controlled by the ultimate controlling party
Baosteel Group Shanghai Meishan Co., Ltd.	Controlled by the ultimate controlling party
Nanjing Baosteel Steel Rolling Co., Ltd.	Controlled by the ultimate controlling party
Shanghai Baosteel Industry Co., Ltd.	Controlled by the ultimate controlling party
Shanghai Baosteel Trading Co., Ltd.	Controlled by the ultimate controlling party
Shenyang Baosteel Northeast Trading Co., Ltd.	Controlled by the ultimate controlling party
Shanghai Meishan Iron & Steel Co., Ltd.	Controlled by the ultimate controlling party
Wuhan Iron and Steel Co., Ltd.	Controlled by the ultimate controlling party
Baosteel Stainless Steel Co., Ltd.	Controlled by the ultimate controlling party
Anhui Wanbao Mining Limited Co., Ltd.	Controlled by the ultimate controlling party
Baosteel Resources Holdings (Shanghai) Co., Ltd.	Controlled by the ultimate controlling party
Zhejiang Zhoushan Wugang Terminal Co., Ltd.	Controlled by the ultimate controlling party
Zhejiang Shengsi Baojie International Shipping Agency Co., Ltd.	Controlled by the ultimate controlling party
Shanghai Baosteel Engineering & Technology Co., Ltd.	Controlled by the ultimate controlling party

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

4. Other related parties (Continued)

Name	Relationship with the Company
Shanghai Baohua International Tendering Co., Ltd.	Controlled by the ultimate controlling party
Baosteel Roll Technology Co., Ltd.	Controlled by the ultimate controlling party
Baowu Equipment Intelligent Technology Co., Ltd.	Controlled by the ultimate controlling party
Ouyeel Cloud Commerce Co., Ltd.	Controlled by the ultimate controlling party
Shanghai Iron & Steel Exchange Co., Ltd.	Controlled by the ultimate controlling party
Eastern Steel E-Commerce Co., Ltd.	Controlled by the ultimate controlling party
Shanghai Ouyeel Material Technology Co., Ltd.	Controlled by the ultimate controlling party
Wuhan Iron and Steel Group Logistics Co., Ltd.	Controlled by the ultimate controlling party
Shanghai Baosight Software Co., Ltd.	Controlled by the ultimate controlling party
Nanjing Meibao New Building Material Co., Ltd.	Controlled by the ultimate controlling party
Nanjing Meishan Steel Slag Treatment Co., Ltd.	Controlled by the ultimate controlling party
Shanghai Baosteel Magnetic Industry Co., Ltd.	Controlled by the ultimate controlling party
Baosteel Magnetic Industry (Jiangsu) Co., Ltd.	Controlled by the ultimate controlling party
Hwabao Trust Co., Ltd.	Controlled by the ultimate controlling party
Baosteel Group Finance Co., Ltd.	Controlled by the ultimate controlling party
Wuhan Iron and Steel Group Co., Ltd.	Controlled by the ultimate controlling party
Shanghai Baosteel Stainless Steel Co., Ltd.	Controlled by the ultimate controlling party
Ouyeel International E-commerce Co., Ltd.	Controlled by the ultimate controlling party
Shanghai Ouye Purchasing Information Technology Co., Ltd.	Controlled by the ultimate controlling party
Baowu Raw Material Supply Co., Ltd.	Controlled by the ultimate controlling party

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

4. Other related parties (Continued)

Name	Relationship with the Company
Shanghai Baosteel Steel Trading Co., Ltd.	Controlled by the ultimate controlling party
Shanxi Taigang Stainless Steel Co., Ltd.	Controlled by the ultimate controlling party
Chengdu Baosteel Automobile Steel Parts Processing and Distribution Co., Ltd.	Controlled by the ultimate controlling party
Chongqing Baosteel Automobile Steel Parts Co., Ltd.	Controlled by the ultimate controlling party
Wuhu Weissco Material Technology Co., Ltd.	Controlled by the ultimate controlling party
Wuhan Baosteel Huazhong Trading Co., Ltd.	Controlled by the ultimate controlling party
Shanghai Ouye Logistics Co., Ltd.	Controlled by the ultimate controlling party
Shanghai Jinyi Testing Technology Co., Ltd.	Controlled by the ultimate controlling party
Ouyeel Commercial Factoring Co., Ltd.	Controlled by the ultimate controlling party
Baowu Water Technology Co., Ltd.	Controlled by the ultimate controlling party
Huabao Securities Co., Ltd.	Controlled by the ultimate controlling party
Guangzhou Baosteel South Trade Co., Ltd.	Controlled by the ultimate controlling party
Beijing Baosteel North Trade Co., Ltd.	Controlled by the ultimate controlling party
Baosteel Special Steel Long Products Co., Ltd.	Controlled by the ultimate controlling party
Chengdu Baosteel Western Trading Co., Ltd.	Controlled by the ultimate controlling party
Anhui Baosteel Steel Distribution Co., Ltd.	Controlled by the ultimate controlling party

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

4. Other related parties (Continued)

Name	Relationship with the Company
WISCO Group Xiangyang Heavy Equipment Materials Co., Ltd.	Controlled by the ultimate controlling party
Shanghai Baosteel Casting Co., Ltd.	Controlled by the ultimate controlling party
Shanghai Kede Roll Surface Treatment Co., Ltd.	Controlled by the ultimate controlling party
Qingdao Baojing Steel Processing and Distribution Co., Ltd.	Controlled by the ultimate controlling party
General Electric (Wuhan) Automation Co., Ltd.	Joint venture of the ultimate controlling party
Maanshan Gangchen Industrial Co., Ltd.	Associate of the ultimate controlling party
Shanxi Ax Taigang Roll Co., Ltd.	Associate of the ultimate controlling party
Taichang Wugang Wharf Co., Ltd.	Associate of the ultimate controlling party
MCC South Engineering Technology Co., Ltd.	Associate of the ultimate controlling party
Changzhou Baoling Heavy Industry Machinery Co., Ltd.	Associate of the ultimate controlling party
Note 1:	On 31 March 2020, Masteel Engineering Technology (Group) Co., Ltd. was renamed as Baowu Heavy Industry Co., Ltd.; the related party transactions and the balance of related party transactions are listed under Baowu Heavy Industry Co., Ltd.
Note 2:	On 13 April 2020, Anhui Keda Electricity Selling Co., Ltd. was renamed as Anhui Keda Smart Energy Technology Co., Ltd.; the related party transactions and the balance of related party transactions are listed under Anhui Keda Smart Energy Technology Co., Ltd.
Note 3:	On 21 September 2020, the Company and Magang Chemicals & Energy signed an equity transfer agreement, and approved the Company to transfer 40% of equity of Ma-Steel OCI Chemical to Magang Chemicals & Energy. The equity transfer was completed in November 2020. Since then, Ma-Steel OCI Chemical became an associate of the Holding.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

5. Significant transactions carried out between the Group and its related parties

Regarding the related party transactions under items (1) to (25) disclosed below, except for transactions under items (17) to (20), all other transactions constituted connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules of the Stock Exchange of Hong Kong.

(1) Purchases of ore from related parties

	Note	2020	2019
The Holding	(i)	3,986,573,575	4,054,355,222
Baowu Raw Material Supply Co., Ltd.	(ii)	1,109,783,102	–
Baosteel Resources Holdings (Shanghai) Co., Ltd.	(ii)	578,245,478	139,403,474
Anhui Masteel Mining Resources Group Co., Ltd.	(i)	74,313,398	–
Anhui Masteel Mining Resources Group Taochong Mining Co., Ltd	(i)	30,738,097	–
Anhui Wanbao Mining Limited Co., Ltd.	(i)	–	3,069,559
Anhui Masteel Zhang Zhuang Mining Co., Ltd.	(i)	–	44,952,984
		5,779,653,650	4,241,781,239

- (i) The terms for the purchases of iron ore from the Holding were determined in accordance with an agreement dated 15 August 2018 entered into between the Company and the Holding. The agreement stipulated that the price should be determined based on the Platts Index.
- (ii) The terms for the purchases of iron ore from China Baowu were determined in accordance with the Daily Related Party Transaction Agreement dated 7 May 2020 entered into between the Company and China Baowu, and the purchase are based on market prices under negotiation.

Notes to the Financial Statements (Continued)

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Renminbi Yuan

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

5. Significant transactions carried out between the Group and its related parties (Continued)

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

	Note	2020	2019
Ruitai Mastee New Material Technology Co., Ltd.	(iii)	1,083,445,856	962,273,318
Anhui Mastee Equipment Maintenance Co, Ltd.	(iii)	592,194,981	513,598,537
Magang (Group) logistics Co., Ltd.	(iii)	557,111,058	37,232,492
Xinchuang Environmental Protection	(iii)	485,121,569	525,145,803
Mastee Heavy Machinery Manufacturing Co., Ltd.	(iii)	453,776,806	385,148,176
Mastee Automobile Transportation Service Co., Ltd.	(iii)	361,344,544	434,131,751
Phima Intelligence	(iii)	276,770,125	360,793,852
Baowu Heavy Industry Co., Ltd	(iii)	252,186,002	216,733,039
Anhui Zhonglian Shipping Co., Ltd.	(iii)	147,285,801	77,639,083
Mastee Transportation Equipment Manufacturing Co., Ltd.	(iii)	111,485,780	127,144,081
Shanghai Baosight Software Co., Ltd.	(iii)	98,262,424	–
Magang (Group) Holding Company Limited Assets Management Company	(iii)	64,851,581	–
Ma Steel Gongchang United Roller Co., Ltd.	(iii)	56,292,073	25,841,884
Maanshan Xinchuangbaineng Energy Technology Co., Ltd.	(iii)	47,555,510	49,046,414
Baoshan Iron & Steel Co., Ltd.	(iii)	47,294,753	12,948,451
Baowu Water Technology Co., Ltd.	(iii)	45,798,895	–
Baowu Equipment Intelligent Technology Co., Ltd.	(iii)	36,005,476	–
Magang Chemicals & Energy	(iii)	6,902,589	1,981,802
The Holding	(iii)	1,602,759	7,682,529
Others	(iii)	480,667,072	384,667,402
		5,205,955,654	4,122,008,614

- (iii) The terms for the provision of certain services, including on-the-job training, food and sanitary services, environmental and hygiene services, maintenance of roads and landscaping services, telecommunications service, and contracts of transportation service, equipment repair and maintenance services, and engineering design services were determined in accordance with a service agreement between the Group, the Holding and China Baowu.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

5. Significant transactions carried out between the Group and its related parties (Continued)

(3) Agency fees paid to related parties

	Note	2020	2019
Ma Steel International Trade and Economic Co., Ltd.	(iv)	17,728,170	24,280,669
Ouyeel Blockchain Finance	(iv)	8,252,303	31,366,990
Shanghai Ouyeel Material Technology Co., Ltd.	(iv)	185,730	—
		26,166,203	55,647,659

(iv) The transactions with the related parties mentioned above were conducted on terms of mutually agreed between the Group and the related parties based on the market prices.

(4) Rental expenses

	Note	2020	2019
The Holding	(v)	33,028,286	33,028,286

(v) The Holding leased a building to the Group and the rental was determined by terms mutually agreed between the Group and the Holding based on the market prices.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

5. Significant transactions carried out between the Group and its related parties (Continued)

(5) Purchases of property, plant and equipment and construction services

	Note	2020	2019
Baowu Heavy Industry Co., Ltd.	(iv)	1,191,899,714	1,253,633,519
Shanghai Baosight Software Co., Ltd.	(iv)	301,568,082	–
Xinchuang Environmental Protection	(iv)	230,356,668	42,371,801
Shanghai Baosteel Engineering & Technology Co., Ltd.	(iv)	189,597,897	–
Masteel Group Design and Research Institute Co., Ltd.	(iv)	143,069,867	5,713,624
Phima Intelligence	(iv)	78,268,275	–
Maanshan Iron Construction Group Co., Ltd.	(iv)	67,151,298	42,578,353
Maanshan Jiahua Commodity Concrete Co., Ltd.	(iv)	57,229,242	32,650,681
Anhui Masteel Equipment Maintenance Co, Ltd.	(iv)	18,884,193	57,299,419
Masteel Automobile Transportation Service Co., Ltd.	(iv)	3,539,823	–
Masteel Heavy Machinery Manufacturing Co., Ltd.	(iv)	1,238,748	22,129,020
Others	(iv)	58,856,990	18,656,215
		2,341,660,797	1,475,032,632

(iv) The transactions with the related parties mentioned above were conducted on terms mutually agreed between the Group and the related parties based on market prices.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

5. Significant transactions carried out between the Group and its related parties (Continued)

(6) Purchases of products from related parties

	Note	2020	2019
Ouyeel Blockchain Finance	(vi)	5,499,822,142	3,075,592,758
Magang Chemicals & Energy	(vi)	1,302,762,235	1,450,773,549
OBEI	(vi)	18,913,121	–
		6,821,497,498	4,526,366,307

- (vi) The transactions with the abovementioned related parties included: purchase of scrap steel, waste water, coke oven gas, materials and spare parts, etc. The above transactions were conducted on terms mutually agreed between the Group and the related parties according to market prices.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

5. Significant transactions carried out between the Group and its related parties (Continued)

(7) Supply of utilities, services and other goods

	Note	2020	2019
Ma Steel Powder Metallurgy Co., Ltd.	(iv)	125,025,745	82,234,555
Xinchuang Environmental Protection	(iv)	48,905,272	37,088,586
Maanshan Xinchuangbaineng Energy Technology Co., Ltd.	(iv)	18,476,484	18,899,607
Masteel Heavy Machinery Manufacturing Co., Ltd.	(iv)	16,717,305	23,608,562
Shanghai Baosteel Magnetic Industry Co., Ltd.	(iv)	11,815,203	–
Maanshan Jia Hua Commodity Concrete Co., Ltd.	(iv)	11,222,420	7,747,296
Ruitai Masteel New Material Technology Co., Ltd.	(iv)	6,528,788	7,270,904
Phima Intelligence	(iv)	6,091,473	5,455,446
Baowu Heavy Industry Co., Ltd.	(iv)	4,028,924	4,152,273
Ma-Steel OCI Chemical	(iv)	3,699,590	–
Masteel Transportation Equipment Manufacturing Co., Ltd.	(iv)	3,117,902	3,236,949
Anhui Masteel Equipment Maintenance Co, Ltd.	(iv)	3,090,502	43,977
Ma Steel Gongchang United Roller Co., Ltd.	(iv)	2,541,197	2,969,100
The Holding	(iv)	120,640	67,049
Others	(iv)	28,250,218	15,837,616
		289,631,663	208,611,920

- (iv) The transactions with the related parties mentioned above were conducted on terms mutually agreed between the Group and the related parties according to market prices.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

5. Significant transactions carried out between the Group and its related parties (Continued)

(8) Sale of steel products

	Note	2020	2019
Baowu Heavy Industry Co., Ltd.	(iv)	242,375,137	149,870,589
Anhui BRC & Masteel Weldmesh Co., Ltd.	(iv)	88,011,413	89,572,853
Maanshan Iron Construction Group Co., Ltd.	(iv)	50,739,911	2,726
Shanghai Baosteel Trading Co., Ltd.	(iv)	32,489,447	4,820,793
Guangzhou Baosteel South Trade Co., Ltd.	(iv)	30,396,851	—
Shenyang Baosteel Northeast Trading Co., Ltd.	(iv)	5,010,123	493,212
Ma Steel International Trade and Economic Co., Ltd.	(iv)	850,472	17,399,907
Shanghai Ouyeel Material Technology Co., Ltd.	(iv)	—	6,843,970
Others	(iv)	5,889,020	3,170,140
		455,762,374	272,174,190

(iv) The transactions with the related parties mentioned above were conducted on terms mutually agreed between the Group and the related parties according to market prices.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

5. Significant transactions carried out between the Group and its related parties (Continued)

(9) Sale of goods to related parties

	Note	2020	2019
Magang Chemicals & Energy	(vii)	1,498,872,022	1,754,513,290
Masteel K. Wah	(vii)	688,141,990	733,723,087
Ouyeel Blockchain Finance	(vii)	10,403,991	17,118,809
		2,197,418,003	2,505,355,186

(vii) The transactions with the abovementioned related parties included sales of water slag, scrap steel raw materials and energy supply services. The above transactions were conducted on terms mutually agreed between the Group and the related parties according to market prices.

(10) Provision of leasing services to related parties

	Note	2020	2019
Magang Chemicals & Energy	(iv)	22,285,800	99,623
Anhui Masteel Surface Technology Co., Ltd.	(iv)	611,844	679,964
Phima Intelligence	(iv)	165,000	165,000
		23,062,644	944,587

(iv) The transactions with the related parties mentioned above were conducted on terms mutually agreed between the Group and the related parties according to market prices.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

5. Significant transactions carried out between the Group and its related parties (Continued)

(11) Interest paid to related parties

	Note	2020	2019
The Holding	(viii)	60,897,489	18,942,436
Magang Chemicals & Energy	(viii)	8,745,539	6,835,885
Baowu Heavy Industry Co., Ltd.	(viii)	8,310,997	3,571,723
Anhui Masteel Mining Resources Group Co., Ltd.	(viii)	4,214,313	7,222,041
Ouyeel Blockchain Finance	(viii)	3,801,125	3,054,902
Masteel K. Wah	(viii)	2,834,201	3,131,745
Anhui Masteel Luo He Mining Co., Ltd.	(viii)	2,697,209	–
Xinchuang Environmental Protection	(viii)	1,993,550	2,101,896
Magang (Group) Logistics Co., Ltd.	(viii)	1,990,234	486,934
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	(viii)	1,955,799	1,610,650
Masteel Heavy Machinery Manufacturing Co., Ltd.	(viii)	1,675,877	1,285,419
Ma Steel International Trade and Economic Co., Ltd.	(viii)	1,562,891	712,010
Magang Group Biding and Consulting Co., Ltd.	(viii)	1,404,586	–
Magang (Group) Holding Company Limited Assets Management Company	(viii)	1,105,772	–
Ruitai Masteel New Material Technology Co., Ltd.	(viii)	475,352	1,608,310
Ma-Steel Financial Leasing	(viii)	319,580	107,668
Ma-Steel Commercial Factoring	(viii)	68,905	164,563
Others	(viii)	11,028,943	7,683,474
		115,082,362	58,519,656

(viii) Masteel Finance absorbed deposits from the related parties mentioned above, and paid interest to them with the interest rate ranging from 0.42%-2.18% in 2020 (2019: 0.42%-2.18%).

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

5. Significant transactions carried out between the Group and its related parties (Continued)

(12) Financial service income received from related parties

	Note	2020	2019
The Holding	(ix)	73,210,350	97,635,456
Anhui Masteel Mining Resources Group Co., Ltd.	(ix)	36,802,744	34,475,027
Ouyeel Blockchain Finance	(ix)	32,747,158	20,172,590
Masteel Chengxing Metal Resources Co., Ltd.	(ix)	6,108,860	6,696,545
Baowu Heavy Industry Co., Ltd.	(ix)	4,415,331	1,078,836
Anhui Masteel Luo He Mining Co., Ltd.	(ix)	2,879,873	2,602,741
Ma Steel Powder Metallurgy Co., Ltd.	(ix)	1,445,023	1,641,848
Anhui BRC & Masteel Weldmesh Co., Ltd.	(ix)	1,433,285	2,029,029
Masteel K. Wah	(ix)	26,871	943,815
Magang Chemicals & Energy	(ix)	—	283,019
Others	(ix)	13,852,180	10,569,692
		172,921,675	178,128,598

- (ix) Masteel Finance, a subsidiary of the Group, received financial service income for the financial services it rendered to the Holding and its subsidiaries, including providing loans, bank acceptance notes discounting and entrusted loans. The lending rates were not lower than the benchmark loan interest rates issued by the People's Bank of China, and the other service charge was not lower than the benchmark charge issued by the People's Bank of China.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

5. Significant transactions carried out between the Group and its related parties (Continued)

(13) Income from the purchase of trust products from related parties

	Note	2020	2019
Hwabao Trust Co.,Ltd.	(x)	–	1,095,890

- (x) “Capital Trust Agreement of the Type C Cash Income” was signed between Masteel Finance, a subsidiary of the Company, and Hwabao Trust Co.,Ltd., a company controlled by the ultimate controlling party, and expired on 29 October 2019 with the baseline of 5% per year.

(14) Purchases of land from related parties

	Note	2019	2018
The Holding	(xi)	–	64,666,095
Magang Chemicals & Energy	(xi)	21,684,011	–
Masteel Heavy Machinery Manufacturing Co., Ltd.	(xi)	–	3,184,679
Baowu Heavy Industry Co., Ltd.	(xi)	–	54,334,044
		21,684,011	122,184,818

- (xi) The transactions with the Magang Chemicals & Energy were conducted based on the valuation result of the fair value of the land.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

5. Significant transactions carried out between the Group and its related parties (Continued)

(15) Sale of land to related parties

	Note	2020	2019
Magang (Group) Logistics Co., Ltd.	(xii)	32,763,900	—
Masteel Automobile Transportation Service Co., Ltd.	(xii)	8,084,900	—
		40,848,800	—

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

(16) Equity transactions with related parties

The 37th meeting of the 9th session of the Board of Directors approved the Company's transfer of 40% shares of Ma-Steel OCI Chemical to Magang Chemicals & Energy. On 21 September 2020, the equity transfer agreement was signed by the Company and Magang Chemicals & Energy. In November 2020, the equity transfer was completed.

The 38th meeting of the 9th session of the Board of Directors approved that Huabao Duding (Shanghai) Financial Leasing Co., Ltd. ("Huabao Duding"), a subsidiary of the Company's ultimate controlling shareholder China Baowu, absorbs and merges with Ma-Steel Financial Leasing. In November 2020, the acquisition and merger was completed by Huabao Duding and Ma-steel Financial Leasing, and the Group's equity share decreased from 25% in Ma-steel Financial Leasing to 4.319% in Huabao Duding.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

5. Significant transactions carried out between the Group and its related parties (Continued)

(17) Purchase of products and services from joint venture and associates of the Company and the Subsidiaries of China Baowu

	Note	2020	2019
Henan JinMa Energy	(xiii)	899,875,307	791,299,920
BOC-Ma Steel	(xiii)	589,721,644	551,629,823
Maanshan Gangchen Industrial Co., Ltd.	(xiii)	45,177,491	–
MCC South Engineering Technology Co., Ltd.	(xiii)	32,760,849	–
Taichang Wugang Wharf Co., Ltd.	(xiii)	21,631,086	–
Shenglong Chemical	(xiii)	1,813,398	2,920,775
		1,590,979,775	1,345,850,518

(xiii) The terms for trading, including the purchase of coke by-products, purchase of gas, purchase of waste oil recovery related services, purchase of engineering design and repair services, purchase of port storage management services etc., The transactions above were conducted on terms mutually agreed between the Group and the related parties based on market prices.

(18) Sale of products and provision of services to joint ventures and associates of the Company and subsidiaries of China Baowu

	Note	2020	2019
Maanshan Gangchen Industrial Co., Ltd.	(xiv)	896,048,144	–
BOC-Ma Steel	(xiv)	267,777,940	235,004,654
Anhui Keda Intelligent Energy Technology Co., Ltd.	(xiv)	97,556,270	79,904,581
Ma-Steel OCI Chemical	(xiv)	16,793,618	13,172,524
		1,278,175,972	328,081,759

(xiv) The transactions with the above-mentioned related parties included: the provision of energy supply services, sales of steel and provision of leasing services. The transactions above were conducted on terms mutually agreed between the Group and the related parties based on market prices.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

5. Significant transactions carried out between the Group and its related parties (Continued)

(19) Interest paid for financial services to the joint venture and associates of the Company and subsidiaries of China Baowu

	Note	2020	2019
BOC-Ma Steel	(xv)	4,800,956	3,846,912
Maanshan Gangchen Industrial Co., Ltd.	(xv)	404,444	–
Ma-Steel OCI Chemical	(xv)	7,788	7,530
		5,213,188	3,854,442

(xv) Masteel Finance absorbed deposits from the above related parties, and paid interest to them with the interest rate ranging from 0.42% to 2.18% during the year of 2020 (2019: 0.42% to 2.18%).

(20) Financial service income received from joint ventures and associates of the Company and subsidiaries of China Baowu

	Note	2020	2019
Maanshan Gangchen Industrial Co., Ltd.	(xvi)	2,171,955	–

(xvi) Masteel Finance, a subsidiary of the Group, received financial service income for the financial services it rendered to the joint ventures and associates of the Company and China Baowu subsidiaries, including providing loans, bank acceptance notes discounting and entrusted loans. The lending rates were no lower than the benchmark loan interest rates issued by the People's Bank of China, and the other service charge was no lower than the benchmark charge issued by the People's Bank of China.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

5. Significant transactions carried out between the Group and its related parties (Continued)

(21) Guarantee provided by a related party

2020

	Note	Guarantee's name	Guarantee amount	Start date	End date	Has guarantee expired or not
The Holding	(xvii)	The Company	RMB44 million	2015.10	2025.10	Not yet as of the approval date of the report

2019

	Note	Guarantee's name	Guarantee amount	Start date	End date	Has guarantee expired or not
The Holding	(xvii)	The Company	RMB0.916 billion	2014.7	2025.10	Not yet as of the approval date of the report

(xvii) In 2020, the Holding has guaranteed no additional certain bank loans of the Group (2019: approximately RMB0.1 billion) without attached conditions. The Holding has guaranteed part of bank loans without attached conditions amounting to approximately RMB0.044 billion as of 31 December 2020 (31 December 2019: approximately RMB0.916 billion).

(22) According to the financial service agreement signed by Masteel Finance and the Holding on 15 August 2018, Masteel Finance provided financing services and deposit transactions to the Group and its subsidiaries, and from 1 January 2019 to 31 December 2021, the highest daily outstanding loan should be no more than RMB3.17 billion, other financial service charges should be no more than RMB0.2 billion.

In 2020, the highest daily deposit balance was RMB11.296 billion (2019: RMB14.688 billion); the highest average daily deposit balance on a monthly basis was RMB10.864 billion (2019: RMB7.404 billion); the highest daily loan balance was RMB2.921 billion (2019: RMB2.787 billion); and the highest average daily loan balance on a monthly basis was RMB2.895 billion (2019: RMB2.684 billion).

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

5. Significant transactions carried out between the Group and its related parties (Continued)

(23) Remuneration of key management

The total amount of key management remuneration (including forms of cash, benefits in kind and others) was RMB7,532,162 during the current year (2019: RMB5,305,496), which excluded the remuneration paid to independent directors and independent supervisors.

(24) Directors' and supervisors' emoluments

	2020	2019
Fees	447,368	447,368
Other emoluments:		
Salaries, allowances and benefits in kind	605,821	524,000
Performance-related bonuses	4,012,342	2,148,348
Pension scheme contributions	113,439	125,920
	4,731,602	2,798,268
	5,178,970	3,245,636

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

5. Significant transactions carried out between the Group and its related parties (Continued)

(24) Directors' and supervisors' emoluments (Continued)

(1) Independent directors and independent supervisors

The fees paid to independent directors and independent supervisors during the year were as follows:

	2020	2019
Independent directors		
Ms. Zhang Chunxia	100,000	100,000
Ms. Zhu Shaofang	100,000	100,000
Mr. Wang Xianzhu	100,000	100,000
	300,000	300,000
Independent supervisors		
Ms. Yang Yada	73,684	73,684
Mr. Qin Tongzhou	73,684	73,684
	147,368	147,368
	447,368	447,368

There was no other emoluments excepts the above fees paid to the independent directors and independent supervisors during the year (2019: Nil).

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

5. Significant transactions carried out between the Group and its related parties (Continued)

(24) Directors' and supervisors' emoluments (Continued)

(ii) Non-independent directors and non-independent supervisors

2020	Fees	Salaries, allowances and benefits in kind	Performance- related bonuses	Pension scheme contributions	Total remuneration
Executive directors					
Mr. Ding Yi (Note 1)	-	-	-	-	-
Mr. Zhang Wenyang (Note 2)	-	117,333	805,889	26,549	949,771
Mr. Ren Tianbao	-	128,000	876,034	28,963	1,032,997
Mr. Wang Qiangmin (Note 3)	-	146,667	1,003,789	-	1,150,456
	-	392,000	2,685,712	55,512	3,133,224
Non-executive director					
Mr. Qian Haifan (Note 1)	-	-	-	-	-
	-	-	-	-	-
Supervisors					
Mr. Zhang Xiaofeng	-	144,000	985,538	28,963	1,158,501
Mr. Yan Kailong (Note 4)	-	46,000	259,392	14,482	319,874
Mr. Zhang Qianchun (Note 1)	-	-	-	-	-
Ms. Geng Jingyan (Note 4)	-	23,821	81,700	14,482	120,003
	-	213,821	1,326,630	57,927	1,598,378
	-	605,821	4,012,342	113,439	4,731,602

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

5. Significant transactions carried out between the Group and its related parties (continued)

(24) Directors' and supervisors' emoluments (continued)

(ii) Non-independent directors and non-independent supervisors (Continued)

Note 1: In 2020, the remuneration of Mr. Ding Yi, Mr. Qian Haifan, and Mr. Zhang Qianchun was paid by the Holding rather than the Company.

Note 2: On 18 December 2020, the 39th meeting of the 9th session of the Board of Directors approved that Mr. Zhang Wenyang would no longer serve as a director of the company, and was re-designated as the general manager of the Company. The above remuneration of Mr. Zhang Wenyang is the remuneration as the role of executive director.

Note 3: As of 20 November 2020, Mr. Wang Qiangmin was no longer an executive director of the Company.

Note 4: As of 29 June 2020, Mr. Yan Kailong was no longer a supervisor of the Company. On 29 June 2020, the Joint Meeting of Workers' Congress of the Company selected Ms. Geng Jingyan as a supervisor of the 9th session board of directors.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

5. Significant transactions carried out between the Group and its related parties (Continued)

(24) Directors' and supervisors' emoluments (Continued)

(ii) Non-independent directors and non-independent supervisors (Continued)

2019	Fees	Salaries, allowances and benefits in kind	Performance-related bonuses	Pension scheme contributions	Total remuneration
Executive directors					
Mr. Ding Yi (Note 1)	–	–	–	–	–
Mr. Qian Haifan	–	160,000	656,124	31,480	847,604
Mr. Zhang Wenyang	–	128,000	498,853	31,480	658,333
	–	288,000	1,154,977	62,960	1,505,937
Non-executive director					
Mr. Ren Tianbao (Note 1)	–	–	–	–	–
	–	–	–	–	–
Supervisors					
Mr. Zhang Xiaofeng	–	144,000	590,512	31,480	765,992
Mr. Yan Kailong	–	92,000	402,859	31,480	526,339
Mr. Zhang Qianchun (Note 1)	–	–	–	–	–
	–	236,000	993,371	62,960	1,292,331
	–	524,000	2,148,348	125,920	2,798,268

Note 1: In 2019, the remuneration of Mr. Ding Yi, Mr. Ren Tianbao, and Mr. Zhang Qianchun was paid by the Holding rather than the Company.

There was no arrangement under which an executive director or a supervisor waived or agreed to waive any remuneration during the year (2019: Nil).

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

5. Significant transactions carried out between the Group and its related parties (Continued)

(25) Five highest paid individuals

Four of the highest paid employees during the year were directors or supervisors (2019: three), details of whose remuneration are stated in Note X.5 (24) above. Details of the remuneration of the other one highest paid employee (non-director, non-supervisor) in 2020 are as follows (2019: two):

	2020	2019
The Group		
Salaries, allowances and benefits in kind	128,000	272,000
Performance-related bonuses	879,165	1,102,337
Pension scheme contributions	28,963	62,960
	1,036,128	1,437,297

In 2020, the remuneration of the remaining one non-director and non-supervisor, highest paid employee, fell within the band of HKD1,000,000 to HKD1,500,000.

Notes to the Financial Statements (Continued)

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Renminbi Yuan

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

6. Receivables due from/payables due to related parties

	31 December 2020		31 December 2019	
	Carrying amount	Provision	Carrying amount	Provision
Trade receivables				
The Holding and its subsidiaries				
Ma Steel Powder Metallurgy Co., Ltd.	12,203,388	122,034	—	—
Xinchuang Environmental Protection	11,318,310	113,183	—	—
Masteel Heavy Machinery Manufacturing Co., Ltd.	2,011,196	102,501	4,243,281	42,433
Anhui Masteel Equipment Maintenance Co, Ltd.	755,641	7,556	8,154,025	81,540
Baowu Heavy Industry Co., Ltd.	367,185	3,672	17,475,806	174,758
Masteel Automobile Transportation Service Co., Ltd.	82,250	822	—	—
The Holding	42,772	9,538	29,074	291
Others entities controlled by the Holding	2,298,542	59,812	802,138	8,021
	29,079,284	419,118	30,704,324	307,043
The ultimate controlling party and its subsidiaries				
Baowu Water Technology Co., Ltd.	1,881,062	18,811	—	—
Nanjing Meibao New Building Material Co., Ltd.	1,430,832	14,308	936,676	9,367
Baosteel Special Steel Long Products Co., Ltd.	282,848	2,828	—	—
Wuhan Iron and Steel Co., Ltd.	186,043	1,860	895,388	8,954
	3,780,785	37,807	1,832,064	18,321

Notes to the Financial Statements (Continued)

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

6. Receivables due from/payables due to related parties (Continued)

	31 December 2020		31 December 2019	
	Carrying amount	Provision	Carrying amount	Provision
Trade receivables (Continued)				
Associates and joint ventures of the Group				
BOC-Ma Steel	22,342,488	223,425	22,988,938	229,889
Masteel K.Wah	8,366,504	83,665	—	—
Magang Chemicals & Energy	1,596,624	92,395	154,574,444	1,545,744
Ouyeel Blockchain Finance	1,347,676	13,477	2,528,942	25,290
	33,653,292	412,962	180,092,324	1,800,923
Other receivables				
The parent company of the Group				
The Holding	120,000	57,600	120,000	18,000
The ultimate controlling party of the Group				
China Baowu	117,250,400	—	—	—
Joint venture of the Group				
Magang Chemicals & Energy	411,280	4,113	—	—

Notes to the Financial Statements (Continued)

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

6. Receivables due from/payables due to related parties (Continued)

	31 December 2020	31 December 2019
Dividends receivable		
Associates the Group		
Ouyeel Blockchain Finance	29,935,553	—
Ma-Steel OCI Chemical	3,312,407	—
	33,247,960	—
Prepayments		
The Holding and its subsidiaries		
Ma Steel International Trade and Economic Co., Ltd.	249,895,323	137,943,628
Baowu Heavy Industry Co., Ltd.	20,142,995	174,957,075
Others entities controlled by the Holding	593,356	24,064
	270,631,674	312,924,767
The ultimate controlling party and its subsidiaries		
Baowu Raw Material Supply Co., Ltd.	28,746,332	—
Shanghai Baosteel Trading Co., Ltd.	5,468,067	—
General Electric (Wuhan) Automation Co., Ltd.	—	12,796,727
Baosteel Resources Holdings (Shanghai) Co., Ltd.	—	4,239,130
Shanghai Baosteel Engineering & Technology Co., Ltd.	—	8,720,000
Other companies controlled by the ultimate controlling party	1,599,643	—
	35,814,042	25,755,857

Notes to the Financial Statements (Continued)

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

6. Receivables due from/payables due to related parties (Continued)

	31 December 2020		31 December 2019	
	Carrying amount	Provision	Carrying amount	Provision
Loans and advances to customers				
The Holding and its subsidiaries				
The Holding	1,699,617,104	44,452,805	1,150,000,000	30,112,701
Anhui Masteel Mining Resources Group Co., Ltd.	728,000,000	19,040,548	1,905,427,344	49,893,534
Masteel Chengxing Metal Resources Co., Ltd.	251,540,567	6,578,943	168,675,353	4,416,757
Baowu Heavy Industry Co., Ltd.	143,261,479	3,746,947	36,000,000	942,658
Masteel Fuyuan Metal Resources Co., Ltd.	118,105,125	3,088,992	25,000,000	654,624
Ruitai Masteel New Material Technology Co., Ltd.	104,186,658	2,724,960	—	—
Anhui Masteel Luo He Mining Co., Ltd.	80,000,000	2,092,368	60,000,000	1,571,097
Masteel Lihua Metal Resources Co. Ltd.	38,386,002	1,003,971	—	—
Masteel Heavy Machinery Manufacturing Co., Ltd.	31,775,333	831,071	31,000,000	811,734
Anhui Zhonglian Shipping Co., Ltd.	28,851,282	754,594	60,538,652	1,585,202
Anhui BRC & Masteel Weldmesh Co., Ltd.	20,000,000	523,092	42,921,836	1,123,906
Guizhou Xinchuan Environmental Protections Co., Ltd.	1,967,000	51,446	10,826,747	283,498

Notes to the Financial Statements (Continued)

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

6. Receivables due from/payables due to related parties (Continued)

	31 December 2020		31 December 2019	
	Carrying amount	Provision	Carrying amount	Provision
Loans and advances to customers (continued)				
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	–	–	96,781,831	2,534,228
Ma Steel International Trade and Economic Co., Ltd.	–	–	40,685,180	1,065,340
Shanghai Masteel International Trade and Economic Co., Ltd.	–	–	20,000,000	523,699
Other entities controlled by the Holding	83,406,230	2,181,456	65,625,061	1,718,389
	3,329,096,780	87,071,193	3,713,482,004	97,237,367
Associate of the Group				
Ouyeel Blockchain Finance	1,394,706,375	36,477,987	387,322,833	10,142,032
Associate of the ultimate controlling party of the Group				
Maanshan Gangchen Industrial Co., Ltd.	14,759,700	386,034	–	–

Notes to the Financial Statements (Continued)

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

6. Receivables due from/payables due to related parties (Continued)

	31 December 2020	31 December 2019
Trade payables		
The Holding and its subsidiaries		
The Holding	512,848,193	357,450,871
Baowu Heavy Industry Co., Ltd.	319,830,299	42,919,824
Masteel Chengxing Metal Resources Co., Ltd.	299,065,260	–
Ruitai Masteel New Material Technology Co., Ltd.	163,713,382	217,587
Masteel Heavy Machinery Manufacturing Co., Ltd.	138,535,472	38,791,801
Phima Intelligence	107,205,172	68,741,777
Xinchuang Environmental Protection	87,806,022	68,696,805
Anhui Masteel Mining Resources Group Co., Ltd.	85,169,971	–
Masteel Group Design and Research Institute Co., Ltd.	60,618,245	6,214,664
Anhui Masteel Equipment Maintenance Co, Ltd.	54,371,473	68,350,436
Masteel Transportation Equipment Manufacturing Co., Ltd.	37,249,074	22,543,649
Anhui Zhonglian Shipping Co., Ltd.	25,772,270	7,988,576
Masteel Automobile Transportation Service Co., Ltd.	25,302,935	35,898,924
Anhui Masteel Surface Technology Co., Ltd.	21,863,011	34,906,601
Ma Steel International Trade and Economic Co., Ltd.	11,411,277	109,242
Other entities controlled by the Holding	95,981,259	57,816,483
	2,046,743,315	810,647,240

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

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

6. Receivables due from/payables due to related parties (Continued)

	31 December 2020	31 December 2019
Trade payables (continued)		
The ultimate controlling party and its subsidiaries		
Baosteel Resources Holdings (Shanghai) Co., Ltd.	91,121,540	2,256,496
Baowu Equipment Intelligent Technology Co., Ltd.	37,797,420	5,601,150
Shanghai Baosight Software Co., Ltd.	28,132,244	441,480
Baoshan Iron and Steel Co., Ltd.	13,633,745	5,968,440
Other entities controlled by the ultimate controlling party	38,338,008	4,167,186
	209,022,957	18,434,752
Joint ventures and associates of the Group		
Ouyeel Blockchain Finance	544,386,683	4,822,113
BOC-Ma Steel	59,343,489	55,179,453
Magang Chemicals & Energy	22,442,070	127,456,946
OBEI	18,913,121	–
Henan JinMa Energy	11,770,392	20,202,316
Ma-Steel Commercial Factoring	–	14,831,313
	656,855,755	222,492,141

Notes to the Financial Statements (Continued)

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

6. Receivables due from/payables due to related parties (Continued)

	31 December 2020	31 December 2019
Trade payables (continued)		
Joint venture and associates of the ultimate controlling party of the Group		
MCC South Engineering Technology Co., Ltd.	7,784,622	—
Maanshan Gangchen Industrial Co., Ltd.	3,095,651	—
General Electric (Wuhan) Automation Co., Ltd.	2,728,950	—
Taicang Wugang Wharf Co., Ltd.	2,075,368	—
Shanxi Ax Taigang Roll Co., Ltd.	844,928	—
	16,529,519	—
Other payables		
The Holding and its subsidiaries		
Masteel Automobile Transportation Service Co., Ltd.	585,000	736,320
Xinchuang Environmental Protection	329,363	357,318
Baowu Heavy Industry Co., Ltd.	310,000	146,174
Anhui Masteel Equipment Maintenance Co, Ltd.	78,865	204,865
Maanshan Xinchuangbaineng Energy Technology Co., Ltd.	—	3,972,366
Maanshan Masteel Electric Repair Co., Ltd.	—	54,204
Other entities controlled by the Holding	2,490,321	1,569,973
	3,793,549	7,041,220
The ultimate controlling party and its subsidiaries		
Ouyeel Commercial Factoring Co., Ltd.	48,303,444	—
Baoshan Iron and Steel Co., Ltd.	8,268,000	—
Shanghai Baosteel Engineering & Technology Co., Ltd.	170,000	100,000
Others	50,378	10,000
	56,791,822	110,000
Joint venture of the Group		
BOC-Ma Steel	70,000	70,000

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

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

6. Receivables due from/payables due to related parties (Continued)

	31 December 2020	31 December 2019
Contract liabilities		
The Holding and its subsidiaries		
Baowu Heavy Industry Co., Ltd.	41,541,552	30,911,489
Shanghai Baosteel Trading Co., Ltd.	4,391,725	–
Maanshan Iron Construction Group Co., Ltd.	3,541,164	2,260,763
Anhui BRC & Masteel Weldmesh Co., Ltd.	3,491,741	–
Shanghai Baosteel Magnetic Industry Co., Ltd.	3,148,821	–
An Hui Masteel Zhang Zhuang Mining Co., Ltd.	2,185,715	2,185,715
Other entities controlled by the Holding	6,614,738	4,543,845
	64,915,456	39,901,812
The ultimate controlling party and its subsidiaries		
Ouyeel Cloud Commerce Corporation Limited	23,811,881	6,152,039
Shanghai Ouyeel Material Technology Co., Ltd.	6,131,166	55,708
Guangzhou Baosteel Southern Trading Co., Ltd.	3,160,761	–
Chengdu Baosteel Western Trading Co., Ltd.	470,000	–
Baosteel Magnetic Industry (Jiangsu) Co., Ltd.	344,441	418,161
Wuhu Weissco Material Technology Co., Ltd.	36,289	–
Shanghai Iron & Steel Exchange Co., Ltd.	5	1,022,114
Eastern Steel E-Commerce Co., Ltd.	–	19,279,696
	33,954,543	26,927,718

Notes to the Financial Statements (Continued)

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

6. Receivables due from/payables due to related parties (Continued)

	31 December 2020	31 December 2019
Contract liabilities (continued)		
Joint ventures and associates of the Group		
Shenglong Chemical	6,048,869	–
Masteel K. Wah	1,408,603	13,237,241
Ouyeel Blockchain Finance	38,504	–
BOC-Ma Steel	11	–
	7,495,987	13,237,241
Associates of the ultimate controller of the Group		
Maanshan Gangchen Industrial Co., Ltd.	13,844,640	–
Changzhou Baoling Heavy Industry Machinery Co., Ltd.	2,363	–
	13,847,003	–

Notes to the Financial Statements (Continued)

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

6. Receivables due from/payables due to related parties (Continued)

	31 December 2020	31 December 2019
Customer deposits		
The Holding and its subsidiaries		
The Holding	1,716,949,668	6,943,487,354
Baowu Heavy Industry Co., Ltd.	539,083,050	484,640,854
Anhui Masteel Luo He Mining Co., Ltd.	468,767,683	170,171,205
Anhui Masteel Zhang Zhuang Mining Co., Ltd.	297,184,557	49,056,710
Anhui Masteel Mining Resources Group Co., Ltd.	184,250,712	185,905,021
Ma Steel International Trade and Economic Co., Ltd.	182,022,772	102,743,643
Masteel Chengxing Metal Resources Co., Ltd.	177,519,082	38,515,581
Masteel Group Kang Tai Land Development Co., Ltd.	170,431,800	77,467,806
Xinchuang Environmental Protection	158,289,072	122,580,311
Anhui Maanshan Iron & Steel Metallurgical Industry Technical Service Co., Ltd.	138,781,859	–
Masteel Heavy Machinery Manufacturing Co., Ltd.	138,019,204	113,271,840
Masteel Fuyuan Metal Resources Co., Ltd.	107,368,170	38,849,651
Magang (Group) Logistics Co., Ltd.	87,963,322	156,710,934
Magang Group Biding and Consulting Co., Ltd.	56,666,678	141,195,773
Other entities controlled by the Holding	741,089,890	764,880,154
	5,164,387,519	9,389,476,837
Joint ventures and associates of the Group		
Magang Chemicals & Energy	476,343,141	466,397,590
Masteel K. Wah	264,179,089	182,743,983
Ouyeel Blockchain Finance	163,633,248	243,307,090
Ma-Steel OCI Chemical	566,566	565,867
BOC-Ma Steel	8,642	166,045,114
Ma-Steel Commercial Factoring	–	39,404,937
Ma-Steel Financial Leasing	–	7,099,906
	904,730,686	1,105,564,487
Joint venture of the ultimate controlling party of the Group		
Maanshan Gangchen Industrial Co., Ltd.	22,117,230	–

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

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

6. Receivables due from/payables due to related parties (Continued)

The fee charged by Masteel Finance for the financing services and deposit transactions provided to the Holding and its subsidiaries was determined based on negotiation between the parties.

As of 31 December 2020, in current assets and current liabilities, except for the interest charge for the deposit and loans provided by Masteel Finance, all other receivables and payables had no interest, no pledge and would be paid in the future.

7. Commitment to related party

In 2020, the Company, Baowu Group, and its subsidiaries jointly invested in the establishment of OBEI, of which the Company subscribed for 440 million shares with a consideration of RMB440 million. On 30 November 2020, the Company invested in OBEI with inventories with fair value of RMB192,345,404. As of 31 December 2020, the Company has committed RMB247,654,596 for the remaining investment in OBEI.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

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XI. COMMITMENTS AND CONTINGENCIES

1. Significant commitments

Capital commitments

	31 December 2020	31 December 2019
Contracted, but not provided for		
Capital commitments	4,340,098,936	4,779,116,831
Investment commitments	261,624,096	13,969,500
	4,601,723,032	4,793,086,331

Loan commitments

	31 December 2020	31 December 2019
Acceptance bill	874,657,721	1,359,403,353

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

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XI. COMMITMENTS AND CONTINGENCIES (CONTINUED)

2. Contingencies

Differences 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 that the relevant local tax bureaus must correct immediately the expired tax incentives of the nine Hong Kong listed companies. The income tax difference between the results of the previously expired preferential rate and the applicable rate should be treated in accordance with the relevant provisions of the “People’s Republic of China Administration of Tax Collection Law”.

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

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

Pending litigation

As of 31 December 2020, the Group and the Company did not have significant pending litigation.

XII. EVENTS AFTER THE BALANCE SHEET DATE

On 25 March 2021, the 42nd meeting of the 9th session of the board of directors of the Company approved the 2020 final cash dividend of RMB0.13 (tax included) per share to shareholders. The profit distribution plan will be submitted for approval in the annual general meeting.

Apart from the above, until the approval date of the financial statements, the group had no other significant events after the balance sheet date that need to be disclosed by the Group or the Company.

Notes to the Financial Statements (Continued)

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XIII. OTHER SIGNIFICANT EVENTS

1. Leases

As lessor

The Group had leased certain of its investment properties under operating lease arrangements ranging from one to eighteen years. The periodic rental was fixed during the operating lease periods for each leasing contract. In 2020 the rental income recognised by the Group was RMB27,171,458. According to lease contracts, the future minimum lease receivables under non-cancellable leases are as follows:

	31 December 2020	31 December 2019
Remaining lease period		
Within 1 year, inclusive	2,813,050	3,168,028
1 to 2 years, inclusive	2,088,028	2,813,050
2 to 3 years, inclusive	995,562	2,088,028
Over 3 years	3,631,455	4,627,017
	9,528,095	12,696,123

As lessee

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

	2020	2019
Interest expenses on lease liabilities	21,395,500	21,539,323
Short-term leases expense	11,786,253	16,816,627
Leases of low-value assets (except short-term leases)	486,595	613,389
Total	47,806,945	54,643,608

Notes to the Financial Statements (Continued)

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XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

2. Operating segment information

Operating segments

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

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

The Group did not consider financial services 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

	2020	2019
Sale of steel products	72,060,209,513	69,168,676,112
Sale of steel billets and pig iron	2,810,678,955	2,590,852,101
Sale of coke by-products	60,960,162	43,710,671
Others	5,252,536,267	5,355,010,744
	80,184,384,897	77,158,249,628

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

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XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

2. Operating segment information (Continued)

Other information (Continued)

Geographical information

External principal operating income

	2020	2019
Mainland China	76,889,123,103	72,555,885,543
Overseas and Hong Kong	3,295,261,794	4,602,364,085
	80,184,384,897	77,158,249,628

Non-current assets

	31 December 2020	31 December 2019
Mainland China	42,348,121,435	39,090,556,947
Overseas and Hong Kong	232,462,146	217,815,932
	42,580,583,581	39,308,372,879

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

Major customer information

The Group has not placed reliance on any single external customer and no sales to a single customer accounted for 10% or more of its total revenue.

Notes to the Financial Statements (Continued)

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XIII. OTHER SIGNIFICANT EVENTS (CONTINUED)

3. Other financial information

	Group		Company	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Current assets	37,536,871,175	46,522,057,819	17,976,633,760	23,916,198,032
Less: Current liabilities	43,197,228,140	50,076,547,161	31,420,897,950	33,977,168,360
Net current liabilities	(5,660,356,965)	(3,554,489,342)	(13,444,264,190)	(10,060,970,328)

	Group		Company	
	31 December 2020	31 December 2019	31 December 2020	31 December 2019
Total assets	80,711,141,782	86,322,043,538	59,766,515,948	62,444,988,565
Less: Current liabilities	43,197,228,140	50,076,547,161	31,420,897,950	33,977,168,360
Total assets less current liabilities	37,513,913,642	36,245,496,377	28,345,617,998	28,467,820,205

4. Employee costs (excluding directors' and supervisors' remuneration) (Note X.5 (24))

	2020	2019
Wages and salaries	3,196,390,068	3,033,925,593
Welfare	742,631,557	835,006,947
Pension scheme contributions (Note)	470,625,595	648,378,138
Employee termination benefits	187,181,400	1,186,857,044
	4,596,828,620	5,704,167,722

Note: As of 31 December 2020 and 31 December 2019, no contribution was capitalised or waived to reduce the Group's liability to pay pension scheme contributions in the future.

Notes to the Financial Statements (Continued)

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XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS

1. Trade receivables

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

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

	31 December 2020	31 December 2019
Within one year	2,138,930,202	3,133,767,463
One to two years	217,441,131	14,119,742
Two to three years	10,151,630	22,668,320
Over three years	35,930,324	23,184,592
	2,402,453,287	3,193,740,117
Less: Provisions for bad debts	46,636,353	39,323,552
	2,355,816,934	3,154,416,565

The trade receivable balances were analysed as follows:

	31 December 2020				31 December 2019			
	Carrying amount		Provision for bad debts		Carrying amount		Provision for bad debts	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Assessed for bad debt provision individually	1,946,530,044	81	-	-	1,946,530,044	2,756,498,204	86	-
Assessed for bad debt provision in portfolios based credit risk characteristics	455,923,243	19	(46,636,353)	10	409,286,890	437,241,913	14	(39,323,552)
	2,402,453,287	100	(46,636,353)		2,355,816,934	3,193,740,117	100	(39,323,552)

Notes to the Financial Statements (Continued)

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Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

1. Trade receivables (Continued)

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

	Opening balance	Increase	Reversal	Write-back	Write-off	Other changes	Ending balance
2020	39,323,552	7,312,801	–	–	–	–	46,636,353
2019	63,813,647	–	(24,490,095)	–	–	–	39,323,552

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

	31 December 2020			31 December 2019		
	Carrying amount expected to default	Expected credit loss percentage (%)	Expected credit loss during lifetime	Carrying amount expected to default	Expected credit loss percentage (%)	Expected credit loss during the lifetime
Trade receivables to subsidiaries	1,946,530,044	–	–	2,756,498,204	–	–

The Company's provision for bad debts of trade receivables analysed by ageing was as follows:

	31 December 2020			31 December 2019		
	Carrying amount expected to default	Expected credit loss ratio (%)	Expected credit loss	Carrying amount expected to default	Expected credit loss ratio (%)	Expected credit loss
Within one year	397,270,418	1	(3,972,704)	377,458,746	1	(3,774,587)
One to two years	12,750,391	16	(2,040,063)	14,109,775	15	(2,116,466)
Two to three years	10,151,630	48	(4,872,782)	22,668,320	46	(10,427,427)
Over three years	35,750,804	100	(35,750,804)	23,005,072	100	(23,005,072)
Total	455,923,243		(46,636,353)	437,241,913		(39,323,552)

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

1. Trade receivables (Continued)

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

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

31 December 2020

	Relationship with the Company	Ending balance	Ageing	Percentage of trade receivables	Ending balance of provision
Company 1	Subsidiary	1,057,017,137	Within two year	44%	—
Company 2	Subsidiary	475,556,879	Within two year	20%	—
Company 3	Subsidiary	99,422,946	Within one year	4%	—
Company 4	Subsidiary	99,358,794	Within one year	4%	—
Company 5	Subsidiary	81,572,131	Within one year	3%	—
		1,812,927,887		75%	—

31 December 2019

	Relationship with the Company	Ending balance	Ageing	Percentage of trade receivables	Ending balance of provision
Company 1	Subsidiary	1,086,779,332	Within one year	34%	—
Company 2	Subsidiary	705,026,500	Within one year	22%	—
Company 3	Subsidiary	187,619,223	Within one year	6%	—
Company 4	Third party	152,551,557	Within one year	5%	1,525,516
Company 5	Subsidiary	141,949,862	Within one year	4%	—
		2,273,926,474		71%	1,525,516

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

2. Other receivables

	31 December 2020	31 December 2019
Dividends receivable	33,247,960	–
Other receivables	337,784,807	94,415,995
	371,032,767	94,415,995

Dividends receivable

	31 December 2020	31 December 2019
Associate- Ma-Steel OCI Chemical	3,312,407	–
Associate- Ouyeel Blockchain Finance	29,935,553	–
	33,247,960	–

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

2. Other receivables (Continued)

Other receivables

An aging analysis of the other receivables is as follows:

	31 December 2020	31 December 2019
Within one year	341,071,355	94,088,849
One to two years	4,584,117	555,000
Two to three years	540,000	—
Over three years	410,799,576	410,946,826
	756,995,048	505,590,675
Less: Provision for bad debts	419,210,241	411,174,680
	337,784,807	94,415,995

Other receivables classified by nature:

	31 December 2020	31 December 2019
Due from trading companies	488,317,627	403,317,627
Guarantee for steel futures	120,846,925	47,141,529
Prepayments of customs duties and VAT	105,140,963	32,041,791
Others	42,689,533	23,089,728
	756,995,048	505,590,675
Less: Provision for bad debts	419,210,241	411,174,680
	337,784,807	94,415,995

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

2. Other receivables (Continued)

Other receivables (Continued)

The movements of bad debt provision based on the 12-month expected credit losses and lifetime credit losses were as follows:

2020

	Phase I 12-month expected credit losses	Phase II Lifetime expected credit losses	Phase III Credit-impaired financial assets (Lifetime expected credit losses)	Total
As at 1 January 2020	77,406	7,779,647	403,317,627	411,174,680
Changes in during the year	–	–	–	–
– Shift to Phase II	–	–	–	–
– Shift to Phase III	–	–	–	–
– Back to Phase II	–	–	–	–
– Back to Phase I	–	–	–	–
Accrual	863,793	569,943	6,601,825	8,035,561
Reversal	–	–	–	–
Closing balance	941,199	8,349,590	409,919,452	419,210,241

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

2. Other receivables (Continued)

Other receivables (Continued)

The movements of bad debt provision based on the 12-month expected credit losses and lifetime credit losses were as follows: (continued)

2019

	Phase I 12-month expected credit losses	Phase II Lifetime expected credit losses	Phase III Credit-impaired financial assets (Lifetime expected credit losses)	Total
As at 1 January 2019	313,961	8,194,939	403,317,627	411,826,527
Changes in during the year	(2,400)	2,400	—	—
– Shift to Phase II	(2,400)	2,400	—	—
– Shift to Phase III	—	—	—	—
– Back to Phase II	—	—	—	—
– Back to Stage I	—	—	—	—
Accrual	—	—	—	—
Reversal	(234,155)	(417,692)	—	(651,847)
Closing balance	77,406	7,779,647	403,317,627	411,174,680

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

2. Other receivables (Continued)

Other receivables (Continued)

The movement of provisions for bad debts against other receivables were as follows:

	Balance at the beginning of the year	Provided	Reversal	Write-back	Write-off	Balance at the end of the year
2020	411,174,680	8,035,561	–	–	–	419,210,241
2019	411,826,527	(651,847)	–	–	–	411,174,680

As of 31 December 2020, the top five largest other receivables were as follows:

	Balance	Ratio to total other receivables (%)	Nature	Ageing	Balance of bad debts
Company 1	132,058,434	17	Due from trading companies	Over 3 years	(132,058,434)
Company 2	127,685,368	17	Due from trading companies	Over 3 years	(127,685,368)
Company 3	85,000,000	11	Due from trading companies	Within 1 years	–
Company 4	64,936,247	9	Guarantee for steel futures	Within 1 years	–
Company 5	60,939,960	8	Due from trading companies	Over 3 years	(60,939,960)
	470,620,009	62			(320,683,762)

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

2. Other receivables (Continued)

Other receivables (Continued)

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

	Balance	Ratio to total other receivables (%)	Nature	Ageing	Balance of bad debts
Company 1	132,058,434	26	Due from trading companies	Over 3 years	(132,058,434)
Company 2	127,685,368	25	Due from trading companies	Over 3 years	(127,685,368)
Company 3	60,939,960	12	Due from trading companies	Over 3 years	(60,939,960)
Company 4	45,390,133	9	Due from trading companies	Over 3 years	(45,390,133)
Company 5	37,243,732	7	Due from trading companies	Over 3 years	(37,243,732)
	403,317,627	79			(403,317,627)

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

3. Long-term equity investments

	31 December 2020	31 December 2019
Long-term investments under the equity method		
Joint ventures (i)	298,485,434	272,196,719
Associates (i)	3,187,478,456	2,979,631,679
Long-term investments under the cost method		
Subsidiaries (ii)	9,036,379,687	8,825,030,687
Subtotal	12,522,343,577	12,076,859,085
Less: Provision for impairment	761,333,226	599,167,213
Total	11,761,010,351	11,477,691,872

In the opinion of the directors, there was no material restriction on the realization of investments as of 31 December 2020.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

3. Long-term equity investments (Continued)

(i) Investments in joint ventures and associates

2020

	Opening balance	Changes during the year							Ending balance	Impairment at the end of the year
		Increase	Decrease	Investment income under the equity method	Other comprehensive income	Other equity movement	Cash dividend declared	Provision for impairment		
Joint ventures										
BOC-Ma Steel	271,695,413	-	-	98,790,021	-	-	(72,000,000)	-	298,485,434	-
Masteel-CMI	501,306	-	(501,306)	-	-	-	-	-	-	-
Associates										
Henan JinMa Energy	707,573,964	-	-	121,038,941	-	1,450,390	(57,600,000)	-	772,463,295	-
Shenglong Chemical	816,220,485	-	-	93,477,209	-	1,296,496	-	-	910,994,190	-
Xinchuang Environmental										
Electronic	66,964,108	-	-	15,362,859	-	(578,635)	(5,130,576)	-	76,617,756	-
Ma-Steel OCI Chemical	147,887,236	-	(144,360,372)	2,886,158	-	899,385	(7,312,407)	-	-	-
Ma-Steel Commercial										
Factoring	157,570,298	-	-	3,714,912	-	-	(2,978,314)	-	158,306,896	-
Magang Chemicals & Energy	659,825,286	-	-	32,731,236	-	2,714,893	(29,778,833)	-	665,492,582	-
Masteel K.Wah	102,560,472	-	-	19,691,935	-	-	(20,259,254)	-	101,993,153	-
OBEI	-	192,345,404	-	19,052	-	-	-	-	192,364,456	-
Ouyeel Blockchain										
Finance	321,029,830	-	-	20,831,209	-	7,958,142	(40,573,053)	-	309,246,128	-
	3,251,828,398	192,345,404	(144,861,678)	408,543,532	-	13,740,671	(235,632,437)	-	3,485,963,890	-

Note: Please refer to Note V.11 for details.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

3. Long-term equity investments (Continued)

(i) Investments in joint ventures and associates (Continued)

2019

	Opening balance	Changes during the year							Ending balance	Impairment at the end of the year
		Increase	Decrease	Investment income under the equity method	Other comprehensive income	Other equity movement	Cash dividend declared	Provision for impairment		
Joint ventures										
BOC-Ma Steel	268,088,957	-	-	88,606,456	-	-	(85,000,000)	-	271,695,413	-
Masteel-CMI	501,735	-	-	(429)	-	-	-	-	501,306	-
Associates										
Henan JinMa Energy	613,018,859	-	-	157,352,305	-	2,002,800	(64,800,000)	-	707,573,964	-
Shenglong Chemical	732,685,925	-	-	162,822,030	-	694,949	(79,982,419)	-	816,220,485	-
Shanghai Iron and Steel Electronic	7,790,111	-	(7,484,171)	(305,940)	-	-	-	-	-	-
Xinchuang Environmental Protection	57,681,293	-	-	11,393,478	-	582,123	(2,692,786)	-	66,964,108	-
Ma-Steel OCI Chemical	146,519,873	-	-	5,231,952	-	935,411	(4,800,000)	-	147,887,236	-
Ma-Steel Commercial Factoring	77,647,587	75,000,000	-	6,999,632	-	-	(2,076,921)	-	157,570,298	-
Magang Chemicals & Energy	600,632,763	-	-	59,192,523	-	-	-	-	659,825,286	-
Masteel K.Wah	79,975,786	-	-	22,584,686	-	-	-	-	102,560,472	-
Masteel Scrap	139,673,024	135,000,000	-	46,356,806	-	-	-	-	321,029,830	-
	2,724,215,913	210,000,000	(7,484,171)	560,233,499	-	4,215,283	(239,352,126)	-	3,251,828,398	-

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

3. Long-term equity investments (Continued)

(ii) Investments in subsidiaries

2020

	Opening balance	Changes during the year				Ending balance	Impairment at the end of the year	Cash dividends declared
		Increase	Disposal/ cancellation	Other equity movement	Provision for impairment			
Ma Steel (Wuhu)	8,225,885	-	-	-	-	8,225,885	-	14,000,000
Ma Steel (Cihu)	48,465,709	-	-	-	-	48,465,709	-	18,400,000
Ma Steel (Guangzhou)	93,058,200	-	-	-	-	93,058,200	-	1,830,754
Ma Steel (HK)	52,586,550	-	-	-	-	52,586,550	-	28,380,805
MG Trading	1,573,766	-	-	-	-	1,573,766	-	-
Holly Industrial	21,478,316	-	-	-	-	21,478,316	-	9,058,794
Ma Steel (Jinhua)	90,000,000	-	-	-	-	90,000,000	-	-
Ma Steel (Australia)	126,312,415	-	-	-	-	126,312,415	-	-
Ma Steel (Hefei)	1,775,000,000	-	-	-	-	1,775,000,000	-	137,284,000
Ma Steel (Hefei) Processing	85,596,489	-	-	-	-	85,596,489	-	10,720,000
Ma Steel (Yangzhou) Processing	116,462,300	-	-	-	-	116,462,300	-	-
Wuhu Technique	106,500,000	-	-	-	-	106,500,000	-	266,987
Chongqing Material	175,000,000	-	-	-	-	175,000,000	-	7,000,000
Anhui Chang Jiang Iron and Steel	1,234,444,444	-	-	-	-	1,234,444,444	-	330,000,000
Masteel Finance	1,843,172,609	-	-	-	-	1,843,172,609	-	69,115,410

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

3. Long-term equity investments (Continued)

(ii) Investments in subsidiaries (Continued)

2020 (Continued)

	Opening balance	Changes during the year				Ending balance	Impairment at the end of the year	Cash dividends declared
		Increase	Disposal/cancellation	Other equity movement	Provision for impairment			
Hefei Materials	140,000,000	-	-	-	-	140,000,000	-	7,000,000
MG-VALDUNES (Note VII.1)								
(Note 1)	439,915,772	157,524,000	-	-	(162,166,013)	435,273,759	(761,333,226)	-
Ma Steel Hangzhou Sales	10,000,000	-	-	-	-	10,000,000	-	9,000,000
Ma Steel Wuxi Sales	10,000,000	-	-	-	-	10,000,000	-	6,000,000
Ma Steel Nanjing Sales	10,000,000	-	-	-	-	10,000,000	-	7,000,000
Ma Steel Wuhan Sales (Note 2)	10,000,000	-	(10,000,000)	-	-	-	-	-
Ma Steel Shanghai Sales	10,000,000	-	-	-	-	10,000,000	-	28,000,000
Ma Steel Rail Transportation	1,522,317,563	-	-	-	-	1,522,317,563	-	-
Ma Steel Oubang Color-coated (Note 3)	10,050,000	-	(10,050,000)	-	-	-	-	-
Masteel America	3,298,375	-	-	-	-	3,298,375	-	-
Ma Steel Antitrust	3,060,000	-	-	-	-	3,060,000	-	-
Mascometal	127,368,631	-	-	-	-	127,368,631	-	-
Meite Metallurgical Power (Notes 4)	500,000	-	(500,000)	-	-	-	-	-
Masteel Middle East	5,476,450	-	-	-	-	5,476,450	-	-
Changchun Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma Steel Hongfei	51,000,000	-	-	-	-	51,000,000	-	-
Wuhan Material (Note VII.1)	85,000,000	74,375,000	-	-	-	159,375,000	-	-
Total	8,225,863,474	231,899,000	(20,550,000)	-	(162,166,013)	8,275,046,461	(761,333,226)	683,056,750

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

3. Long-term equity investments (continued)

(ii) Investments in subsidiaries (Continued)

- Note 1: MG-VALDUNES, a wholly-owned subsidiary of the Company, has been in a state of continuous loss since it was purchased and included in the scope of consolidation of the Group in 2014. As 31 December 2020, management considered that the Company's long-term equity investment of MG-VALDUNES has impairment indication. According to the assessment of external independent third-party evaluation agency, the company has the preparation of calculating the assets devalue RMB162,166,013 to long-term equity investment of MG-VALDUNES. As of the balance sheet date, the accumulated amount of the Company's impairment provision against MG-VALDUNES is RMB761,333,226.
- Note 2: The 38th meeting of the 9th Board of Directors of the Company approved the liquidation report of Ma Steel Wuhan Sales, which was deregistered in 2020.
- Note 3: The 37th meeting of the 9th Board of Directors of the Company approved the liquidation report of Ma Steel Oubang Color-coated, which was deregistered in 2020.
- Note 4: The 39th meeting of the 9th Board of Directors of the Company approved the liquidation report of Meite Metallurgical Power, which was deregistered in 2020.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

3. Long-term equity investments (Continued)

(ii) Investments in subsidiaries (Continued)

2019

	Opening balance	Changes during the year				Ending balance	Impairment at the end of the year	Cash dividends declared
		Increase	Disposal/ cancellation	Other equity movement	Provision for impairment			
Ma Steel (Wuhu)	8,225,885	–	–	–	–	8,225,885	–	11,200,000
Ma Steel (Cihu)	48,465,709	–	–	–	–	48,465,709	–	11,960,000
Ma Steel (Guangzhou)	80,000,000	13,058,200	–	–	–	93,058,200	–	1,360,900
Ma Steel (HK)	52,586,550	–	–	–	–	52,586,550	–	–
MG Trading	1,573,766	–	–	–	–	1,573,766	–	–
Holly Industrial	21,478,316	–	–	–	–	21,478,316	–	6,675,672
Ma Steel (Jinhua)	90,000,000	–	–	–	–	90,000,000	–	–
Ma Steel (Australia)	126,312,415	–	–	–	–	126,312,415	–	–
Ma Steel (Hefei)	1,775,000,000	–	–	–	–	1,775,000,000	–	–
Ma Steel (Hefei) Processing	85,596,489	–	–	–	–	85,596,489	–	15,879,000
Ma Steel (Yangzhou) Processing	116,462,300	–	–	–	–	116,462,300	–	10,650,000
Wuhu Technique	106,500,000	–	–	–	–	106,500,000	–	–
Chongqing Material	175,000,000	–	–	–	–	175,000,000	–	14,000,000
Anhui Chang Jiang Iron and Steel	1,234,444,444	–	–	–	–	1,234,444,444	–	627,000,000
Masteel Finance	1,843,172,609	–	–	–	–	1,843,172,609	–	95,023,085

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

3. Long-term equity investments (Continued)

(ii) Investments in subsidiaries (Continued)

2019 (Continued)

	Opening balance	Changes during the year				Ending balance	Impairment at the end of the year	Cash dividends declared
		Increase	Disposal/ cancellation	Other equity movement	Provision for impairment			
Hefei Materials	140,000,000	-	-	-	-	140,000,000	-	8,750,000
MG-VALDUNES	883,022,985	156,060,000	-	-	(599,167,213)	439,915,772	(599,167,213)	-
Ma Steel Hangzhou Sales	10,000,000	-	-	-	-	10,000,000	-	5,501,800
Ma Steel Wuxi Sales	10,000,000	-	-	-	-	10,000,000	-	5,101,300
Ma Steel Nanjing Sales	10,000,000	-	-	-	-	10,000,000	-	5,514,300
Ma Steel Wuhan Sales	10,000,000	-	-	-	-	10,000,000	-	6,141,800
Ma Steel Shanghai Sales	10,000,000	-	-	-	-	10,000,000	-	20,835,400
Ma Steel Rail Transportation	396,021,369	1,126,296,194	-	-	-	1,522,317,563	-	-
Ma Steel Oubang Color-coated	10,050,000	-	-	-	-	10,050,000	-	-
Masteel America	3,298,375	-	-	-	-	3,298,375	-	-
Ma Steel Antitrust	3,060,000	-	-	-	-	3,060,000	-	-
Mascometal	127,368,631	-	-	-	-	127,368,631	-	-
Meite Metallurgical Power	500,000	-	-	-	-	500,000	-	-
Masteel Middle East	2,041,200	3,435,250	-	-	-	5,476,450	-	-
Changchun Sales	10,000,000	-	-	-	-	10,000,000	-	-
Ma Steel Hongfei	-	51,000,000	-	-	-	51,000,000	-	-
Wuhan Material	31,875,000	53,125,000	-	-	-	85,000,000	-	-
Total	7,422,056,043	1,402,974,644	-	-	(599,167,213)	8,225,863,474	(599,167,213)	845,593,257

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

4. Revenue and cost of sales

	2020		2019	
	Revenue	Cost of sales	Revenue	Cost of sales
Principal operating income	66,398,085,401	61,823,180,850	63,383,415,083	59,692,464,631
Other operating income	1,134,946,266	1,245,088,508	967,620,026	980,365,214
	67,533,031,667	63,068,269,358	64,351,035,109	60,672,829,845

Revenue is presented as follows:

	2020	2019
Revenue from contracts with customers	67,504,565,530	64,345,388,919
Rental income	28,466,137	5,646,190
	67,533,031,667	64,351,035,109

Timing of revenue recognition from contracts with customers:

	2020	2019
At a point in time		
Sales of steel products	63,659,262,771	59,958,126,291
Sales of other products	3,819,731,772	4,359,295,165
Over time		
Consulting services	23,074,155	24,409,432
Other	2,496,832	3,558,031
	67,504,565,530	64,345,388,919

Notes to the Financial Statements (Continued)

For the year ended 31 December 2020

Renminbi Yuan

XIV. MAJOR NOTES TO COMPANY FINANCIAL STATEMENTS (CONTINUED)

4. Revenue and cost of sales (Continued)

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

	2020	2019
Revenue	2,144,589,928	2,353,822,627

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

	2020	2019
Within one year	2,953,248,444	2,455,027,803

5. Investment income

	2020	2019
Investment income from long-term investments under the equity method	408,543,532	560,233,499
Investment income from long-term investments under the cost method	683,056,750	845,593,257
Gain from disposal of subsidiaries	7,262,894	–
Gain from disposal of associates	17,581,629	(16,052)
Gain from dividend income from other equity instruments investments in duration	8,380,000	–
Gain from disposal of financial assets held for trading	15,146,313	38,853,174
	1,139,971,118	1,444,663,878

As at 31 December 2020, there was no significant restriction imposed upon the remittance of the Company's investment income.

Supplementary information appendices

For the year ended 31 December 2020

Renminbi Yuan

1. BREAKDOWN OF NON-RECURRING GAINS OR LOSSES

The calculation of non-recurring gains or losses is in accordance with “Regulation for the preparation of information disclosure by listed securities companies No.1 – Non-recurring Gains or Losses (2008 revised)” (No.43 [2008]) issued by the CSRC.

	2020
Items of non-recurring gains or losses	
Gain from disposal of non-current assets	417,244,264
Government grants recognised in current period profit or loss (excluding those having close relationship with the Company's normal business, conforming to the national policies and regulations and enjoying ongoing fixed amount or quantity according to certain standard)	468,081,747
Employee termination compensation	(177,756,341)
Gain from disposal of an associate	19,108,539
Except for the effective hedging business related to the ordinary business of the Company, changes in fair value of financial assets and financial liabilities held for trading, as well as the return on investment generated from the disposal of financial assets and financial liabilities held for trading and financial assets at fair value through other comprehensive income	27,841,061
Net non-operating income or expenses other than the above items	4,141,163
	758,660,433
Income tax effect	89,575,900
Non-controlling interests effect (net of tax)	172,096,944
	496,987,589
Net profit attributable to owners of the parent deducting non-recurring gains or losses	
Net profit attributable to owners of the parent	1,982,638,821
Less: Net effect of non-recurring gains or losses	496,987,589
Net profit attributable to owners of the parent excluding non-recurring gains or losses	1,485,651,232

Supplementary information appendices (Continued)

For the year ended 31 December 2020

Renminbi Yuan

2. RETURN ON NET ASSETS AND EARNINGS PER SHARE

2020

	Return on weighted average net assets (%)	Earnings per share (cent/share)	
		Basic	Diluted
Net profit attributable to owners of the parent	7.17	25.75	25.75
Net profit attributable to owners of the parent deducting non-recurring gains or losses	5.37	19.29	19.29

2019

	Return on weighted average net assets (%)	Earnings per share (cent/share)	
		Basic	Diluted
Net profit attributable to owners of the parent	4.09	14.65	14.65
Net profit attributable to owners of the parent deducting non-recurring gains or losses	5.94	21.24	21.24

Return on net assets and earnings per share are calculated based on the formula stipulated in the “Regulation for the preparation of information disclosure for listed securities companies (2010) No.9 – Calculation and disclosure of return on net assets and earnings per share” (2010 revised) issued by the CSRC.

Section X Document Available for Inspection

Documents Available for Inspection	Financial statements signed and sealed by the Company's legal representative, chief accountant and head of Accounting Department.
Documents Available for Inspection	Original copy of the audit report, sealed by Ernst & Young Hua Ming LLP and signed and sealed by Ms. Zhong Li and Mr. Gong Wei, certified public accountants in the PRC.
Documents Available for Inspection	Original copies of all documents and announcements of the Company disclosed in Shanghai Securities.
Documents Available for Inspection	Annual report announced on the website of the Hong Kong Stock Exchange.
Documents Available for Inspection	The Articles of Association of the Company.
Documents Available for Inspection	Other Related Information.

Chairman: Ding Yi

Submission date approved by the Board of Directors: 25 March 2021



馬 鞍 山 鋼 鐵 股 份 有 限 公 司
Maanshan Iron & Steel Company Limited